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SMEs and Entrepreneurship
Policy Center

Small and Medium Enterprises Report Croatia – 2019

*including the results of
GEM – Global Entrepreneurship Monitor research
for Croatia for 2018*





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Introduction

CEPOR¹ – SMEs and Entrepreneurship Policy Center is the first policy think tank in Croatia, which, since its establishment in 2001, deals with the issues of entrepreneurship and the small and medium enterprise sector in Croatia. CEPOR's mission is to influence the public-political environment emphasizing the role of entrepreneurship and small and medium enterprises in the economy of Croatia. CEPOR has been publishing the annual Small and Medium Enterprises Report since 2011. By publishing annual reports, CEPOR contributes to creating a consistent database that enables policy makers, researchers, the media and the general public insight into trends and patterns of change in the small and medium enterprise sector and selected components of entrepreneurial ecosystem in Croatia.

Small and Medium Enterprises Report – 2019 is the eight CEPOR's annual report, which provides an overview of the state of the small and medium enterprise sector in 2018 (partly in 2019). The report covers an overview of all important aspects of the environment in which small and medium enterprises in Croatia operate – from regulatory environment, sources of financing, availability of educational programmes for entrepreneurial activity to availability of advisory services. Changes in the small and medium enterprise sector are monitored through its impact on the Croatian economy, according to criteria of share in the total number of enterprises, total income, export activities, employment, and gender and regional (im)balance.

The data presented in the Report are the result of the analysis of secondary sources of data published mainly in reports from institutions that are, through their mission, responsible for, or monitor the state and development of the small and medium enterprise sector (line ministry – Ministry of Economy, Entrepreneurship and Crafts, Croatian Bank for Reconstruction and Development – HBOR, Croatian Agency for SMEs, Innovations and Investments – HAMAG-BICRO, Financial Agency – FINA, associations of entrepreneurs, banks, etc.). In addition to financial indicators of performance of the sector, the Report describes activities carried out in 2018 and 2019 by institutions responsible for improving the quality of the environment in which small and medium enterprises in Croatia operate.

Ratings of the quality of the environment in which small and medium enterprises in Croatia operate are based on the results of major international studies – Doing Business, which is conducted by the World Bank, Global Competitiveness Report, which is conducted by the World Economic Forum, Corruption Perceptions Index, which is conducted by the Transparency International, SBA Fact Sheet and European Semester reports, which are conducted by the European Commission, and GEM – Global Entrepreneurship Monitor, which is conducted by the Global Entrepreneurship Research Association consortium.

Because of wider availability of data on small and medium enterprises in Croatia, the publication is printed in Croatian and English, and both versions are also available in electronic form on CEPOR's official website (www.cepor.hr).

1 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 centres for entrepreneurship.

1. State of the Croatian economy from the perspective of the European Semester (*Maja Has*)

European Semester reports provide an insight into dynamics of achieving the Europe 2020 strategy goals. Assessments of progress in implementing structural reforms and preventing and eliminating macroeconomic imbalances serve as a basis for understanding the economic situation, but also for defining guidelines to improve or eliminate identified shortcomings and deficiencies.

Croatia's economic recovery continued in 2018², largely due to robust domestic demand. As in the previous year, household expenditure as a result of continued wage growth, steady employment growth and high consumer confidence, is the fundamental driving force behind growth. In 2018, it is estimated that there was a moderate GDP growth of 2.8% compared to 2017. Growth is expected in subsequent years, but at smaller rates. A full decade after the financial crisis, the Croatian economy could regain the output lost during the recession. Generally, a more moderate growth of real GDP is forecast, which should amount to 2.7% in 2019 and 2.6% in 2020, respectively³.

In implementing the recommendations for 2018, Croatia has made some progress in three of the four recommendations (recommendation 1: fiscal framework; recommendation 2: pension reform, education reform, social benefits; recommendation 4: corporate governance in state-owned enterprises, reduction of parafiscal charges, increase the efficiency of the justice system), but with different assessments of individual components (from “no progress” to “substantial progress”)⁴. Limited progress was recorded in recommendation 3: territorial organisation and

2 COMMISSION STAFF WORKING DOCUMENT Country Report Croatia 2019 Including an In-Depth Review on the prevention and correction of macroeconomic imbalances, Brussels, 2019-02-27, SWD(2019) 1010 final

3 Ibid.

4 Ibid, p. 64: The following categories are used to assess progress in implementing recommendations:
NO PROGRESS: The Member State has not credibly announced nor adopted any measures to address the recommendation. This category covers a number of typical situations to be interpreted on a case by case basis taking into account country-specific conditions. They include the following:
- no legal, administrative, or budgetary measures have been announced
- in the national reform programme,
- in any other official communication to the national Parliament/relevant parliamentary committees or the European Commission, publicly (e.g. in a press statement or on the government's website);
- no non-legislative acts have been presented by the governing or legislative body;
- the Member State has taken initial steps in addressing the recommendation, such as commissioning a study or setting up a study group to analyse possible measures to be taken (unless the recommendation explicitly asks for orientations or exploratory actions). However, it has not proposed any clearly-specified measure(s) to address the recommendation.
LIMITED PROGRESS: The Member State:
- announced certain measures but these address the recommendation only to a limited extent; and/or
- presented legislative acts in the governing or legislative body but these have not been adopted yet and substantial further, non-legislative work is needed before the recommendation is implemented;
- presented non-legislative acts, but has not followed these up with the implementation needed to address the recommendation.
SOME PROGRESS: The Member State has adopted measures:
- that partly address the recommendation; and/or
- that address the recommendation, but a fair amount of work is still needed to fully address the recommendation fully as only a few of the measures have been implemented. For instance, a measure or measures have been adopted by the national Parliament or by ministerial decision but no implementing decisions are in place.
SUBSTANTIAL PROGRESS: The Member State has adopted measures that go a long way towards addressing the recommendation and most of them have been implemented.
FULL IMPLEMENTATION: The Member State has implemented all measures needed to address the recommendation appropriately.

public administration. Substantial progress was made only in strengthening the fiscal framework (one component of recommendation 1) and discouraging early retirement (one component of recommendation 2), and there is no progress in introducing a recurrent property tax (within recommendation 1: fiscal system).

Some progress was made in the following areas: education (by launching education reform), public administration (reduction of administrative burden) and justice system (reducing the backlog of court cases).

Only limited progress was made in the area of measures to improve corporate governance through adoption of the new Code of Corporate Governance in state-owned enterprises, and introduction of reporting obligations on business plans and results in all major state-owned enterprises. Limited progress was made in enhancing competition in business services and regulated professions, and in consolidation of social benefits⁵.

These findings and recommendations of the European Semester are in line with some of the objectives of the Europe 2020 strategy (employment, research and development, climate change and energy, education and combating poverty). Within the Europe 2020 strategy, Croatia is the EU leader in terms of percentage of young people who complete secondary education (only 3.1% do not complete, compared to the national target of 4%, and 10% for the EU). Croatia has already reached targets in the area of climate change and energy (through share of energy from renewable sources: 28.3% vs. planned 20%, already in 2016), but is well below the target share of energy from renewable sources in the transport sector (only 1.3% in 2016 vs. the planned 10%). In the fight against poverty, measured by the number of people at-risk-of poverty and social exclusion, Croatia has achieved the planned reduction target of 150,000 people (from 1.384 million in 2011 to 1.085 million in 2017). Croatia has significant problems in achieving other goals. Although the planned employment rate was achieved (66.3% in the third quarter of 2018 vs. the planned 65.2%), Croatia is at the rear of the EU according to this indicator, and very far from the planned 75% employment for the EU in 2020.

Low level of employment, which affects the quality of life, combined with low investment in research and development, and lagging in the share of people with higher education, threaten the achievement of a higher level of innovation and competitiveness of the Croatian economy. In 2017, only 0.86% of gross domestic product was invested in research and development, while the national target for 2020 is 1.4% of GDP and the target for the European Union is 3%. The rate of acquisition of higher education in Croatia has been decreasing since 2014, amounting to 28.7% in 2017, which indicates that Croatia is unlikely to reach its national target of 35% (while the European Union target is 40%)⁶.

Particular attention should be paid to those areas that still present a challenge for the development of the Croatian economy. One of these areas is the labour market. Although the unemployment and youth unemployment rates have fallen, they are still above the EU average, and the share of working age population in full-time employment is still relatively low. One reason is emigration and ageing of the working age population. Also, there is a shortage of skilled labour in certain sectors of the economy, while a certain portion of the population works “off the books”, i.e. perform undeclared work⁷. Labour market challenges have implications on ensuring that the

5 Ibid, pp. 62-64.

6 Ibid, pp. 65-66.

7 Ibid, pp. 6-7.

pension system is adequate. In the area of healthcare it is necessary to make further efforts to rationalise hospitals, with particular emphasis on financial management, while the environment domain is a separate area in which Croatia does not fully realise its potential, especially in waste recycling and use of energy from renewable sources.

In the business sector, parafiscal charges still remain a burden for businesses, especially smaller ones⁸. Current results in the area of research, development and innovation are an obstacle to increasing the competitiveness of enterprises. There is a strong perception of widespread corruption and a lack of effective instruments to address it, while there is plenty of room in the legal system to improve efficiency and strengthen citizens' legal certainty. Finally, territorial fragmentation of public administration affects its (in)efficiency and highlights regional differences that should be equalised in the coming years⁹.

Annual monitoring of achievement of targets of Europe 2020 using the perspective of the European Semester enables the creation of a consistent information base for designing policy interventions at national level, but also for the actions of all participants (economic, educational, research) in building a stimulating environment for living and doing business in Croatia. In this context, this report analyses the state of the small and medium enterprise sector, whose competitiveness (based on innovation and knowledge) contributes to the quality of life in Croatia.

8 Ibid, pp. 6-7.

9 Ibid, pp. 57-58.

2. State of the small and medium enterprise sector in Croatia in 2018 *(Maja Has)*

Small and medium enterprise sector¹⁰ is the backbone of every economy. Criteria for classifying entities in the small and medium enterprise sector are defined by the Accounting Act and the Small Business Development Promotion Act. **The Accounting Act**¹¹ classifies entrepreneurs into micro, small, medium and large, based on amount of total assets, amount of income and average number of employees during business year.

Micro entrepreneurs are those who do not exceed boundary indicators in two of the following three conditions:

- Total assets HRK 2,600,000.00
- Income HRK 5,200,000.00
- Average number of workers during business year – 10 workers

Small entrepreneurs are those who are not micro entrepreneurs and do not exceed boundary indicators in two of the following three conditions:

- Total assets HRK 30,000,000.00
- Income HRK 60,000,000.00
- Average number of workers during business year – 50 workers

Medium entrepreneurs are those who are neither micro nor small entrepreneurs and do not exceed boundary indicators in two of the following three conditions:

- Total assets HRK 150,000,000.00
- Income HRK 300,000,000.00
- Average number of workers during business year – 250 workers

Large entrepreneurs are:

- Entrepreneurs who exceed boundary indicators in at least two of the three conditions from the definition of medium entrepreneurs
- Banks, savings banks, building societies, insurance companies, leasing companies, pension companies, etc.

In the preparation of this report, as in previous reports, categorisation of enterprises based on the Accounting Act was used.

¹⁰ Throughout the text, the term “small and medium enterprise sector” includes micro, small and medium enterprises.

¹¹ Accounting Act, Official Gazette, NN 78/15, 134/15, 120/16, 116/18

The Small Business Development Promotion Act¹² uses different terminology, with the same categorisation criteria: amount of assets, amount of income and average number of employees, but with different numerical values. According to this Act:

Micro business entities are natural and legal persons who:

- Annually on average employ less than 10 workers
- According to financial statements for the previous year achieve annual income in the amount equivalent up to EUR 2,000,000.00, or have total assets if they are profit tax payers, i.e. have value of long-term assets in the amount equivalent up to EUR 2,000,000.00 if they are income tax payers.

Small business entities are natural and legal persons who:

- Annually on average employ less than 50 workers
- According to financial statements for the previous year achieve annual income in the amount equivalent up to EUR 10,000,000.00, or have total assets if they are profit tax payers, i.e. have value of long-term assets in the amount equivalent up to EUR 10,000,000.00 if they are income tax payers.

Medium business entities are natural and legal persons whose annual average number of employees, total annual income or balance sheet total, i.e. long-term assets are higher than those set out in the definition of small business entities.

12 Small Business Development Promotion Act, Official Gazette, NN 29/02, 63/07, 53/12, 56/13, 121/16

Why two laws pertaining to business entities use different terminology?

The Accounting Act speaks of entrepreneurs, the Small Business Development Promotion Act speaks of entities. Micro, small, medium and large entrepreneurs live in the Accounting Act, while micro, small and medium business entities live in the Small Business Development Promotion Act. The criteria for classification into these categories are the SAME, but different according to different numerical values (except for the number of employees). This unnecessary and confusing diversity exists for almost 15 years. Why is this not harmonised?

Besides, what does “small business” mean? There are business giants among micro, small and medium enterprises and crafts, in terms of innovation and competitiveness. And even more importantly, these categories of enterprises are the largest employers (about 72% of all employees in Croatia work in such enterprises), dominant “producers” of total income (58%) and exporters (52.8%). Why then the term “small business”?*

The choice of words should never be accidental, those choices must be based on precise definitions. The use of the word entrepreneur is debatable, because being an entrepreneur presupposes that such a person is enterprising (proactive, innovative and responsible for personal choices, i.e. willing to take risks for their decisions, which not all owners of enterprises / crafts are.

There is also the challenge of simplicity and elegance of language use – how does “micro business entity of small business”, or better yet, “small business entity of small business” sound? Doesn’t this sound jarring to everyone – it should also sound jarring to those who perform legislative drafting.

We propose conducting a quality legislative drafting analysis of laws, regulations and ordinances dealing with issues of activity of enterprises / crafts, and perform the necessary conceptual cleaning and alignment.

**data refer to 2018, see Table 2*

State of the small and medium enterprise sector in Croatia in 2018 is shown in comparison with 2017. In some cases, when it is important to observe certain tendencies, data for the 2014–2018 period is used. In view of the latest amendment to the Accounting Act in 2017, which defines the category of micro enterprises, some depictions of the state of the small and medium enterprise sector include distinguishing between categories of micro and small enterprises. Due to the lack of available data for all years of analysis, unified results for micro and small enterprises are shown for certain years. Particular attention is paid to categories of employment, total income and export activities of the small and medium enterprise sector.

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

The structure of the Croatian economy is extremely stable. As in most countries, the small and medium enterprise sector has by far the largest share in the number of enterprises (99.7%). In the observed period from 2014 to 2018, growth in the total number of enterprises was recorded (9.2% in 2018 compared to the previous year, Table 1).

Table 1: Enterprise structure with regard to size from 2014 to 2018

	2014		2015		2016		2017		2018	
	Number of entities	%	Number of entities	%	Number of entities	%	Number of entities	%	Number of entities	%
Small and medium enterprise sector	104,116	99.7	106,221	9.7	114,156	99.7	119,752	99.7	130,757	99,7
Micro and small enterprises	102,895		105,029		112,809		118,352		129,259	
Small enterprises	1,221		1,192		1,347		1,400		1,498	
Large enterprises	354	0.3	348	0.3	327	0.3	329	0.3	360	0.3
Total	104,470	100	106,569	100	114,483	100	120,081	100	131,117	100

Source: "Analysis of financial results of entrepreneurs in Croatia in 2014–2018", FINA, 2019

Micro, small and medium enterprises employ almost three quarters (72.2%) of all employees in business entities in Croatia in 2018, and this share is unchanged compared to 2017. The number of employees in micro enterprises in 2018 increased by 5.3% compared to 2017, by 3.8% in small enterprises, by 6.1% in medium enterprises, and by 10.5% in large enterprises (Table 2).

Table 2: Enterprise size and employment, total income and exports in 2017 and 2018

Economic criterion for sector evaluation	Enterprise size							
	Micro		Small		Medium		Large	
	2017	2018	2017	2018	2017	2018	2017	2018
Number of employees	242,867	255,819	229,752	238,392	173,713	184,278	236,552	261,465
Employment (share)	27.5%	27.2%	26.0%	25.4%	19.7%	19.6%	26.8%	27.8%
Total income (million HRK)	94,384	102,094	161,307	172,766	148,281	161,166	274,423	315,134
Total income (share)	13.9%	13.6%	23.8%	23.0%	21.8%	21.4%	40.5%	42.0%
Exports (000 HRK)	10,121,387	10,431,958	26,989,911	29,670,621	35,254,300	37,874,363	65,477,447	69,204,745
Exports (share)	7.3%	7.1%	19.6%	20.2%	25.6%	25.7%	47.5%	47.0%

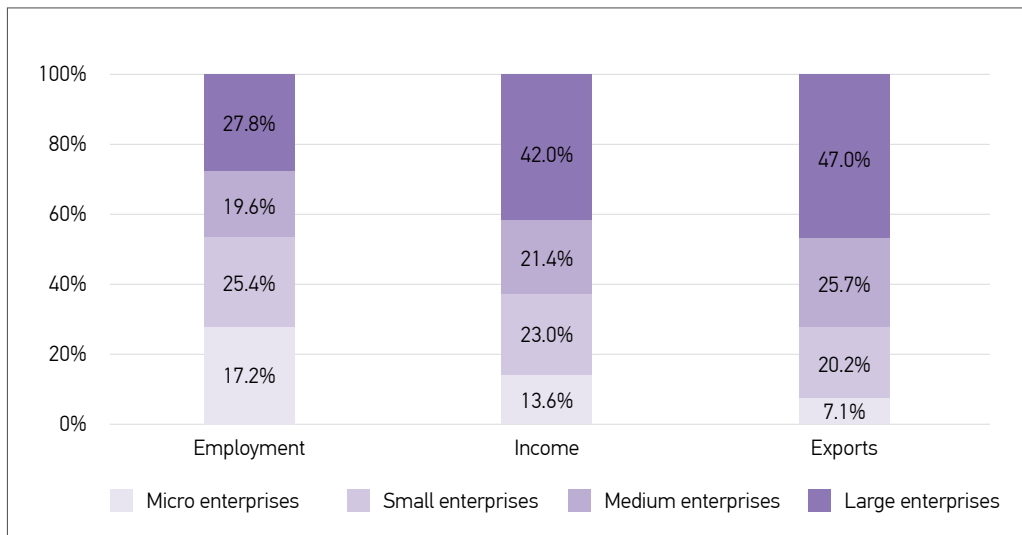
Source: "Analysis of financial results of entrepreneurs in Croatia in 2017", FINA, 2018
 "Analysis of financial results of entrepreneurs in Croatia in 2018", FINA, 2019

In 2018, the micro, small and medium enterprise sector accounted for 58% of total income generated at the level of Croatia. Compared to 2017, the total income of micro enterprises in 2018 increased by 8.2%, of small enterprises by 7.1%, of medium enterprises by 8.7%, and of large enterprises by 14.8% (Table 2).

In the total exports of Croatian enterprises in 2018, the small and medium enterprise sector participates with a share of 53%. Compared to 2017, the value of exports of micro enterprises in 2018 increased by 3.1%, of small enterprises by 9.9%, of medium enterprises by 7.4%, and of large enterprises by 5.7% (Table 2).

Figure 1 graphically shows the differences between micro, small, medium and large enterprises in terms of their contribution to employment, total income and exports in 2018.

Figure 1: Total employment, income and exports by enterprise size in 2018



Micro enterprises account for the share of 27.2% in total employment at the level of Croatia, and this result is almost equal to that of large enterprises in terms of employment. They account for the smallest shares in total income (13.6%) and total exports (7.1%). In 2018, with a share of 27.8% in total employment, large enterprises achieve the highest shares in income (42%) and exports (47%).

The average number of employees in micro and small enterprises records a continuous slight decrease trend in the period from 2014, when it averaged 4.1 employees to an average of 3.8 employees in 2018. At the same time, total income per employee in micro and small enterprises is continuously increasing, with a total increase of 2.8% in 2018, compared to 2017, and 8.8% compared to 2014 (Table 3).

Table 3: Average number of employees and productivity in micro and small enterprises from 2014 to 2018

Year	Number of micro and small enterprises	Number of employees in micro and small enterprises	Average number of employees in micro and small enterprises	Total income (in million HRK)	Total income per employee (in HRK)
2014	102,895	422,238	4.1	215,807	511,103
2015	105,029	432,934	4.1	226,110	522,273
2016	112,809	455,670	4.0	236,495	519,005
2017	118,352	472,619	4.0	255,691	541,009
2018	129,259	494,211	3.8	274,860	556,159

Source: "Analysis of financial results of entrepreneurs in Croatia in 2014–2018", FINA, 2019

The average number of employees in medium enterprises stagnated in the 2015–2018 period, ranging between 123 and 124 employees on average. In 2018, there was a slight increase in total income per employee in medium enterprises, which indicates an increase in productivity and competitiveness of medium enterprises in Croatia (2.5% compared to the previous year, Table 4).

Table 4: Average number of employees and productivity in medium enterprises from 2014 to 2018

Year	Number of medium enterprises	Number of employees in medium enterprises	Average number of employees in medium enterprises	Total income (in million HRK)	Total income per employee (in HRK)
2014	1,221	145,246	118.9	112,320	773,309
2015	1,192	147,250	123.5	119,100	808,828
2016	1,347	166,274	123.4	141,579	851,480
2017	1,400	173,713	124.1	148,281	853,598
2018	1,498	184,278	123	161,166	874,581

Source: "Analysis of financial results of entrepreneurs in Croatia in 2014–2018", FINA, 2019

Table 5: Average number of employees and productivity in large enterprises from 2014 to 2018

Year	Number of large enterprises	Number of employees in large enterprises	Average number of employees in large enterprises	Total income (in million HRK)	Total income per employee (in HRK)
2014	354	262,632	741.9	290,663	1,106,731
2015	348	258,400	742.5	294,438	1,139,466
2016	327	231,166	706.9	255,035	1,103,255
2017	329	236,552	719.0	274,423	1,160,096
2018	360	261,465	726.3	315,134	1,205,263

Source: "Analysis of financial results of entrepreneurs in Croatia in 2014–2018", FINA, 2019

Analysis of the average number of employees and productivity in large enterprises (Table 5), also, indicates an increase in the average number of employees in 2018, and productivity growth (3.9% compared to the previous year). As in previous years, the 2018 data indicates a lower level of productivity of micro, small and medium enterprises, compared to large enterprises, and insufficient capacity of internationalisation of small and medium enterprises and of utilising the potential of the European Union's single market, compared to large enterprises.

Financial performance of small and medium enterprises

Croatian business sector in 2018 records an increase in net profit by 13.3% compared to the previous year. All categories of enterprises with regard to size achieved a positive consolidated result, which was 29.1% higher than the consolidated result in 2017 (Table 6).

Table 6: Financial efficiency of enterprises in 2017 and 2018

Enterprises	2017		2018	
	Million HRK	%	Million HRK	%
Micro				
Profit	8,580	20.7	9,436	20.1
Loss	7,457	38.2	7,393	39.6
Consolidated result	1,122	5.1	2,043	7.2
Small				
Profit	9,725	23.5	10,586	22.6
Loss	4,488	23	3,964	21.2
Consolidated result	5,237	23.9	6,622	23.4
Medium				
Profit	7,715	18.6	9,768	20.8
Loss	2,184	11.2	2,018	10.8
Consolidated result	5,532	25.3	7,750	27.4
Large				
Profit	15,377	37.1	17,115	36.5
Loss	5,383	27.6	5,280	28.3
Consolidated result	9,994	45.7	11,835	41.9
Total				
Profit	41,397		46,905	
Loss	19,512		18,655	
Consolidated result	21,885		28,250	

Source: "Analysis of financial results of entrepreneurs in Croatia in 2017", FINA, 2018
 "Analysis of financial results of entrepreneurs in Croatia in 2018", FINA, 2019

The increase in the position of consolidated result in the analysis of financial efficiency of enterprises is the result of increased profits for all categories of enterprises, with simultaneous reduction of losses of the entire business sector by 4.4% compared to the previous year.

Micro enterprises recorded a profit of HRK 9.4 billion in 2018, which is an increase of about 10% compared to the profit achieved in 2017. Their share in the total generated profit of enterprises in Croatia has not changed significantly compared to 2017.

Small enterprises achieved a profit of HRK 10.6 billion in 2018, which is an increase of 8.9% compared to the result achieved in 2017. Also, small enterprises reduced their losses by 11.7% compared to the previous year. With these results, the share of small enterprises in the total generated profit of enterprises in Croatia in 2018 remained unchanged compared to 2017, while the share in total losses decreased by 1.8 percentage points.

Medium enterprises achieved a profit of HRK 9.8 billion in 2018, which is an increase of 26.6% compared to 2017. This increase was reflected in the increase in the share of medium enterprises in the total net profit of the economy in 2018 (to 20.8% from 18.6% in 2017).

Large enterprises achieved a profit of HRK 17.1 billion in 2018, which is an increase of 11.3% compared to 2017. With their results, large enterprises account for the largest share of the profit at the level of the economy in 2018 (36.5% of total profit).

Micro enterprises account for the largest share of losses (39.6%), while medium enterprises have the least losses (10.8%), which, together with the trend of productivity growth, indicates an increase in competitiveness and export capacity of medium enterprises.

Starting business ventures and growing enterprises

GEM – Global Entrepreneurship Monitor is the world's largest study of entrepreneurship¹³, which, among other things, monitors the level of activity in starting business ventures at the national level as measured by the TEA index¹⁴. Entrepreneurial activity in Croatia measured by the TEA index in 2018 amounts to 9.6%, which is the best result in the last five years. Compared to 2014, the index increased by 1.6 percentage points, while compared to 2017, it increased by 0.7 percentage points (Table 7). According to this indicator, Croatia achieved a better result than the average of EU countries (7.6% in 2018), and came closer to the GEM average of countries that participated in the GEM research (10.2% in 2018).

Table 7: Entrepreneurial activity in Croatia from 2014 to 2018, measured by the TEA index

	2014	2015	2016	2017	2018
TEA index (%), Croatia	8.0	7.7	8.4	8.9	9.6
TEA index (%), GEM average ¹⁵	14.0	14.5	14.2	18.5	10.2
TEA index (%), EU average	7.8	8.0	8.6	8.3	7.6

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2019

The reasons for starting entrepreneurial are associated with motivation for entrepreneurial action, and can be the result of recognising a business opportunity or lack of other employment opportunities. GEM research measures starting entrepreneurial ventures because of opportunity or out of necessity with indexes TEA Opportunity, TEA Necessity and motivational index¹⁶. The higher value of the motivational index, as the ratio of TEA Opportunity and TEA Necessity, indicates greater optimism, which is based on recognised opportunity, and thus also of potentially better preparedness for starting a business venture. Motivational index of Croatia in 2018 is 1.9, meaning that there are 1.9 times more entrepreneurs who enter into entrepreneurial activity because of perceived opportunity, and not out of necessity (Table 8). Throughout the observed period, Croatia has motivational index higher than 1, which is an indicator that more entrepreneurs are entering into entrepreneurial ventures because of perceived opportunities, but this motivational index is

13 Since 2002, GEM research in Croatia is carried out by CEPOR – SMEs and Entrepreneurship Policy Center in cooperation with the research team from the Faculty of Economics in Osijek, J.J. Strossmayer University of Osijek. GEM data is based on the perception of respondents – research participants. In 2018, 2,000 respondents aged between 18 and 64 years and 36 experts participated in the GEM research in Croatia.

14 TEA (Total Early Entrepreneurial Activity) index represents the number of entrepreneurially active people who are also owners of enterprises younger than 42 months per 100 examinees between 18 and 64 years of age.

15 Average for GEM countries relates to all GEM countries that participated in the survey that year.

16 Motivational index is the ratio of TEA Opportunity to TEA Necessity. Value of motivational index above 1 means that more entrepreneurial ventures were started because of perceived opportunities, and value below 1 means that there are more of those who were forced into entrepreneurship by necessity, i.e., lack of other options.

lower than the EU average (2.3 in 2018), as well as than the average of all countries involved in the GEM research (4.1 in 2018).

Table 8: Reasons for entry into entrepreneurial activity in Croatia from 2014 to 2018

Year	TEA Opportunity (%)			TEA Necessity (%)			Motivational index		
	Croatia	EU average	GEM average	Croatia	EU average	GEM average	Croatia	EU average	GEM average
2014	4.1	5.7	9.5	3.7	1.8	3.2	1.1	4.6	4.3
2015	4.6	6.0	9.6	3.1	1.7	3.4	1.5	4.0	3.7
2016	5.6	6.6	9.0	2.6	1.7	2.9	2.2	5.3	4.3
2017	5.6	6.2	12.5	3.1	1.6	2.9	1.8	5.0	4.3
2018	6.0	5.7	8.9	3.1	1.4	3.1	1.9	2.3	4.1

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2019

Starting business ventures out of necessity is one of the ways out of unemployment. The long-standing high unemployment rate in Croatia has affected a high proportion of entrepreneurs who decide to start a business venture out of necessity.

The Croatian Employment Service provides financial support to its users through grants for self-employment. Grants are a measure of active employment policy intended for people registered in the unemployment register who have an entrepreneurial idea¹⁷.

In Grants for self-employment in 2018, the grant amount was increased to HRK 55,000.00, while in 2017 it amounted to HRK 35,000.00. This represents a significant increase, given that in 2016 the said grant amounted to HRK 25,000.00.

In 2018, 10,036 people have used grants for self-employment, which is an increase of 72.3% compared to the previous year, and the largest number of grants used in the observed period (Table 9).

Table 9: Users of grants for self-employment of the Croatian Employment Service from 2014 to 2018

Year	Number of self-employed persons – new users of CES's grants for self-employment	Number of self-employed persons – who have completed contracts on use of CES's grants for self-employment	Total number of users of CES's grants for self-employment in the year
2014	2,277	4,589	7,077
2015	2,776	2,238	4,885
2016	2,333	2,739	4,980
2017	3,583	2,273	5,824
2018	6,485	3,690	10,036

Source: Croatian Employment Service, 2019

¹⁷ According to the Act on Employment Mediation and Unemployment Rights, Croatian Employment Service shall cease keeping an unemployed person in its records if this person registers a company or some other legal entity, or acquires more than 25% stake in a company or some other legal entity, registers a craft, an independent profession or activity in the field of agriculture and forestry.

In 2018, out of 3,690 concluded contracts on self-employment grants, 3,581 or 97% of business entities continued to operate until the end of the first business year, which is until when CES monitors business operations of newly launched ventures by beneficiaries of CES's self-employment grants. Data on sustainability of these ventures 3 or 5 years after the use of grants are not available, and they represent important information about the effectiveness of this measure.

In addition to grants for self-employment, growing enterprises also contribute to reducing unemployment given their potential for job creation. GEM research identifies growing enterprises based on several criteria that indicate development of the innovative capacity of the enterprise, such as development of new products, technological modernisation, and internationalisation of business (Table 10).

Table 10: Innovative capacity of enterprises in Croatia according to the new product development criterion from 2014 to 2018

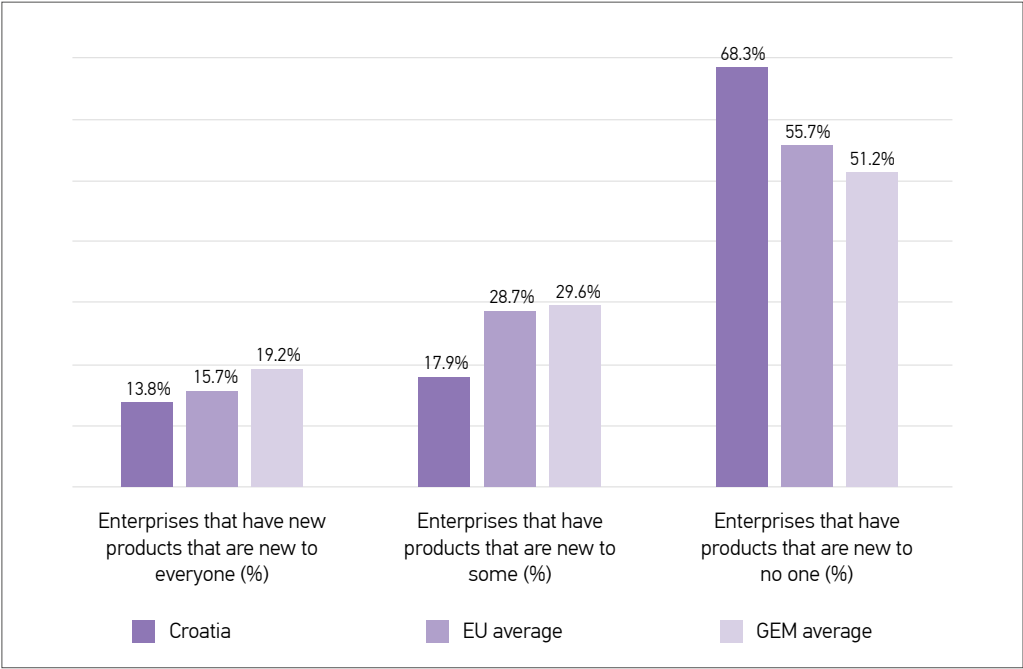
Criterion for categorisation of growing enterprises*	2014	2015	2016	2017	2018
Enterprises that have new products that are new to everyone (%)	8.2	8.8	10.9	14.2	13.8
Enterprises that have products that are new to some (%)	19.1	19.4	17.2	14.1	17.9
Enterprises that have products that are new to no one (%)	72.7	71.8	71.9	71.7	68.3

**Data refer to "established" businesses*

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2019

Data in Table 10 shows a positive trend: a slight decrease in the number of enterprises with products that are new to no one, and an increase in the number of enterprises with products that are new to some. Compared to the average of EU countries that are part of the GEM research (55.7%) and the average of all countries involved in the GEM research (51.2%), Croatia still, with 68.3%, has significantly more enterprises with products that are new to no one (Figure 2).

Figure 2: Growing enterprises in Croatia according to the new product development criterion in 2018



Source: "GEM Croatia", CEPOR – SMEs and Entrepreneurship Policy Center, 2019

In order to increase the innovation capacity of the small and medium enterprise sector, greater investment in research and development, and better links between the business sector and scientific-research institutions are necessary.

Investment in research and development

In its publication "Research and Development in 2018", Croatian Bureau of Statistics provides an overview of gross domestic expenditure on research and development in Croatia, at the level of business sector, government and private non-profit sector, and higher education. Gross domestic expenditure for research and development in Croatia in 2018 was 8.2% higher compared to 2016¹⁸. The business sector¹⁹ has the highest share in total expenditure for research and development (48.4%), followed by the government and private non-profit sector (22.3%), and the higher education sector (29.3%). The higher education sector records a decrease in investment in 2017 compared to 2016 by 5%, while the other two sectors recorded increased investment. In 2017, the business sector increased investments in research and development by 17% compared to 2016, while the government and private no-profit sector increased investments by 10.4% (Table 11).

¹⁸ Data for 2018 was not available prior to the completion of the Report.

¹⁹ Availability of data on investment in research and development at the level of the small and medium enterprise sector would allow a deeper analysis of the link between investment in research and development and innovation capacity of small and medium enterprises.

Table 11: Gross domestic expenditure on research and development – Croatia, 2014 – 2017 (in thousand HRK)

	2014	%	2015	%	2016	%	2017	%
Business sector	1,251,944	48.3	1,461,802	51.2	1,307,082	44.8	1,529,816	48.4
Government and private non-profit sector	676,146	26	700,106	24.5	639,148	21.9	705,481	22.3
Higher education	666,514	25.7	691,771	24.3	974,107	33.4	925,703	29.3
Total	2,594,604	100	2,853,679	100	2,920,337	100	3,161,000	100

Source: Statistical Information 2018, Croatian Bureau of Statistics, 2018, Research and Development in 2017, First Release No. 8.2.1., 2018, Croatian Bureau of Statistics

In order to strengthen innovation capacity of micro, small and medium enterprises, in May of 2018 the Ministry of Economy, Entrepreneurship and Crafts issued the Call for Proposals "Innovation Vouchers for SMEs". The objective of the Call is to encourage cooperation of micro, small and medium enterprises with scientific-research organisations for the purpose of developing new products, services or processes, with an emphasis on commercialisation of products and services²⁰. *Innovation vouchers are a special form of support for the provision of professional support by scientific-research organisations in the form of contractual provision of services to enterprises in the small and medium enterprise sector, for the costs of testing, examination, demonstration activities, as well as the use of technical expertise.* The lowest value of support, that is, the lowest grant amount that can be awarded to an individual project is HRK 10,000, while the highest grant amount is HRK 75,000²¹.

Global Innovation Index²² (GII) is a global survey that measures the level of innovation of national economies. According to data from this international survey²³, in 2018, as in the previous year, Croatia took 41st place in the ranking of 126 countries surveyed. According to the Global Innovation Index, the ten most innovative economies in the world are, in order: Switzerland, the Netherlands, Sweden, the United Kingdom, Singapore, the United States, Finland, Denmark, Germany and Ireland. Of the neighbouring countries, Slovenia is in 30th place, Montenegro in 52nd place, Serbia in 55th place, Bosnia and Herzegovina in 77th place, and Macedonia in 84th place.

20 Ministry of Economy, Entrepreneurship and Crafts. Available at: <https://www.mingo.hr/page/objavljen-poziv-na-dostavu-projektnih-prijedloga-inovacijski-vauceri-za-msp-ove>, downloaded on December 01, 2019

21 Grants are awarded through the Operational Programme Competitiveness and Cohesion 2014-2020, co-financed from the European Regional Development Fund, and the call is open until June 29, 2020. Available at: <https://strukturnifondovi.hr/natjecaji/inovacijski-vauceri-za-msp-ove/>, downloaded on December 01, 2019

22 The Global Innovation Index model measures the level of innovation of national economies based on the analysis of seven pillars of innovation divided within two sub-indices: innovation input and innovation output. Innovation input consists of five components that enable innovative activities: institutions, human capital and research, infrastructure, market sophistication and business sophistication. *Innovation output* consists of components that affect the actual level of innovation: knowledge and technology outputs, and creative outputs.

23 More information: <https://www.globalinnovationindex.org/home>, downloaded on October 28, 2019

50 technology companies with the fastest growth in Central Europe

Deloitte Technology Fast 50 Central Europe 2018²⁴

The consulting company Deloitte has been monitoring technology companies in Central Europe for many years, and since 2000 has been implementing a project to identify 50 fast-growing technology companies in the region. The latest results from 2018 are based on data on income growth over four years (2014–2017). The programme includes the following activities: communications, environmental technologies, fintech, hardware, software, media and entertainment and healthcare industry.

On the list of 50 technology companies with the fastest growth in Central Europe in 2018 there are seven Croatian companies, most of which operate in the software industry, while two companies are involved in hardware and media and entertainment industries. Thanks to the results of its companies, Croatia shares third place with the Czech Republic, which also had seven companies on the list. Poland with 18 companies is in first place, followed by Lithuania with 8 companies. The best positioned Croatian company, which has taken 3rd place in the ranking, is Q Software. It is followed by Ars Futura d.o.o (10th place), Microblink d.o.o. (14th place) Rimac Automobili d.o.o. (36th place), Infinum d.o.o. (40th place), Telum d.o.o. (41st place), and Profico (Innovatio Profit d.o.o. in 47th place).

2.2. Dynamics of development of business activity

In 2018, according to the Croatian Bureau of Statistics data, 17,414 legal entities were established in Croatia, that is, 3.9% more compared to 2017 (Table 12).

Table 12: Number of established legal entities in 2017 and 2018

	2017	2018	Difference in the number of newly established enterprises
Trading companies	14,882	15,671	5.3%
Other	1,877	1,743	-7.1%
Total	16,759	17,414	3.9%

Source: Number and structure of business entities in December 2018, First Release No. 11.1.1/4., 2019, Croatian Bureau of Statistics

The GEM research monitors the rate of exit from business activity, that is termination of entrepreneurial activity. In 2018, this rate in Croatia was 2.2%, while the EU average was 1.9%. Furthermore, GEM research also monitors the causes of cessation of business activity (Table 13). In 2018, the most common causes of cessation of business activity were related to issues of business profitability (19.7%), which was also the most common reason of cessation of business activity in 2017. Tax policy and administration (19.2%) and other job or business opportunity (18.5%) are also common causes of cessation of business activity.

²⁴ Deloitte Technology Fast 50 Central Europe 2018, available at: <https://www2.deloitte.com/content/campaigns/ce/technology/fast-50/ce-fast-50-2019-results.html>, downloaded on October 25, 2019

Opportunity for sale (0.6%) and exit as part of the plan (1.9%) were evaluated as the rarest causes for cessation of business activity.

Table 13: Causes of cessation of business activity in Croatia in 2017 and 2018 (%)

Causes of cessation of business activity	2017	2018
Opportunity for sale	0	0.6
The company is not profitable	34.2	19.7
Problems with access to finance	15.2	7.4
Other job or business opportunity	5.7	18.5
The exit was planned	1.4	1.9
Retirement	4.7	9.1
Personal or family reasons	25.4	16.5
Incident situations	1.1	7.1
Tax policy/Administration	12.5	19.2

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2019

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

The GEM research also monitors regional differences²⁵ in business venture start-up activity. In 2018, the Dalmatia region achieved the best result in entrepreneurial activity measured by the TEA index. Compared to 2017, the TEA index of the Dalmatia region increased by 3.2% percentage points. Regions of Istria, Primorje and Gorski Kotar (11.4%) and Zagreb and surroundings (9.4%), which had a lower index compared to 2017, follow. The Northern Croatia region also marked a slight decrease in entrepreneurial start-up activity measured by the TEA index (8.4%). In 2018, as well as throughout the observed period, regions Lika and Banovina, and Slavonia and Baranja had the lowest measured level of TEA index (Table 14).

25 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

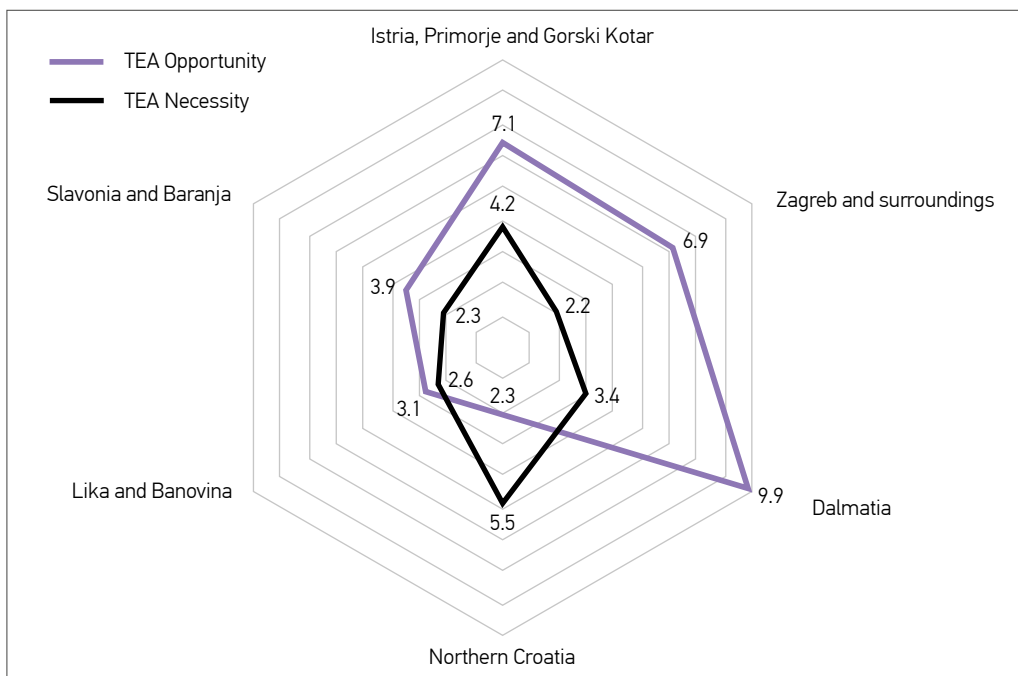
Table 14: Regional differences in business venture start-up from 2014 to 2018 – TEA (%) and rank

Region	2014		2015		2016		2017		2018	
	TEA	Rank	TEA	Rank	TEA	Rank	TEA	Rank	TEA	Rank
Istria, Primorje and Gorski Kotar	6.8	4	11.8	1	7.5	4	9.8	3	11.4	2
Zagreb and surroundings	9.5	1	8.2	3	11.4	1	9.9	2	9.4	3
Dalmatia	9.2	2	9.0	2	7.7	3	11.2	1	14.4	1
Northern Croatia	8.8	3	7.7	4	8.1	2	8.8	4	8.4	4
Lika and Banovina	4.4	6	4.4	5	7.5	4	6.7	5	4.7	6
Slavonia and Baranja	5.8	5	3.9	6	5.7	5	5.1	6	6.6	5

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2019

By including the criteria of motivation for entrepreneurial activity in Croatian regions (measured by the TEA Opportunity to TEA Necessity ratio), additional information on the quality of entrepreneurial activity in a particular region is provided. In 2018, the most business ventures because of perceived opportunity (TEA Opportunity) were started in Dalmatia, and the least in Northern Croatia. On the other hand, the most business ventures out of necessity (TEA Necessity) were started in Northern Croatia, and the least in Zagreb and surroundings (Figure 3).

Figure 3: Regions in Croatia according to motivation for entrepreneurial activity in 2018



Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2019

The results of GEM research of regional differences in attitudes towards entrepreneurship during 2018 compared to 2017 indicate a decrease in the number of respondents who intend to start a business venture in the next three years in Istria, Primorje and Gorski Kotar, Northern Croatia, and Lika and Banovina. In the same period, the number of those who see an opportunity to start a business venture in the next 6 months decreased or stagnated in all regions, with the highest decline of 7.8 percentage points recorded in Lika and Banovina. Most respondents from the Dalmatia region (57.5%) believe that they have the necessary knowledge, skills and experience to start a business venture. Other regions have similar shares, with the exception of Northern Croatia (48%) and Slavonia and Baranja (46.7%).

Over 55% of respondents in all regions see entrepreneurship as a good career choice in 2018, but compared to 2017, a decline of interest in entrepreneurship as a career is recorded in Zagreb and surroundings, and Dalmatia. In 2018, positive influence of media on entrepreneurial culture development is observed by more respondents than in 2017 in most regions, except for Dalmatia, where this share decreased in 2018 (Table 15).

Table 15: Comparison of regional differences in attitudes towards entrepreneurship in 2017 and 2018, 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 necessary knowledge, skills and experience to start a business venture		Majority of people see entrepreneurship as a good career choice		Media have a positive influence on entrepreneurial culture development	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Istria, Primorje and Gorski Kotar	28.4	23	45.7	44.9	58.6	56.7	57.6	61.4	49	56
Zagreb and surroundings	22.9	26.8	34.2	34.9	52.2	52.4	62.3	58.9	44.4	52.1
Dalmatia	26.1	27.8	45.3	45.9	55.5	57.5	64.9	63.9	49	47.8
Northern Croatia	21.7	14.4	27.6	27.2	48	48	63.4	64.9	52	60.4
Lika and Banovina	19.3	17.5	25	17.2	45.8	53.9	65.2	67.9	53.3	53.9
Slavonia and Baranja	17.8	19.2	21.1	20.8	43	46.7	59.5	59.9	45.7	53.9

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2019

2.4. Crafts in Croatia

In 2018, there were 81,430 crafts in Croatia, the most in the observed 2014–2018 period. Of the total number of all active trading companies in 2018, crafts accounted for 39.1%. Compared to 2017, the number of active crafts increased by 5.3%. At the end of 2018, active crafts employed 180,155 people (including owners/partners in the craft and their employees), that is, 12.8% of the total number of employees in legal persons in Croatia, thus slightly reducing their share compared to 2017 (Table 16).

Table 16: Number of active crafts and employees in crafts in Croatia, state in December 2014 – 2018

	2014	2015	2016	2017	2018
Number of active crafts	78,070	76,222	75,861	77,335	81,430
Share in active trading companies	35.5%	33%	39.9%	39.5%	39,1%
Number of employees in crafts	176,973	175,942	176,022	176,805	180,155
Share of employees in crafts in the total number of employees	13.6%	13.5%	12.9%	13.4%	12.8%

Source: *Trades and crafts in numbers, Croatian Chamber of Trades and Crafts, December 2018, according to the Croatian Bureau of Statistics data*

Same as in 2017, the largest number of crafts in 2018 was active in the City of Zagreb (17.9%), followed by Split-Dalmatia County (13.1%), Primorje-Gorski Kotar (9.8%) and Istria County (9.2%).

According to guild structure, the most active crafts in Croatia in 2018 belonged to the guild of service crafts (42.5%), followed by the guild of hospitality and tourism (14.8%), and trade (11.5%). The smallest share of 4.9% in guild structure belongs to the guild of fisheries, mariculture and agriculture.

During 2018, through the Entrepreneurial Impulse programme of the line ministry, 4,188 grants were awarded to crafts, which is 21.1% more than in 2017. Of the total number of grants, 861 grants were awarded for lifelong learning for craftsmen, 188 grants for apprenticeships, 76 grants for the preservation and development of traditional and artistic crafts, 95 grants for the development of small and medium entrepreneurship and crafts, and 2,968 grants for scholarships for pupils in craft occupations. The total value of awarded grants was HRK 55.8 million.

In the school year 2018/2019, 3,692 pupils were enrolled in craft occupation programmes, that is, 11.1% more than in the previous school year. Although more students were enrolled, the planned enrolment number of 4,554 for school year 2018/2019 was not achieved.

In 2018, 729 candidates have passed vocational competence exams. Most vocational competence exams were passed in the following occupations: preparer of simple meals and desserts, food and drink server, and tiler. In 2018, not a single vocational competence exam for occupations tool grinder and wood turner was passed. As for master craftsman exams, in 2018, 1,199 candidates have passed master craftsman exams, with the most exams taken for occupations hairdresser, cook and electrician. Most craftsman exams were passed in the City of Zagreb and Zagreb County (17.7%), and Split-Dalmatia County (11.1%).

3. Women entrepreneurship (Mirela Alpeza)

Female entrepreneurship is important to the European Union (EU) for both gender equality and economic growth. Yet, while women are catching up on labour markets, the gender gap in entrepreneurship is still wide.

(Library briefing of the European Parliament, April 30, 2013)²⁶

Empowering women to start and develop entrepreneurial ventures is of special importance for the development of the small and medium enterprise sector. Women constitute 52% of total population in the European Union, but the share of women entrepreneurs among the self-employed in Europe is only 34.4%, while only 30% of start-up ventures are started by women²⁷. These data indicate underutilised potential of women's entrepreneurial activity for achieving economic growth and job creation. As the causes for the gap in entrepreneurial activity of women and men, European Commission cites limited access to financial resources, technology, information, education, poor business networking, and lack of balance between business and family aspect of life which is still dominated by the role of women. The European Commission promotes women entrepreneurship through the Small Business Act and Europe 2020 action plan. One of the main initiatives of the European Commission is the support to networking of women and support to organisations that make this possible²⁸.

Women entrepreneurship in Croatia can be statistically monitored through the activities of trading companies and crafts in which one or more women own at least 51% share of ownership. According to FINA²⁹ data, the share of trading companies owned exclusively by women in the total number of trading companies in 2018 was 22%, while the share of trading companies with mixed³⁰ ownership in 2018, including trading companies owned exclusively by women, was 32.3%. In the 2014-2018 period, the share of women entrepreneurs remained almost unchanged, from 20.4% in 2014, to 22% in 2018 (Figure 4).

In the ownership structure of crafts³¹, women in 2018 participated with 33.8%.

26 [http://www.europarl.europa.eu/RegData/bibliotheque/briefing/2013/130517/LDM_BRI\(2013\)130517_REV1_EN.pdf](http://www.europarl.europa.eu/RegData/bibliotheque/briefing/2013/130517/LDM_BRI(2013)130517_REV1_EN.pdf), downloaded on September 28, 2019

27 https://ec.europa.eu/growth/smes/promoting-entrepreneurship/we-work-for/women_hr, downloaded on October 18, 2019

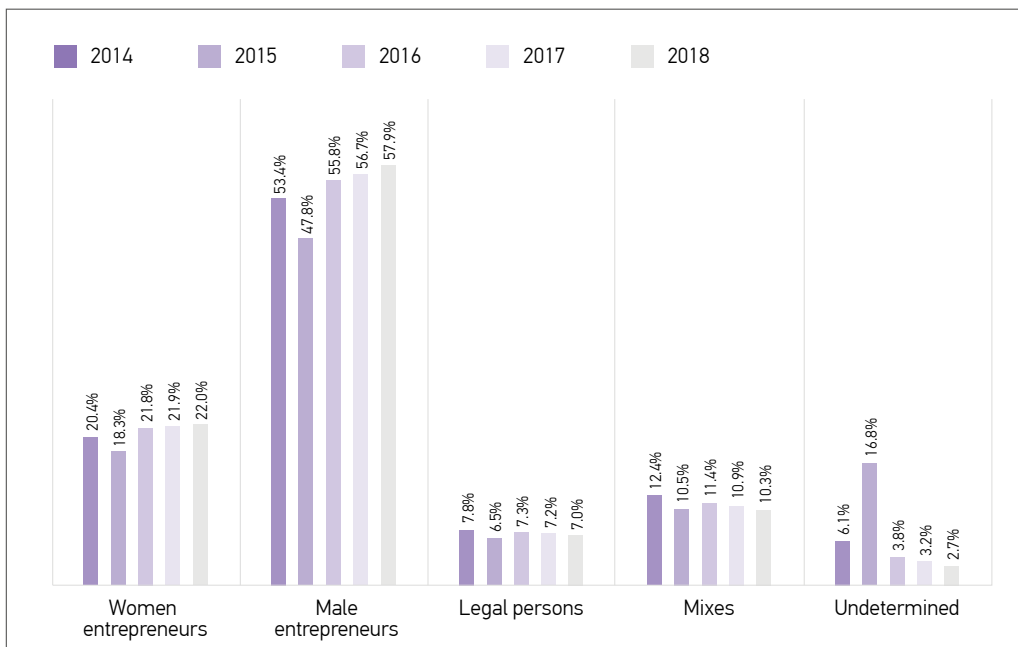
28 https://ec.europa.eu/growth/smes/promoting-entrepreneurship/we-work-for/women_hr, downloaded on October 18, 2019

29 "Analysis of the share of women entrepreneurs in the ownership structure of trading companies", FINA, 2019

30 Founders / owners are different combinations of women, men and legal persons.

31 Trades and Crafts in Numbers, Croatian Chamber of Trades and Crafts, December 2018, according to the Croatian Bureau of Statistics data

Figure 4: Share of women entrepreneurs in the total number of enterprises that submitted annual financial reports 2014-2018



Source: FINA and author's processing

In 2018, the largest share of women entrepreneurs, as in previous years, was recorded in Bjelovar-Bilogora County (25.2%), while the City of Zagreb took the second place with 23.3%. Virovitica-Podravina County recorded the lowest share of women entrepreneurs (18.3%). In absolute terms, the City of Zagreb has the largest number of companies owned exclusively by women (9,649 companies).

Observed by activity, companies with majority women ownership in Croatia in 2018 are prevalent in the S area of activity – other service activities³² with 57.2%. The findings of the OECD's Policy Brief on Women's Entrepreneurship³³ indicate that women's entrepreneurial ventures are less oriented towards high growth and job creation. Next to other service activities, women are represented the most (41.1%) in business ventures in the area of education. According to FINA data, in absolute terms, the largest number of women entrepreneurs is in the area of professional, scientific and technical activities, 6,054 of them, with a share of 30.9% in the total number of commercial entities in the activity.

GEM research enables analysis of the difference in business venture start-up activity between women and men (Table 17). In 2018, according to GEM results, the share of men and women in business venture start-up activity was, as in previous years, again uneven, and 1.7 times higher activity of men in business venture start-up compared to women was recorded.

32 This area (as a residual category) includes activities of membership organisations, repair of computers and personal and household goods and other personal service activities not elsewhere classified in the classification, National Classification of Activities 2007 with explanations.

33 Policy brief on Women's entrepreneurship, OECD, European Union, 2017, <https://www.oecd.org/cfe/smes/Policy-Brief-on-Women-s-Entrepreneurship.pdf>, downloaded on October 01, 2019

Table 17: Difference in business venture start-up activity by women and men in Croatia from 2014 to 2018, measured by the TEA index

	2014		2015		2016		2017		2018	
	EU average	Croatia	EU average	Croatia	EU average	Croatia	EU average	Croatia	EU average	Croatia
TEA Women	5.45	4.8	5.59	5.7	6.26	5.6	6.31	6.4	5.64	7.1
TEA Men	10.21	11.3	10.33	9.7	10.93	11.2	10.25	11.5	9.61	12.1
TEA Men / TEA Women	1.9	2.4	1.9	1.7	1.75	2	1.71	1.8	1.75	1.7

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2019

Women and men in 2019³⁴

According to the Croatian Bureau of Statistics, in the population structure of Croatia, there are 51.7% women and 48.3% men. The tertiary level of education is dominated by women – both by the number of enrolled female students (of a total of 159,638 students enrolled in higher education institutions in Croatia, 57% are female students), and by the total number of graduates (of 32,728 graduates, 59.7% were women). Of 1,604 students enrolled in postgraduate specialist studies, 66.2% were women, and of 3,584 enrolled doctoral students, 54.3% were also women.

Female students were in the majority at all faculties, except at faculties of technical sciences. 27.1% women were enrolled at graduate level in technical sciences, women have a share of 38.6%, at postgraduate specialist studies in technical sciences, while at doctoral studies in technical sciences in 2017/2018 academic year, 32.9% women were enrolled.

Although they constitute the majority – both in the total population and at the tertiary level of education, due to the strong influence of factors related to the organisation of family life, women are underrepresented in employment and entrepreneurial activity. Along with the already mentioned figure of about 20% of women entrepreneurs, it is important to add that of the total number of employees in 2018, 48.4% were women. The average gross salary of employees in legal entities in 2017 was HRK 8,304, and the share of women's salaries in men's salaries was 87.3%.

34 Since 2016, the Croatian Bureau of Statistics has been publishing the publication entitled "Women and men in Croatia", the goal of which is to illustrate the position of women and men in Croatian society. Statistical indicators are used to show the representation of women and men in the following areas: Population, Health Care, Education, Employment and Earnings, Pension Insurance, Administration of Justice and Political Power. More information: "Women and Men in Croatia in 2019", Croatian Bureau of Statistics, Zagreb, 2019, https://www.dzs.hr/Hrv_Eng/menandwomen/men_and_women_2019.pdf, downloaded on November 04, 2019

Programmes and projects to encourage the development of women entrepreneurship

Longevity of large differences in entrepreneurial activity of women and men point to insufficient efficiency of programmes and measures for the development and strengthening of women entrepreneurship in Croatia. In 2014, the Government of the Republic of Croatia adopted the national **Strategy of Women Entrepreneurship Development in the Republic of Croatia 2014-2020**, which is based on four strategic objectives: improving alignment and networking of public policies, improving systematic support to women entrepreneurship, introducing women entrepreneurship to the overall institutional infrastructure, and promoting women entrepreneurship. The strategic objectives are complemented with specific measures, implementation activities, and the Action Plan that includes performance indicators for measuring the effectiveness of implementation of the Strategy.

Evaluation of the effects of implementation of the Strategy according to the defined performance indicators is not available. The evident gap in entrepreneurial activity of women and men points rootedness of obstacles to the development of women entrepreneurship in Croatia, and the necessity to redefine policy instruments and programmes in order to achieve greater progress in the development of women entrepreneurship within the new Strategy for the 2021-2027 period.

The following programmes and projects aimed at encouraging the development of women entrepreneurship in Croatia were being implemented in 2018:

Croatian Bank for Reconstruction and Development (HBOR) – programme for crediting women entrepreneurship “Women Entrepreneurs”

The objective of this HBOR’s programme is to encourage founding and development of small and medium enterprises that are majority-owned by women, in accordance with the Action Plan for Implementation of the Strategy of Woman Entrepreneurship in the Republic of Croatia 2014-2020.

In 2018, women entrepreneurs were approved 37 loans in the total amount of approximately HRK 18.3 million, which is a decrease of 24.5% of the total amount of HBOR’s loan funds granted to women entrepreneurs under this programme compared to 2017 (Table 18).

Table 18: Loans approved under HBOR’s programme for crediting women entrepreneurship

Year	Number of approved loans	Total amount (HRK)	Average approved loan amount (HRK)
2013	105	50,348,419	479,508.75
2014	81	33,350,273	411,731.76
2015	69	29,481,854	427,273.25
2016	80	37,155,296	464,441.20
2017	49	24,472,463	499,438.02
2018	37	18,257,115	493,435.54

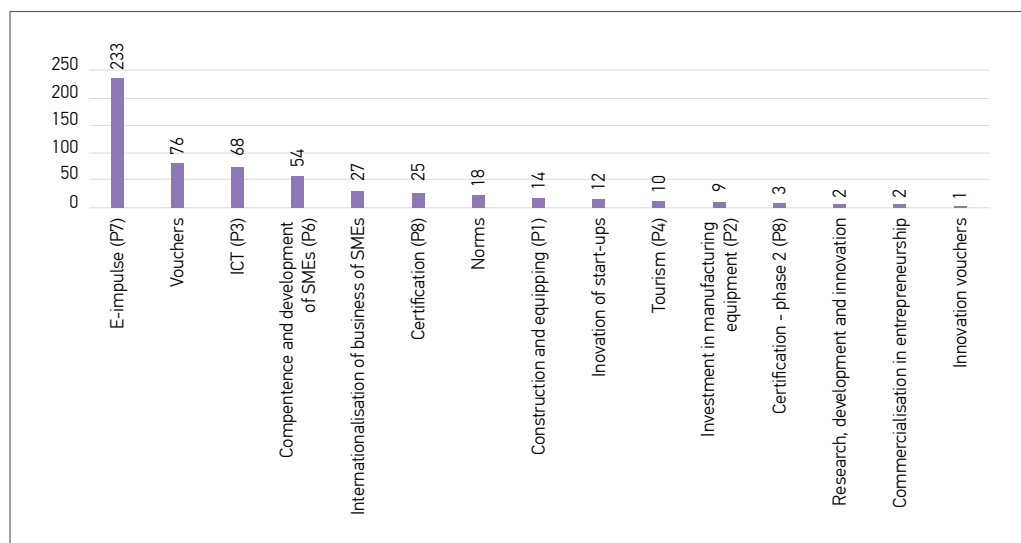
Source: Croatian Bank for Reconstruction and Development, 2019

Since 2016, the allocation of funds for the realisation of this Programme has been declining. In 2018, only a third of the amount from 2013 was allocated for the realisation of the Programme.

Croatian Agency for SMEs, Innovations and Investments - HAMAG – BICRO

In 2018, 544 projects of enterprises that are majority-owned by women were co-financed from ESI – European structural and investment funds, an increase of 29% compared to 2017. The largest number of projects relates to the E-Impulse call (233 projects), which generated the most projects (Figure 5).

Figure 5: Overview of projects (enterprises) co-financed from ESI Funds that are owned by women



Source: Annual Report 2018, HAMAG-BICRO, Zagreb, 2019

European Bank for Reconstruction and Development (EBRD)

European Bank for Reconstruction and Development – EBRD implements various programmes aimed at empowering small and medium enterprises. Through platforms Small Business Initiative and SME Finance and Development, EBRD provides financing and advisory services to small and medium enterprises. EBRD provides direct financing, indirect financing through financial institutions and combined products that include financing and advisory services.

Women in Business is a specific EBRD's programme, aimed at small and medium enterprises run by women, for which EBRD provides access to financing through partner banks (Raiffeisen Bank and *Hrvatska poštanska banka*) and business consulting in order to increase competitiveness. The programme encompasses a wide range of consulting services, including strategy, marketing, organisation, operations, ICT, engineering, quality management, energy efficiency and ecology. The programme offers training, mentoring, networking, on-line business diagnostics "Business Lens" and other support to enable women entrepreneurs to share experiences and learn.

In addition to the Women in Business programme, EBRD also implements the Blue Ribbon programme to support the development of woman entrepreneurship. The goal of this programme is to support small and medium enterprises with potential for significant growth, through tailor-made financial and advisory services over a 5-year period.

Advisory support for small and medium enterprises is funded by donors, which enables subsidised or free support to small and medium enterprises. In 2018/2019, donors to EBRD programmes in Croatia are: European Investment Advisory Hub and EBRD Small Business Impact Fund (Italy, Japan, Korea, Luxembourg, Sweden, Switzerland, Taipei China and the US).

In 2018, 2 international and 17 local advisory projects were launched. In cooperation with Raiffeisen Bank and *Hrvatska poštanska banka*, 7 seminars for women entrepreneurs were conducted. In October 2018, the “Women in business – driver of growth” conference was organised. A conference to launch support for small and medium enterprises was organised in December 2018 in cooperation with the European Commission, the European Investment Bank and the European Advisory Investment Hub.

In 2019, implementation of one international and 28 local advisory projects was started. In partnership with Raiffeisen Bank and *Hrvatska poštanska banka*, 4 seminars for women entrepreneurs were implemented.

Business incubator for women entrepreneurs – beginners

In 2015, Croatian Chamber of Economy – County Chamber Split started a business incubator for women entrepreneurs – beginners. Women entrepreneurs – beginners, selected through a public tender, are provided the use of **four furnished office spaces** in County Chamber Split under favourable conditions for a period of three years. In addition to office space, County Chamber Split provides **logistical support**, mentoring and consultation to its users.

CESI – Center for Education, Counselling and Research

CESI – Center for Education, Counselling and Research (www.cesi.hr) is a non-profit association founded in 1997 in response to problems of human rights violations, women's and minority rights in particular, problems of militarism, nationalism and deterioration of economic standard in the post-war period. CESI was founded by activists and members of women's and peace initiatives with many years of experience in working with women war trauma survivors. The core team has 10 members, and a large number of associates and volunteers contribute to development and achievement of the Association's goals.

In 2018, CESI continued the implementation of the **FREE – Rural Women and Entrepreneurship** project, within the European Union's Erasmus+ programme. The goal of the project is to provide support to women from rural areas when starting their own company, as well as technical assistance to women who already own a company. In addition to Croatia, the project also includes partner countries Iceland, United Kingdom, Lithuania and Bulgaria. Following the needs of the target group of women, activities for strengthening skills and competences, networking, support to enterprise growth by encouraging creativity, encouraging launching of start-ups or growth of existing enterprises were designed. In 2018, training of women in rural areas regarding starting a business was held, and 20 women participated in the pilot training consisting of online programme “Virtual Academy for Women Entrepreneurship” through training modules: Product Development, E-Sale, Social Media, Finance, Business Strategy. Regular meetings of Local Network of Women Entrepreneurs were held in cooperation with LAG Zagorje-Sutla, and a study visit of women entrepreneurs from Zagorje to women entrepreneurs in Petrinja took place. Fifteen women participated in the pilot programme “Virtual Entrepreneur Circles”, who successfully worked on developing skills and knowledge for starting and managing a business venture. A visit to women

entrepreneurs in Iceland was also organised, as well as the final conference of the project at which women entrepreneurs from Iceland shared their knowledge and experience related to starting and running a business.

In 2019, CESI started implementing the project **Equal Opportunities in Labour and Employment Process “Women Choose A New Chance”**³⁵. The project aims to contribute to the improvement of the position of women in the labour market, in the City of Zagreb and Krapina-Zagorje County. Beneficiaries of the programme are long-term unemployed women and women who need legal assistance in exercising their labour and social rights. Project activities include, among other things, conducting training to develop skills, counselling for developing a business plan for a family farm, mentoring and counselling in the process of employment and/or self-employment, legal assistance in the field of labour and social rights, and making recommendations for employment of women in the City of Zagreb and Krapina-Zagorje County.

Women in Adria

The “Women in Adria” network of business women was launched in 2012 with the aim of networking and exchanging experiences of business women. The network operates through the web portal www.womeninadria.com, which records 100,000 monthly visitors, social networks and organisation of networking events and conferences across Croatia. In 2018, they organised 5 conferences that brought together a total of 500 participants, and 10 networking events, which were also attended by around 500 participants. Also, for the past five years, awards have been given to best women entrepreneurs, which further enables the promotion of women entrepreneurship. Awards are presented in several categories: **Inspirational Women Entrepreneur of the Year** (women entrepreneur who has been operating for at least five years, has at least five employees, and achieves continuous business growth), **Perspective Women Entrepreneur of the Year** (women entrepreneur who employs at least five employees, and achieves growth from year to year), **Micro Women Entrepreneur of the year** (women entrepreneur who employs a maximum of five employees and achieves growth from year to year), and **Start-up Women Entrepreneur of the Year** (women entrepreneur who has developed her business over a maximum period of five years, ready for the next growth phase).

Virtual Women’s Entrepreneurial Centre

Virtual Women’s Entrepreneurial Centre (www.poduzetnica.hr) is conceived as a digital platform, launched in 2016. The main goal of this Centre is to promote entrepreneurship among women and to improve business activities of women entrepreneurs in Croatia and Southeast Europe. The main activities of the Centre are networking and education, which help in the exchange of knowledge and experience and making business contacts. Every year, the Centre implements a range of projects and events aimed at raising awareness of the importance and significance of women entrepreneurship, and entrepreneurship in general.

35 The project is implemented from March 2019 to March 2021. The total value of the project is HRK 951,458.42.

The project is funded by the European Union under Component IV of the IPA Programme “Human Resource Development”, the international network of Open Society Foundations / Crisis Fund for Croatia, the Ministry of Labour of the Republic of France, the French Embassy in Croatia, and the City of Zagreb.

Aurora

Aurora (www.aurora.hr) is a platform that provides current information related to women entrepreneurship, promotes stories of successful women entrepreneurs through blogs, and organises monthly meetings (meetups) for the exchange of knowledge and contacts. The partners in this project are Impact Hub Zagreb, ACT Group and SEE Regional Advisors d.o.o. Aurora brings together resources, integrates, organizes and shares information that women entrepreneurs need at different stages of development of their business, from learning, business start-up, to running the business. The goal of the project is to make the community supporting women entrepreneurship visible and accessible to all. Aurora strives to bring entrepreneurship closer to women who are still just thinking about entrepreneurship, to encourage and motivate them to meet other women entrepreneurs through monthly meetings, thus helping them make the decision to start an entrepreneurial venture. In 2019, a new initiative called **#rastem** was launched by Aurora, created in collaboration with the Zagreb Stock Exchange, PwC, Funderbeam SEE and the U.S. Embassy in Croatia, seeking to support women entrepreneurs whose businesses are ready for growth and investment, where, with support from mentors, networking and additional resources, they will prepare to present their company to investors. All trainings provided by Aurora are free of charge.

4. Social entrepreneurship (Julia Perić)

What business entrepreneurs are to the economy, social entrepreneurs are to social change. They are the driven, creative individuals who question the status quo, exploit new opportunities, refuse to give up, and remake the world for the better.

David Bornstein: "How to Change the World"³⁶

Significant discussion about social entrepreneurship has been taking place in Croatia only in the last ten or so years, although the concept of activity can be recognised in the efforts of the civil sector to restore socio-economic balance in the community after the Homeland War. While this business model is becoming more and more popular throughout the world because it equates economic and social value, Croatia still faces various problems, such as misunderstanding of the concept (social welfare /social vs. environmental vs. economic dimension), non-existence of relevant legislative framework, failure of institutions dealing with social and social welfare issues to take responsibility for promoting social entrepreneurship. Social entrepreneurship is recognised in the European Union as an important source of creation of additional social value through activities of more than 2.8 million social enterprises (10% of all companies) and more than 232 million members of social cooperatives, mutual associations and similar entities, with over 13.6 million employees (equivalent to about 6.3% of the working population in the European Union) and more than 82.8 million volunteers (whose hours are equivalent to 5.5 million full time workers)³⁷.

Definition of social entrepreneurship

The term *social welfare entrepreneurship* is first mentioned in an official document entitled "Program of Cooperation Between the Government of the Republic of Croatia and the Non-Government – Non-For-Profit Sector", aimed at fostering employment opportunities in the non-for-profit sector and developing social capital as an essential component of social development³⁸. This document did not offer practical application at the time, and since the term social welfare entrepreneurship was a literal translation of the English term "social entrepreneurship", the concept began to be associated exclusively with the work of the non-for-profit sector and social inclusion and employability of marginalised groups of people. For this reason, until 2014, one of the more important discussions in Croatia was related to the very concept of this business discipline, because the term "social welfare entrepreneurship" failed to show the full range of possibilities for action. With the adoption of the "Strategy for the Development of Social Entrepreneurship in the Republic of Croatia for the period 2015-2020", this business concept has been formally articulated with the term "social entrepreneurship" whose purpose is to promote the application of entrepreneurial principles to improve the quality of life in the community and develop SOCIAL (not only social welfare) responsibility of individuals, groups and organisations. The Strategy thus defined social entrepreneurship as a business based on the principles of social, environmental

36 Bornstein, D. (2007), *How to Change the World: Social Entrepreneurs and the Power of New Ideas*, Updated Edition, Oxford University Press

37 European Economic and Social Committee, Recent Evolutions of the Social Economy in the European Union, <https://op.europa.eu/en/publication-detail/-/publication/c1f1e8e6-bd27-11e7-a7f8-01aa75ed71a1/language-hr/format-PDF>, downloaded on November 01, 2019

38 Šimleša, D., Pudak, J., Majetić, F., Bušljeta Tonković, A. (2015) Mapping New Horizons – Report on the state of social entrepreneurship in Croatia 2015 (study), Institute of Social Sciences Ivo Pilar

and economic sustainability, where profit/surplus is, wholly or in great part, reinvested for community benefit³⁹. With this definition, social entrepreneurship is presented as a new approach to solving social problems (poverty, preservation of the planet, inequality in quality of life) using an innovative way of combining existing resources⁴⁰.

The adopted Strategy sought to give visibility to social entrepreneurship by establishing and improving the legislative, institutional and financial framework, and to promote the importance of education for social entrepreneurship⁴¹. The Strategy working group prescribed nine criteria for identification of social entrepreneurs, of which the following best emphasise the distinction between social and the so-called traditional enterprises:

- Social entrepreneur creates new value and ensures financial sustainability by planning or earning at least 25% of annual income over the three-year operating period by performing entrepreneurial activity;
- Social entrepreneur invests at least 75% of the annual profit or surplus income generated from their activity in achieving and developing objectives of their business, that is, activity;
- In case of cessation of activity, social entrepreneur in their bylaws has a defined obligation to transfer the assets⁴² remaining after payment of liabilities and covering losses from the previous period into the ownership of another social entrepreneur with the same or similar business objectives, or into the ownership of a local and regional self-government unit that will use them to develop social entrepreneurship.

Legislative framework for social entrepreneurship

Although the Strategy cites establishment and improvement of the legislative and institutional framework for the development of social entrepreneurship as an important measure, the legislative framework has not been established and this activity is still determined by a number of laws:

- Cooperatives Act (Official Gazette, NN 36/95, NN 67/01, NN 12/02, NN 34/11, NN 125/13, NN 76/14, NN 114/18)
- Associations Act (Official Gazette, NN 74/14, 70/17, 98/19)
- Act on Foundations and Funds (Official Gazette, NN 36/95, NN 64/01, NN 106/18)
- Institutions Act (Official Gazette, NN, 76/93, 29/97, 47/99, 35/08)
- Companies Act (Official Gazette, NN 152/11, NN 111/12, NN 68/13, NN 110/15, NN 40/19)
- Act on Vocational Rehabilitation and Employment of Persons with Disabilities (Official Gazette, NN 143/02, NN 33/05, NN 157/13, NN 152/14, NN 39/18)
- Public Procurement Act (Official Gazette, NN 90/11, NN 83/13, NN 143/13, NN 120/16)

39 Strategy for the Development of Social Entrepreneurship in the Republic of Croatia for the period 2015-2020, Government of the Republic of Croatia, Zagreb, 2015

40 Cvitanović, V. (2018), Društveno poduzetništvo kao izravan doprinos ekonomskom razvoju, Obrazovanje za poduzetništvo, Znanstveno stručni časopis o obrazovanju za poduzetništvo, Vol. 8, No. Special issue

41 Vojvodić, I., Šimić Banović, R. (2019) The analysis of the social entrepreneurship in Croatia with a comparative review of the regulatory framework, Pravni vjesnik, 35(2), <https://doi.org/10.25234/pv/8023>

42 Basic or additional membership shares in cooperatives are owned by cooperative members and are paid to the members upon termination.

- Small Business Development Promotion Act (Official Gazette, NN 29/02, NN 63/07, NN 53/12, NN 56/13, NN 121/16)
- Act on the Rights of Croatian Homeland War Veterans and their Family Members (Official Gazette, NN 174/04, 92/05, 2/07, 107/07, 65/09, 137/09, 146/10, 55/11, 140/12, 33/13, 148/13, 92/14, NN 121/17).

There are several legal forms in Croatia that meet the criteria of definition of social entrepreneurship (economic, social and environmental dimension), but also the criteria of operational definition of social entrepreneurship adopted by the European Union (economic/entrepreneurial, social and ownership dimension)⁴³:

- Associations – pursuing social entrepreneurship and relevant general interest activities by undertaking economic activities
- Cooperatives – especially social cooperatives but also other cooperatives that pursue social goals and generate social benefit
- Companies (most often simple Ltd. and Ltd.) – founded by associations pursuing relevant general interest activities, as well as companies that have a social mission, and use profit as a means for accomplishing the mission
- Private foundations pursuing relevant general interest activities by undertaking economic activities
- Institutions – most often founded by associations pursuing relevant general interest activities.

Monitoring the activities of social enterprises

Monitoring the activities of social enterprises is not possible, because there is no consistent and continuous database on social enterprises in Croatia.

Data on the number of social entrepreneur and areas of their activity can be found in several different reports resulting from initiatives of researchers dealing with the topic since the very beginning of the development of social entrepreneurship in Croatia. According to the Report on the state of social entrepreneurship in Croatia 2015, 95 and 90 social enterprises were mapped in 2013 and 2014, respectively⁴⁴. These enterprises employed 795 people in 2014. Generated income of od HRK 188,282,030.00 in 2013 and HRK 178,659,135.00 in 2014 speak of the contribution of this sector to the economic and social development of Croatia, which is not negligible.

Within the Social enterprises and their ecosystem in Europe – Country report CROATIA, an analysis of data from all previous studies was made, including the aforementioned 2015 study, the 2017 study on the impact of the ACT Group (consortium of social enterprises), as well as other sources, such as the register of non-for-profit associations (focusing on those organisations that have a registered economic activity and have listed social entrepreneurship as one of fundamental activities in their statute), CEDRA HR (Cluster for eco-social innovation and development), which provided data on social cooperatives, and databases of various ministries (analysis of institutions

43 Vidović, D. (2019), Social enterprises and their ecosystem in Europe, Country report CROATIA, Luxembourg: Publications Office of the European Union, 2019

44 Šimleša, D., Pudak, J., Majetić, F., Bušljeta Tonković, A. (2015) Mapping New Horizons – Report on the state of social entrepreneurship in Croatia 2015 (study), Institute of Social Sciences Ivo Pilar

dealing with social issues, and analysis of enterprises founded by associations and enterprises that fit into the definition of social enterprises, Table 19):

Table 19: Actors of social entrepreneurship in Croatia

Legal form	2018
Associations registered for economic activities pursuing social entrepreneurship and relevant general interest activities (social welfare, education, childcare, sustainable development, environmental protection, health protection...)	346
Social cooperatives	25
Veterans' social-working cooperatives	35
Cooperatives established with the objective of solving social problems	33
Privately owned foundations, pursuing relevant general interest activities and economic activities	5
Social enterprises founded by associations pursuing relevant general interest activities (most often Ltd. or simple Ltd.)	50
Social enterprises pursuing social goals and operating as non-for-profit organisations	10
Institutions founded by associations pursuing relevant general interest activities	15
Sheltered workshops – an institution or trading company in which more than 51% of workers are disabled persons in sheltered jobs	7
TOTAL	526

Source: "Social enterprises and their ecosystem in Europe", Country report CROATIA, Luxembourg, 2019

Entrepreneurial ecosystem for operation of social enterprises

The number of support institutions (from national to local level) is not small, but their role and the impact they have had so far influence on the sustainable development of social entrepreneurship differ considerably. The Ministry of Labour and Pension System was responsible for drafting the "Strategy for the Development of Social Entrepreneurship in the Republic of Croatia for the period 2015-2020", but after its adoption, it did not participate significantly in the implementation of measures and activities adopted by the Strategy. In addition to the Ministry of Labour and Pension System, there is a range of other ministries and public institutions, which, within the framework of adoption of laws and legislation and managing EU funds (ESF, ESIF), directly and indirectly affect the understanding and development of social entrepreneurship. Most measures are implemented primarily through the proactive work of civil society organisations. Table 20 shows government, research, educational and financial institutions, as well as civil society institutions that play a significant role in promoting social enterprises in Croatia. By focusing their activities on the development of business skills of social entrepreneurs, providing networking opportunities, and even creating financial independence and self-sustainability of social entrepreneurs, these institutions increasingly influence the course of development of social entrepreneurship in Croatia.

Table 20: Main actors encouraging the development of social entrepreneurship

Areas of support	Main actors encouraging the development of social entrepreneurship
Adopting legislative frameworks and managing EU funds	<ul style="list-style-type: none"> • Ministry of Demography, Family, Youth and Social Policy • Ministry of Economy, Entrepreneurship and Crafts • Ministry of Croatian Veterans • Ministry of Regional Development and EU Funds • National Foundation for Civil Society Development • Croatian Employment Office • Government Office for Cooperation with NGOs
Research and education	<ul style="list-style-type: none"> • Institute of Social Sciences Ivo Pilar (leads in mapping social entrepreneurs in Croatia) • Higher education institutions promoting social entrepreneurship within the educational programme: <ul style="list-style-type: none"> • Social Work Study Centre at the Faculty of Law in Zagreb • Faculty of Political Science Zagreb • Faculty of Economics in Osijek • Faculty of Economics in Zagreb • Faculty of Organization and Informatics Varaždin • Faculty of Economics and Tourism "Dr. Mijo Mirković" in Pula • Faculty of Tourism and Hospitality Management, University of Rijeka • VERN' University of Applied Sciences in Zagreb • Zagreb School of Economy and Management • Faculty of Agriculture Zagreb • Open University Velika Gorica
Support networks	<ul style="list-style-type: none"> • ACT Group (Start Something of Your Own, In the Zone –accelerator for impact entrepreneurs, Business Skills Academy, and other support programmes) • Association for Creative Development SLAP (support centre for the development of social entrepreneurship) • CEDRA Split – Cluster for eco-social innovation and development (support for existing and potential social entrepreneurs; creating and connecting support and capacity building systems for eco-social development) • Impact Hub Zagreb (various programmes to encourage social entrepreneurship: Hub Zagreb incubator, WISE – Women Innovators for Social Business in Europe, Social Impact Award, Investment Ready Program – Warm-Up)
Financial institutions	<ul style="list-style-type: none"> • Erste Group – Step-by-Step initiative • Zagrebačka Bank – Social impact banking • Cooperative for Ethical Financing • HBOR – Donation programme: "Provide knowledge, encourage initiatives " (competition is completed) • HAMAG–BICRO – BOND pilot project (supporting business support institutions that provide counselling in the field of social entrepreneurship)

Source: "Social enterprises and their ecosystem in Europe", Country report CROATIA, Luxembourg, 2019

Examples of good practice – important social entrepreneurship actors

Although social entrepreneurs face significant obstacles and challenges from the outset, such as the lack of a supportive environment and difficult access to financing for development and growth of their organisations, examples of good practice indicate that even in such an environment proactivity, innovation, responsibility, solidarity and cooperation almost always result in positive changes for the whole society.



Eco Center Zlatna Greda d.o.o. (<https://zlatna-greda.org/>) is the first social enterprise in Croatia, founded in 2006. The enterprise is owned by Zeleni Osijek, association for nature and environment protection, whose main objective is to encourage and activate citizens to improve the quality of life in the local community, primarily through the protection of nature and environment. In order for the association to reduce its dependency on projects, donations and sponsors, and make the planned projects sustainable in the long run, establishment of the Eco Center as a social enterprise based on economic, social and environmental dimensions, seemed like a logical sequence of the association's activities. The profits generated by this social enterprise are allocated to the program activities of the association.

The Eco Center is located in Baranja, about 30 kilometres from Osijek, at the northern entrance to Kopački rit Nature Park. All activities (educational and tourist-recreational services and promotion of ecological and rural tourism) are carried out with the aim of recognising the importance of preserving natural resources and tradition of the central Podunavlje region.

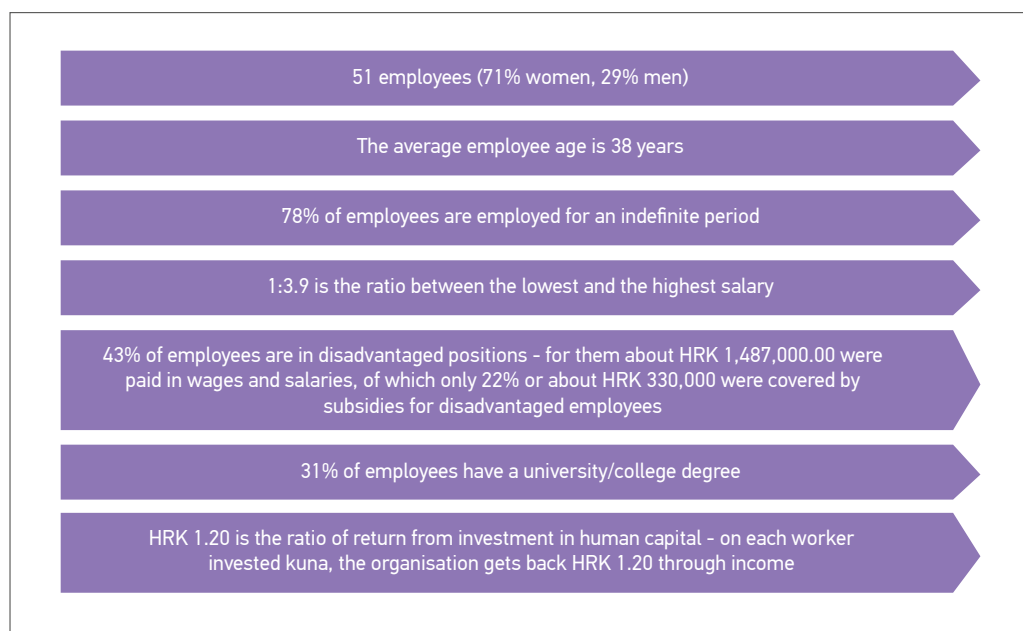


The ACT Group (<http://act-grupa.hr/>) is the leading example of social entrepreneurship in Croatia and the Central and Eastern Europe region, and their social entrepreneurship activity is focused on the green economy and the development of social services. There are 6 social entrepreneurship organisations of different legal forms in the ACT Group – *ACT Konto d.o.o.*, *ACT Printlab d.o.o.*, *Zeleni prostori d.o.o.*, Center for Home Assistance of the Međimurje County, social cooperative *Humana Nova* Čakovec, social agricultural cooperative *Domaći Vrt*. These entrepreneurial organisations represent a significant community of social entrepreneurs in various activities (organic agriculture, sustainable waste management, textile production, home care, education, design and print, bookkeeping services) and have an important social impact outside their local community.

The ACT group is a member of 5 European networks, which indicates the recognition of this group as a creator of change, advisor and informant on social entrepreneurship initiatives. Through various support programmes focused on education, networking and financial support (such as the Accelerator for Social Entrepreneurs in the Zone⁴⁵), it significantly contributes to sustainable growth and social impact of both social entrepreneurs and investors (Figure 6).

⁴⁵ The Accelerator for Social Entrepreneurs was launched in cooperation with the European Fund for Southeast Europe – EFSE (one of the world's leading microfinance funds), the EFSE Development Facility – EFSE DF, and the Erste Bank and their Erste Stiftung foundation – <http://budiuzoni.hr>

Figure 6: Social return of the ACT Group in 2017



Source: ACT Group, Impact Report 2017



Invisible Zagreb (<https://www.invisiblezagreb.com>) is the first educational tour in Croatia led by former and current homeless people. This project was launched by the *Brodoto* Agency for Socially Responsible Projects in cooperation with the humanitarian association *Fajter*, with the aim of sensitising the public and raising awareness about the importance of the problem of the homeless population. This project provides an hour and a half long educational walk around Zagreb, showing the other side of famous Zagreb location to the interested citizens and tourists through the eyes of the homeless. Besides raising public awareness about this problem, this project helps the homeless both financially (through donations collected at free tours) and through their re-socialisation (development of new competencies, communication skills, etc.). In addition to leading this tour, members of the *Fajter* association participate in various roundtables and workshops on various topics and organise a variety of exhibitions, lectures and concerts, and all these activities are aimed at improving the living conditions of the homeless.



Hedona d.o.o. (<https://hedona.hr/>) is a social enterprise founded by the Association of Persons with Disabilities Križevci in 2013, within the project “*Chocolateria Cris*” – Križevci Chocolaterie. The core business of the enterprise is the production of chocolate and chocolate pralines, which are sold to hotels, banks and companies that use their product as a unique and personalised gift for their partners. *Hedona d.o.o.* employs 18 people, more than half of whom are disabled. The plan of this social enterprise is to become the first integrative workshop⁴⁶. All the profit is reinvested in the development of employee competencies, job creation, technological development of the company and supplementation of new activities (a chocolate bar was opened in 2017).

⁴⁶ Integrative workshop is an institution or a company established for the employment of persons with disabilities, for whom it is determined, through the finding and opinion of the centre, that they cannot be employed in the open labour market. Such a workshop must employ at least 40% of people with disabilities - <https://rasprava.mrms.hr/bill/prijedlog-pravilnika-o-zastitnim-radionicama-i-int/3/>, downloaded on November 12, 2019

5. Immigrant entrepreneurship

(Ružica Šimić Banović i Mirela Alpeza)

A migrant entrepreneur is defined⁴⁷ as a business owner born outside the country in which he or she operates who seeks to generate new value through the creation or expansion of economic activity. Despite the fact that the impact of immigrant entrepreneurship on the economy is still insufficiently explored, many indicators point to a positive impact of this type of entrepreneurship on national economies⁴⁸.

There are 12.5% migrants in Croatia, i.e. persons born outside Croatia: inhabitants born in Bosnia and Herzegovina dominate (over 70% of migrants), followed by those born in Serbia, Germany, Slovenia and Northern Macedonia⁴⁹. According to the criterion of citizenship, Croatia is among the countries with the lowest immigration in the EU. In Croatia, there are only 3.8 immigrants per 1,000 population⁵⁰, and there is a continuous increase in the negative migration balance⁵¹. Only 1.3% of the population of Croatia does not have Croatian citizenship, of which 0.4% has citizenship of an EU Member State⁵².

Research shows that immigrant entrepreneurs are more educated, more prone to taking risks and more enterprising than entrepreneurs operating in their home country. For example, in the United Kingdom, migrants represent 8% of population, and they own around 12% of all small and medium enterprises, while in the US they account for 13% of population and own around 18% of small businesses⁵³. Micro-entrepreneurs are dominant among immigrant entrepreneurs in Europe. Recent data⁵⁴ indicate that the share of self-employed immigrants (in total employment)

47 EESC (2012). The contribution of migrant entrepreneurs to the EU. <https://www.eesc.europa.eu/en/our-work/opinions-information-reports/opinions/contribution-migrant-entrepreneurs-economy>

48 Brzozowski, J., & Lasek, A. (2019). The impact of self-employment on the economic integration of immigrants: Evidence from Germany. *Journal of Entrepreneurship, Management and Innovation*, 15(2), 11-28.

Liebermann, A.J., Suter, C. & Rutishauser, K.I. (2014). Segregation or integration? Immigrant self-employment in Switzerland, *Journal of International Migration and Integration*, 15(1), 93-115.

According to UN DESA, international migrants – persons living in a country they were not born in, comprise about 3.5% of the global population, or 272 million people. The number of migrants is growing faster than the total world population – in 2010 there were 51 million fewer migrants than today, and their share in the total population was 2.8%. The largest number of immigrants is located Europe (81 million), and the largest shares of immigrants in the overall population are recorded in Oceania, Australia and New Zealand (21%), and Northern America (16%). The share of working-age population (20-64 years) in the total world population is 57%, while it is as high as 74% among migrants.

Source: UN DESA (2019). International Migrant Stock, September 2019 https://www.un.org/en/development/desa/population/migration/publications/migrationreport/docs/MigrationStock2019_TenKeyFindings.pdf

49 UN DESA (2019). International Migrant Stock – Country Profile: Croatia <https://www.un.org/en/development/desa/population/migration/data/estimates2/countryprofiles.asp>

50 Eurostat (2019). Migration and migrant population statistics. March 2019 https://ec.europa.eu/eurostat/statistics-explained/index.php/Migration_and_migrant_population_statistics#Migration_flows:_Immigration_to_the_EU_from_non-member_countries_was_2.4_million_in_2017

51 CBS (2019) – International Migration https://www.dzs.hr/Hrv_Eng/Pokazatelj/Stanovnistvo%20-%20migracije.xlsx

52 Eurostat (2019). Migration and migrant population statistics. March 2019 https://ec.europa.eu/eurostat/statistics-explained/index.php/Migration_and_migrant_population_statistics#Migration_flows:_Immigration_to_the_EU_from_non-member_countries_was_2.4_million_in_2017

53 EESC (2012). The contribution of migrant entrepreneurs to the EU. <https://www.eesc.europa.eu/en/our-work/opinions-information-reports/opinions/contribution-migrant-entrepreneurs-economy>

54 OECD/EU (2018), *Settling In 2018: Indicators of Immigrant Integration*, OECD Publishing, Paris/EU, Brussels, <https://doi.org/10.1787/9789264307216-en>, p. 88.

in EU and OECD countries is around 12%, which is equal to the share of self-employed local residents. However, in countries of Central and Eastern Europe, the share of self-employed immigrants is significantly higher compared to that of the domestic population, even twice as high in Poland. There are currently more than 7.5 million self-employed foreigners in OECD countries and more than 3 million in the EU.

Given that a large number of European and world countries are facing negative natural growth and population aging, resulting in chronic labour shortages, migrant population is one of the possible solutions to this economic problem. Revitalization of almost forgotten crafts and trades, additional demand for goods and services, new investments, job creation and connecting global markets are by-products of entrepreneurial initiative of migrant population that contribute significantly to economic development⁵⁵.

Challenges for immigrant entrepreneurs in Croatia⁵⁶

Starting an entrepreneurial venture in a new social environment is a major challenge for migrants. In addition to the language barrier, migrants face bureaucratic difficulties and a lack of knowledge of legal regulations and good practices. One of the European Union's Entrepreneurship 2020 Action Plan⁵⁷ objectives is to encourage migrant entrepreneurship in the EU based on best practices from Member States. For this purpose, Guidebook Evaluation and Analysis of Good Practices in Promoting and Supporting Migrant Entrepreneurship⁵⁸ has been produced, which presents relevant data and best practices of immigrant entrepreneurship to encourage immigrants to replicate successful practices, and encourage creators and decision-makers of public policies to create quality support for immigrant entrepreneurship. Immigrant entrepreneurship is not a widely discussed topic in Croatia. As many as 81% of Croatian citizens consider themselves insufficiently informed about immigration and integration issues, and only 11% of Croatian citizens see immigration as an opportunity rather than a problem for their country⁵⁹. At the same time, the few foreign immigrant entrepreneurs in Croatia face a number of obstacles in starting and developing their businesses. In addition to the usual barriers, which local entrepreneurs constantly warn about, immigrants face additional barriers, especially if they are not from EU Member States.

55 Bizri, R. M. (2017). Refugee-entrepreneurship: A social capital perspective. *Entrepreneurship & Regional Development*, 29(9-10), 847-868.

Bužinkić Emina et al. (2017). *MIGRENT – migrant (social) entrepreneurship as a tool of socio-economic emancipation of migrants*, Centre for Peace Studies, Zagreb https://www.cms.hr/system/publication/pdf/92/Publikacija_Migrent.pdf

Čapo, J. & Kelemen, P. (2018). Mixing Ethnic and Non-ethnic Economic Strategies: Migrant Entrepreneurs in Zagreb. *Narodna umjetnost*, 55 (2), 29-56.

56 This section is based on an extensive analysis: Šimić Banović, R., Alpeza, M., Brzozowski, J. Immigrant entrepreneurship in Croatia: Exploring its potential, (rising) barriers and integration patterns. Working paper. WINIR Conference 'Institutions for Inclusive Societies – Global and Comparative Perspectives', Lund University, Sweden, September 19-22, 2019

57 Entrepreneurship 2020 Action Plan, https://ec.europa.eu/growth/smes/promoting-entrepreneurship/action-plan_en, downloaded on November 01, 2019

58 EC (2016). Evaluation and Analysis of Good Practices in Promoting and Supporting Migrant Entrepreneurship, <https://op.europa.eu/en/publication-detail/-/publication/e4c566f2-6cfc-11e7-b2f2-01aa75ed71a1>

59 The study refers to integration of immigrants not originating from EU Member States. EC – European Commission (2018). Special Eurobarometer 469 – Integration of immigrants in the European Union. April 2018 <https://ec.europa.eu/index.cfm?ResultDoc=download&DocumentKey>

Table 21: Croatian business environment: indicators relevant to immigrant entrepreneurship *

<p>Ease of hiring foreign labour (139)</p> <p>Internal labour mobility (134)</p> <p>Labour tax rate (88)</p> <p>Hiring and firing practices (135)</p> <p>Attitudes toward entrepreneurial risk (137)</p> <p>Burden of government regulation (138)</p> <p>Judicial independence (120)</p>	<p>Efficiency of legal framework in settling disputes (139)</p> <p>Property rights (122)</p> <p>Incidence of corruption (50)</p> <p>Active labour policies (75)</p> <p>Financing of SMEs (105)</p> <p>Cost of starting a business (69)</p> <p>Time to start a business (41)</p> <p>Diversity of workforce (133)</p>
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*Position in the ranking of 140 countries

Source: "The Global Competitiveness Report 2018", World Economic Forum, Cologny/Geneva, 2018

Lack of official information in English is usually the first barrier, followed by insufficient knowledge of English language in institutions inevitable for doing business in Croatia. In the case of non-residents of the European Economic Area, there are several additional barriers to setting up a business: first, financial capital, since it is prescribed that the share capital should exceed the amount of HRK 100,000; second, the obligation to employ at least three Croatian citizens; and the third barrier⁶⁰ reflects in setting of the minimum amount of gross salary of the founder of the company, which should be at least the same as the average gross paid salary in the Republic of Croatia⁶¹.

60 Foreigners Act (Official Gazette, NN 130/2011, 74/2013, 69/2017, 46/2018, 66/2019), Art. 78

61 Based on the discussion at the round table on immigrant entrepreneurship organised by CEPOR, presentations, conducted interviews and analysis of secondary data, the following recommendations for encouraging immigrant entrepreneurship in Croatia were identified: **A) Recommendations implementable in the short and medium term:** 1) All instructions related to setting up a business and all aspects of doing business at national and local level should be bilingual – in Croatian and English; 2) Instructions should be kept current and in accordance with applicable regulations; 3) Ensure that English-speaking clerks are present at key contact points; 4) Organise a one-stop-shop for setting up a business for foreign nationals; 5) Accelerate and facilitate the process of issuing work permits and other necessary documents; 6) Ensure reliable statistical monitoring of immigrant entrepreneurship in Croatia; 7) Promote Croatian language courses as a form of additional support for integration into society; 8) Provide mentoring meetings with Croatian entrepreneurs to foreign entrepreneurs; 9) Inclusion of foreign entrepreneurs in associations of entrepreneurs and Croatian Chamber of Economy; 10) Launch a quarterly newsletter in English and Croatian with information for beginner entrepreneurs and those already developing business activity; 11) Organise training for beginner entrepreneurs in English; **B) Recommendations implementable in the long run:** 1) Sensitize the general public and makers of public policies about the importance and potential of immigrant entrepreneurship: objectively inform about the necessity to develop more favourable opportunities and incentives for immigrant entrepreneurs while emphasizing the positive aspects for society; 2) Continuously facilitate the process of integration of immigrant entrepreneurs through activities of relevant institutions (CCE, CCTC, HAMAG BICRO, Croatian Employers' Association, civil society organisations...); 3) Ensure better coordination of organisations implementing immigrant entrepreneurship support projects in order to achieve synergistic effects. Source: Oberman, M., Šimić Banović, R.: "Imigrantsko poduzetništvo u Hrvatskoj / Immigrant entrepreneurship in Croatia", CEPOR – SMEs and Entrepreneurship Policy Center, Zagreb, 2019, <http://www.cepor.hr/wp-content/uploads/2015/04/CEPOR-policy-osvrst-IMIGRANTSKO-PODUZETNI%C5%A0TVO.pdf>

Table 22: Barriers to starting and developing entrepreneurial activity in Croatia for domestic entrepreneurs and immigrant entrepreneurs

Barriers in the business environment in Croatia that impede entrepreneurial activity for domestic and foreign entrepreneurs	Additional barriers in the business environment in Croatia for foreign entrepreneurs
<ul style="list-style-type: none"> • administrative barriers / poor efficiency of public administration • unpredictable tax regulations • high tax burden and parafiscal charges • short-term deliberation and instability (slow, but inefficient changes) of business environment-related public policies • restrictive labour legislation • widespread corruption • lack of entrepreneurial spirit and • misunderstanding of entrepreneurship 	<ul style="list-style-type: none"> • unavailability of information in English • slow issuance of personal identification number (OIB) • slow and insufficiently transparent issuance of work permits • high amount of initial capital for non-EU residents • duplication of procedures with different public administration bodies • closedness of the general population and makers and implementers of public policies towards foreigners, particularly those coming from the so-called third world countries • discrimination on various grounds (origin, gender, age, LGBT), as specifically identified by foreign entrepreneurs • lengthy asylum procedures (if applicable)

Source: Šimić Banović, Ružica, Alpeza, Mirela and Brzozowski, Jan, *Immigrant Entrepreneurship in Croatia: Exploring Its Potential, (Rising) Barriers and Integration Patterns (September 1, 2019)*

Insufficient support from state bodies in establishing and developing immigrant entrepreneurs' businesses is partly compensated by support programmes of non-governmental organisations such as the Centre for Peace Studies and the MIGRENT initiative. However, their initiatives are primarily focused on refugees and/or asylum seekers, i.e. immigrants from less developed countries. There are no active associations that support or promote entrepreneurs from EU Member States and non-EU residents originating from developed countries (USA, Australia, Canada, etc.). They are most often informally connected and they accelerate integration through these informal networks and developing contacts with the local population⁶². The only news outlet that addresses issues of foreigners in Croatia and regularly publishes news in English is Total Croatia News⁶³. The same portal regularly publishes interviews with foreign entrepreneurs in Croatia⁶⁴.

62 Čapo, J. (2019). Economic Activities and Agency of "Love-Driven" International Migrants in the City of Zagreb. In Rajković Iveta, M., Kelemen, P., Župarić-Iljić, D. (Eds). *Contemporary Migration Trends and Flows on the Territory of Southeast Europe*. Faculty of Humanities and Social Sciences, Zagreb, 195-212. <https://openbooks.ffzg.unizg.hr/index.php/FFpress/catalog/view/35/44/1824-1>

Jurković, R. & Rajković Iveta, M. (2016). "Taste of Home": Integration of Asylees Intertwined with Transnational Processes and the Promotion of Culinary Traditions (Translation). *Studia ethnologica Croatica*, 28 (1), 179-211.

63 <https://www.total-croatia-news.com/>

64 <https://www.total-croatia-news.com/tag/croatia-foreign-entrepreneur>

From Migrant to Entrepreneur

The From Migrant to Entrepreneur project, organised by the Centre for Peace Studies (CPS) and social cooperative Taste of Home, was implemented in the period from January through December 2017. The project was implemented through three core activities, the first of which, implemented in April, was the organisation of a five-day international conference [MIGRENT]⁶⁵ on the topic of migrant (social) entrepreneurship. The conference brought together over 50 entrepreneurs, representatives of the academic community, volunteers, journalists, activists and employees of non-governmental organisations. The second activity of the project was printing of the [MIGRENT]⁶⁵ publication, presenting an overview of current migrant and social entrepreneurial initiatives, whose primary purpose is to emphasise the importance of migrant entrepreneurship as a mechanism for socio-economic emancipation. The third core activity of the project was the creation of an integrated website for social cooperative Taste of Home and [MIGRENT] activities of the CPS, where details on the development and activities of the cooperative can be found, as well as everything about [MIGRENT] initiatives and their results. The project results were extremely important for promoting the importance of migrant entrepreneurship. The [MIGRENT] publication and video have been presented worldwide and have been made permanently available online. The network of participants of the conference has been expanded and strengthened by creating new contacts and improving existing cooperation through planning of future projects and new trainings. All participants of the conference decided to increase their contribution by improving business activities and promoting migrant entrepreneurship in the countries where they currently live. The conference was evaluated as an extremely useful and inspirational event and a great opportunity to exchange knowledge, experiences and good practices. Based on the shortcomings and weaknesses identified at the conference, numerous internal and external trainings/educations were organised in order to provide improvement in critical areas. Examples include internal trainings of the Taste of Home cooperative and external training organised by the Migration Hub Network, which was attended by one third of conference participants. Work of the Taste of Home cooperative is recognised across Europe, which was crowned in 2017, when it was awarded the European Citizenship Award in the Social Enterprise of the Year category.

⁶⁵ Coined abbreviation that stands for migrant entrepreneurship and also stands as an umbrella title of all activities dedicated to promoting migrant, respectively social entrepreneurship organized by the Centre for Peace Studies.

6. Environment of the small and medium enterprise sector in Croatia (Josipa Pervan)

Quality of the entrepreneurial ecosystem depends on the efficiency of the legislative and institutional framework related to the small and medium enterprise sector.

6.1. Policies and programmes relevant for the development of small and medium enterprises in Croatia

Current policies and programmes that regulate and encourage 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 and medium enterprises in Croatia by improving entrepreneurial skills, promoting entrepreneurship, facilitating access to finance and improving economic performance and the business environment;

Strategic Plan of the Ministry of Economy, Entrepreneurship and Crafts for the 2019–2021 Period, from 2018, is based on the vision of shaping a more competitive market economy and creating a more favourable entrepreneurial environment. The provisions of the Strategic Plan mandate implementation of an analysis of the effects of tax legislation burden on small and medium enterprises, and adjustment of legislation in line with EU recommendations on tax breaks and exemptions for small and medium enterprises;

Strategy of Women Entrepreneurship Development in the Republic of Croatia 2014–2020, from 2014, whose aim is to achieve the coherence and interconnectedness of public policies, to improve systemic support for women entrepreneurship through the entire institutional structure, and to promote women entrepreneurship. For the purpose of implementing the Strategy, the **Action Plan for Implementation of the Strategy of Women Entrepreneurship Development in the Republic of Croatia 2014–2020** was defined in 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, to conquer new markets and internationalisation of clusters, and strengthen the knowledge and skills for cluster development;

Strategy for the Development of Social Entrepreneurship in the Republic of Croatia for the period from 2015 to 2020, whose aim is to create a stimulating environment for the development of social entrepreneurship in Croatia;

Strategy for Combating Poverty and Social Exclusion in the Republic of Croatia (2014–2020), in which encouraging entrepreneurship and self-employment, and social entrepreneurship development are stated as one of the main strategic activities. It is planned to achieve these strategic activities primarily through stimulating education for the purpose of attaining the necessary competences for employment and self-employment, stimulating entrepreneurial projects, social cooperatives employing people with diminished working capacity and/or providing assistance to persons in unfavourable personal, economic, social and other circumstances, and stimulating projects of women entrepreneurship, youth entrepreneurship, the Roma and persons with disabilities;

Strategy for Innovation Encouragement of the Republic of Croatia 2014–2020, from 2014, which aims to build an efficient innovation system and improve the legal and fiscal framework, establish a means of communication and models of cooperation between the public, scientific research and the business sector in order to develop new products, services, business processes and technologies, and the manner of applying the results of scientific research in the economy and society as a whole;

Rural Development Programme of the Republic of Croatia for the Period 2014–2020, which foresees supports for entrepreneurship and the creation of new jobs in rural areas as measures that can influence the retention of the young and active rural population and in the long term achieve the return of those who have left rural areas;

Action Plan for Administrative Relief of the Economy for 2019, with which it is planned to reduce administrative burden on the economy by 15.57%, by implementing 314 new measures⁶⁶ aimed at reducing the tax burden by HRK 626.74 million;

EUROPE 2020 – European Strategy for Smart, Sustainable and Inclusive Growth that was launched in 2010 and represents a strategic framework for all EU members. Europe 2020 envisages reaching the five key European Union targets by the end of 2020, which include employment, research and development, climate change / energy, education, social inclusion and poverty reduction. In order to achieve the targets of the Europe 2020 strategy, member states plan national-level reforms, and define their own national targets in each of these areas through Stability / Convergence Programmes and National Reform Programmes. Progress in achieving the targets of the Europe 2020 Strategy is encouraged and monitored within the European Semester, the annual cycle of coordination of economic and budgetary policies of the European Union.

National Reform Programme 2019, foresees measures of particular importance for the implementation of structural reforms aimed at achieving economic growth and the necessary demographic renewal in Croatia. The measures that will affect the small and medium enterprise sector the most relate to creating a predictable business environment, creating favourable conditions for stimulating investment in Croatia and ensuring the sustainability of public finances.

Operational Programme Competitiveness and Cohesion 2014–2020 is the fundamental programmatic document implementing for implementing the cohesion policy of the European Union. The purpose of this programmatic document is to stimulate economic growth and create jobs through encouraging investment in infrastructure projects (in the areas of transport, energy, environmental protection, ICT) and providing support to the development of entrepreneurship and research activities.

Since the adoption of strategic documents is not accompanied with the drafting of annual action plans, monitoring their implementation in practice is significantly more difficult.

The quality of national policies and programmes in Croatia, their effectiveness in creating a

⁶⁶ The aim of the Action Plan is to improve the regulatory environment by implementing the following measures: abolishing administrative obligations altogether, reducing the number of payers, the frequency of fulfilment of obligations or the volume of required documentation that entrepreneurs need to submit when fulfilling a specific obligation, digitising and simplifying the implementation of administrative procedures, and reducing financial compensation amounts. Source: Action Plan for Administrative Relief of the Economy 2019, Government of the Republic of Croatia, p. 3, <https://www.mingo.hr/public/Akcijски%20plan%20za%20administrativno%20rastere%20C4%87enje%20gospodarstva%202019.doc>, downloaded on: July 09, 2019

stimulating business environment for small and medium enterprises, and compatibility with the documents and guidelines of the European Union can be analysed through the results of three studies: SBA Fact Sheet, Global Entrepreneurship Monitor (GEM) survey and World Bank's Doing Business.

SBA Fact Sheet is an annual report of the European Union that monitors compliance of national programmes and policies relevant for the small and medium enterprise sector of EU Member States with the guidelines defined in the Small Business Act of Europe⁶⁷. The Small Business Act represents a comprehensive framework for defining European Union policy towards the small and medium enterprise sector aimed at removing regulatory obstacles and obstacles arising from government policies relevant to entrepreneurial activity in the European Union. Areas of analysis of the SBA Fact Sheet report are: Entrepreneurship, Second Chance, Think Small First, Responsive Administration, State Aid and Public Procurement, Access to Finance, Single Market, Skills and Innovations, Environment and Internationalisation.

According to the **2018 SBA Fact Sheet**⁶⁸, the results for Croatia show improvements compared to 2017, when all indicators were below the EU average, except in the areas of *Internationalisation* and *State Aid and Public Procurement*. In 2018, Croatia has achieved the best results in the areas of *Internationalisation* (ranked third in the EU) and *Environment* (among the top five EU Member States). In the area of *State Aid and Public Procurement*, Croatia continued the trend of achieving results above the EU average. Progress has been made in the areas of *Second Chance* and *Access to Finance*, where Croatia is the range of EU average. On the other hand, the worst results were achieved in the area of *Responsive Administration* (last place) and *Entrepreneurship* (penultimate place). In the area of *Single Market*, Croatia is among the three worst performing countries, while it is below the EU average in the category of *Skills and Innovations*. Within the *Think Small First* category, only a partial implementation of the principle of priority of small and medium enterprises when adopting laws and public policies in Croatia was recorded. The results presented in the report indicate the necessity of reforms in the areas where extremely poor results have been achieved, in order to improve the entrepreneurial environment in Croatia.

GEM research monitors the quality of entrepreneurial environment whose structure is defined with nine components (access to money, government policies, government programmes, entrepreneurship education, transfer of research and development, openness of the domestic market, physical infrastructure, professional and commercial infrastructure, cultural and social norms). From 2002, since when GEM research has been conducted in Croatia, government policies related to the small and medium enterprise sector have been rated as extremely restrictive to its development. In 2018, ratings of government policies towards regulatory framework remained at the same level, while ratings of policies supporting entrepreneurial activity decreased from 3.26 in 2017 to 2.82 in 2018 (Table 23). Ratings of both components of entrepreneurial environment are below the average of EU countries participating in the GEM survey.

67 Source: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0394:FIN:EN:PDF>, downloaded on July 09, 2019

68 SBA Fact Sheet 2018 – Croatia, European Commission, <https://ec.europa.eu/docsroom/documents/32581/attachments/5/translations/en/renditions/native>, downloaded on July 09, 2019

Table 23: Evaluation of government policies in 2017 and 2018*

	2017		2018	
	EU average	Croatia	EU average	Croatia
Policies supporting entrepreneurial activity	4.18	3.26	4.24	2.82
Policies towards regulatory framework	3.93	2.14	3.99	2.1

*values 1 – 9, 1 = worst, 9 = best

Source: "GEM Croatia", CEPOR – SMEs and Entrepreneurship Policy Center, 2019

World Bank's Doing Business study monitors the quality of the regulatory environment and its impact on individual business areas in 190 countries. Indicators used to evaluate the feasibility of starting a business venture in a country are: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency.

The results of the Doing Business 2019⁶⁹ study 2018⁷⁰ positioned Croatia in 58th position (71.4 points) out of 190 countries covered by this study, which is a drop of seven places compared to the results for 2017. The highest ranking country is New Zealand, with 86.59 points.

In the area of starting a business, Croatia ranked 123rd in the Doing Business 2019 ranking, which is a drop of 36 places compared to the previous year. Poor placement in this category was mostly due to the fact that as many as 22.5 days were needed to start a business. By comparison, 5.5 days were needed to do so in Serbia, 7 days in Slovenia and Macedonia, and only 0.5 days in New Zealand. The deterioration of results compared to Doing Business 2018 is also noticeable in the dealing with construction permits category, where Croatia fell from 126th to 159th place. This is a direct consequence of the increase in the number of procedures (from 18 to 22 procedures), and the number of days required to obtain a construction permit (from 126 to as many as 146 days). Croatia has also recorded worse placement compared to 2017 in the categories getting credit (fall from 77th to 85th place), protecting minority investors (fall from 29th to 38th place) and enforcing contracts (fall from 23rd to 25th place).

A positive shift was made in the registering property category, where Croatia, after last years' 59th place, took 51st place in 2018. This was mostly due to digitisation, which resulted in an increase in the efficiency of the Land Registry and Cadastre services, which increased the index of quality of land administration from 22.5 to 23.5. In addition, the amount of time required for registering property is reduced - from 62 to 47 days. Progress has also been made in the getting electricity category, especially due to cost reduction, where Croatia climbed from 75th to 61st place. Placement in the paying taxes category was improved by 6 places (from 95th to 89th place), but the total tax burden on businesses has remained practically unchanged (change from 20.6% in 2017 to 20.5% in 2018). In the trading across borders category, Croatia again achieved the maximum 100 points, thus remaining in the group of the most successful countries according to this indicator.

69 Doing Business 2019, The International Bank for Reconstruction and Development/The World Bank, 2018, https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf, downloaded on: July 09, 2019

70 Doing Business survey of the reference year is based on the data from the previous year.

Table 24 provides an overview of indicators of regulatory environment for Croatia in relation to the best positioned countries in the Doing Business 2019 study, and Germany and Slovenia, according to indicators of complexity of regulatory environment for enterprise start-up and paying taxes.

Table 24: Overview of selected indicators of quality of regulatory environment according to the **Doing Business 2019** study for 2018

Regulatory area	Indicator			
	Croatia	Best indicator (country)	Germany	Slovenia
Regulations for enterprise start-up				
Number of procedures	8	1 Georgia and New Zealand	9	3
Time (days)	22.5	0.5 New Zealand	8	8
Cost (% of income per capita)	6.6	0 Slovenia	6.7	0,0
Minimum amount of equity capital to be paid (% of income per capita)	11.6	0 Australia and Columbia	31	36.8
Paying taxes				
Number of payments per year	34	3 Hong Kong and Saudi Arabia	9	10
Tine (hours per year)	206	49 Singapore	218	233
Total tax burden (% of profit)	20.5	26.1 Canada and Singapore*	49	31

Source: "Doing Business 2019", Economy Profile Croatia, Economy Profile Slovenia, Economy Profile Germany, The International Bank for Reconstruction and Development /The World Bank

*in addition to Canada and Singapore, another 30 countries have a total tax and contribution rate equal to or less than 26.1%

Although countries such as New Zealand, Singapore, Denmark, Hong Kong and the Republic of Korea (South Korea) dominate the rankings (top five places), good results have not been achieved only by the "big players". In 2018, Croatia is "looking at the backs" of most countries in the immediate neighbourhood on the Doing Business ranking (Macedonia in 10th place, Slovenia in 40th place, Kosovo in 44th place, Serbia in 48th place, Montenegro in 50th place – only Bosnia and Herzegovina is behind Croatia, in 89th place).

Table 25: Croatia's position in the rankings of the Doing Business study and points from 2016 to 2018

Study	Position in the rankings*	Number of points**
Doing Business 2017	43	72.99
Doing Business 2018	51	71.7
Doing Business 2019	58	71.4

*out of 190 countries included in the study

**out of possible 100 points

Sources: "Doing Business 2017", *Economy Profile Croatia, The International Bank for Reconstruction and Development/The World Bank, 2016*

"Doing Business 2018", *Economy Profile Croatia, The International Bank for Reconstruction and Development/The World Bank, 2017*

"Doing Business 2019", *Economy Profile Croatia, The International Bank for Reconstruction and Development/The World Bank, 2018*

6.2. Regulatory environment

During **2018 and 2019**, as in previous years, there have been [changes in the legislative framework](#) affecting small and medium enterprises in Croatia. Numerous laws have been amended, especially those that regulate the tax system.

Activity of small and medium enterprises in Croatia is regulated by the following legal framework:

- [Act on Improving Entrepreneurial Infrastructure](#) (Official Gazette, NN 93/13, 114/13, 41/14, 57/18)
- [Small Business Development Promotion Act](#) (Official Gazette, NN 29/02, 63/07, 53/12, 56/13, 121/16)
- State Aid Act (Official Gazette, NN 47/14, 69/17)
- [Companies Act](#) (Official Gazette, NN 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12, 68/13, 110/15, 40/19)
- 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, 152/14, 81/15, 94/17)
- [Act on Investment Promotion](#) (Official Gazette, NN 102/15, 25/18, 114/18)
- Foreign Exchange Act (Official Gazette, NN 96/03, 140/05, 132/06, 150/08, 92/09, 153/09, 145/10, 76/13)
- [National Payment System Act](#) (Official Gazette, NN 133/09, 136/12, 66/18)
- Concessions Act (Official Gazette, NN 143/12, 69/17)
- [Capital Market Act](#) (Official Gazette, NN 88/08, 146/08, 74/09, 54/13, 159/13, 18/15, 110/15, 123/16, 65/18)
- [Alternative Investment Funds Act](#) (Official Gazette, NN 16/13, 143/14, 21/18)
- 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, 32/19)

- [Court Register Act](#) (Official Gazette, NN 1/95, 57/96, 1/98,45/99, 54/05, 40/07, 91/10, 90/11, 148/13, 93/14, 110/15, [40/19](#))
- Act on Services (Official Gazette, NN 80/11)
- [Act on Public-Private Partnership](#) (Official Gazette, NN 78/12, 152/14,[114/18](#))
- [Accounting Act](#) (Official Gazette, NN 78/15, 134/15, 120/16,[116/18](#))
- Competition Act (Official Gazette, NN 79/09, 80/13)
- Public Procurement Act (Official Gazette, NN 120/16)
- [Environmental Protection Act](#) (Official Gazette, NN 80/13, 153/13, 78/15, [12/18](#), [118/18](#))
- [Building Act](#) (Official Gazette, NN 153/13, 20/17, [39/19](#))
- [Physical Planning Act](#) Official Gazette, (NN 153/13, 65/17, 114/18, 39/19, [98/19](#))
- [Labour Act](#) (Official Gazette, NN 93/14, 127/17, [98/19](#))
- [Consumer Protection Act](#) (Official Gazette, NN 41/14, 110/15, [14/19](#))
- Bankruptcy Act (Official Gazette, NN 71/15, 104/17)
- Enforcement Act (Official Gazette, NN 112/12, 25/13, 93/14, 55/16, 73/17)
- [Money laundering and Terrorism Financing Prevention Act](#) (Official Gazette, NN 108/17, [39/19](#))
- [Act on the Implementation of the General Data Protection Regulation](#) (Official Gazette, NN [42/18](#))
- [Family Farms Act](#) Official Gazette, (NN [29/18](#), [32/19](#))
- Act on Implementing Customs Regulations of the European Union (Official Gazette, NN 54/13)

Tax system regulation consists of the following laws:

- [General Tax Act](#) (Official Gazette, NN 115/16, [106/18](#))
- [Contributions Act](#) (Official Gazette, NN 84/08, 152/08, 94/09, 18/11, 22/12, 144/12, 148/13, 41/14, 143/14, 115/16, [106/18](#))
- [Profit Tax Act](#) (Official Gazette, NN 177/04, 90/05, 57/06, 146/08, 80/10, 22/12, 148/13, 143/14, 50/16, 115/16, [106/18](#))
- [Income Tax Act](#) (Official Gazette, NN 115/16, [106/18](#))
- [Value Added Tax](#) (Official Gazette, NN 73/13, 148/13, 153/13, 143/14, 115/16, [106/18](#))
- [Real Estate Transfer Act](#) (Official Gazette, NN 115/16, [106/18](#))
- [Excise Duties Act](#) (Official Gazette, NN [106/18](#))

The major tax burdens for enterprises in Croatia are: income tax, value added tax, profit tax, and surtax (income of local communities – municipalities and towns). In 2018, tax rates remained unchanged (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 delivers goods or performs services	Fee for goods delivered or services performed	25% 5% reduced rate applicable to bread, milk, newspapers, books, textbooks, scientific journals, medicines, medical equipment and supplies, cinema tickets 13% reduced rate applicable to services of accommodation or accommodation with breakfast, half board or full board, cooking oil, baby food, newspapers and magazines, water supply, concert tickets, electricity supply, urns, seedlings and seeds, fertilizers and pesticides
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	24% on income up to HRK 360,000.00 per annum 36% on income above 360,000.00 per annum
PROFIT TAX	Enterprises and other legal and physical entities that perform activity with the aim of making profit	Profit (difference between income and expenses)	12% on income up to HRK 3,000,000.00 18% on income equal to or greater than HRK 3,000,000.00 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 18%

Source: Tax system of the Republic of Croatia, www.porezna-uprava.hr, 2019

6.3. Distribution of competences for the adoption and implementation of policy decisions

The main actors in the creation and implementation of the policy framework for the activity of the small and medium enterprise sector in Croatia are:

Ministry of Economy, Entrepreneurship and Crafts, responsible for the creation of policies aimed at the development of small and medium enterprises and creation of a favourable environment for entrepreneurship (www.mingo.hr)

Croatian Bank for Reconstruction and Development (HBOR)

Croatian Bank for Reconstruction and Development is the development and export bank of the Republic of Croatia, whose main task is to encourage the development of the Croatian economy. By lending, insuring exports from commercial and political risks, issuing guarantees and business consulting, HBOR builds bridges between entrepreneurial ideas and their realisation with the aim of strengthening the competitiveness of the Croatian economy. (www.hbor.hr)

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

The activity of the Agency includes promoting establishment and development of small business entities, promoting investment in small business, financing business operations and development of small business entities by lending and issuing guarantees to small business entities for loans approved by lenders, as well as providing grants for research, development and application of modern technologies. (www.hamagbicro.hr)

Croatian Chamber of Commerce (CCE) is a non-profit, non-governmental association of all active legal entities in Croatia, membership in which is obligatory, which consists of 98.06% of small enterprises, 1.52% medium and 0.42% large enterprises. **Industry Sector** is a part of CCE, within which the **Department for Entrepreneurship** operates.

The activities and services of the Department are aimed at providing timely and accurate information and assistance and support to every entrepreneur. (...) Within its work, the Department will, independently or in cooperation with other departments and sectors within CCE, and external partners, work on the following activities aimed at improving the work and operations of companies: defining measures for the improvement of entrepreneurial climate in the Republic of Croatia; monitoring and analysing the results of operations of small and medium entrepreneurship, representing interests and providing expert assistance to members in financing entrepreneurial ventures, counselling concerning applying to support schemes for small and medium enterprises. (www.hgk.hr)

Croatian Chamber of Trades and Crafts (CCTC) is an independent professional and business organisation of craftsmen founded to promote, harmonise and represent the common interests of craftsmanship. Membership in CCTC is obligatory, and the organisation operates through 20 district chambers, 112 craftsmen associations at municipal and city levels and 20 sections and guilds (www.hok.hr).

Croatian Employers' Association (CEA)

Croatian Employers' Association was founded in 1993, as a voluntary, non-profit, and independent association of employers that protects and promotes the rights and interests of its members. It was founded by a group of prominent Croatian businessmen who recognised the power of joint action and the role of employers' association in tripartite relations. Founded on the principle of voluntary membership and the principles of democratic representation and expression of the will of its members, the association promotes entrepreneurial spirit and entrepreneurial rights and freedoms. (www.hup.hr)

SMEs and Entrepreneurship Policy Center (CEPOR)

CEPOR is a non-profit organisation established in 2001, based on an Agreement between the Government of the Republic of Croatia and Open Society Institute Croatia, by 10 institutional founders – leaders in their areas of activity – from academic community to associations of entrepreneurs, development agencies and centres 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).

6.4. Obstacles to the development of the small and medium enterprise sector through the prism of international research

Numerous worldwide studies investigate the quality of business environment and its impact on the competitiveness of the national economy. The studies that include Croatia most often cite the following obstacles to the development of the small and medium enterprise sector: administrative obstacles, insufficiency of the judiciary, lengthy ownership registration procedures, inadequacy of educational programmes for building entrepreneurial competences at all levels of education, and underdevelopment of informal forms of financing start-up and growth of business ventures. The presence of the same obstacles over a number of years indicates the lack of long-term structural reforms needed to improve the competitiveness of the national economy.

GEM – Global Entrepreneurship Monitor monitors the connection between entrepreneurial framework conditions and entrepreneurial activity at individual level.

Since the beginning of implementation of the survey in 2002, the results of GEM research in Croatia identify *government policies towards regulatory framework, entrepreneurship education and transfer of results of research and development to the small and medium enterprise sector* as the weakest components of the entrepreneurship ecosystem.

The stated components had the lowest ratings in all the years of implementation of the GEM research in Croatia, because of which they can be considered key obstacles to the development of entrepreneurial activity. Six components of entrepreneurial activity in Croatia (government policies towards taxes and regulations, entrepreneurship education at tertiary level, transfer of research and development, professional and commercial infrastructure, market barriers and cultural and social norms) had the lowest ratings in the group of EU countries that participated in the GEM survey in the observed years. Only two components (physical infrastructure and dynamics of change in the domestic market) have a stimulating effect on entrepreneurial activity.

Global Competitiveness Report, which is implemented by the World Economic Forum, measures national competitiveness of countries defined as the set of institutions, policies and factors that determine the level of productivity and the level of welfare of citizens⁷¹. **Global Competitiveness Report 2018**⁷² positions Croatia in 68th place (with a score of 60.1 out of possible 100 points) out of 140 countries, but due to the changed methodology in relation to the previous years⁷³, these results cannot be compared with those from previous years. The United States is at the top of the ranking for 2018, followed by Singapore, Germany and Switzerland.

The results for each individual indicator point to the weak points of Croatia's competitiveness in the global market. According to **institutional efficiency** (category *Enabling Environment*), Croatia achieved only 52 points out of a possible 100. The reason for this is mainly due to poorly rated subcategories of social capital, judicial independence and efficiency, burden of government regulation and property rights. Croatia achieved the worst results in the area of *Innovation Ecosystem*, that is, **innovation capability** – only 38 points. In the *Markets* category, **labour market efficiency** was rated at 55 points, similar to the **product market** (56 points).

On the other hand, Croatia achieved the best results in the *Human Capital* category, where the **health** indicator was rated at 86 points. Among the indicator in the *Enabling Environment* category, Croatia achieved the best result in the area of **infrastructure**. The quality of the infrastructure environment is measured by road, sea and air connectivity and the availability of drinking water and electricity. In this area, Croatia, with 77 points was ranked 36th, which is also the best ranking of Croatia according to an individual indicator in 2018.

Corruption Perception Index – survey carried out by Transparency International (www.transparency.hr) measures the degree of perception of corruption in the public sector and among officials. Based on the values of the *Corruption Perception Index* a ranking list of participating countries is defined, according to the assessment of the extent of corruption. Corruption Perception Index evaluates all levels of work of public authorities, and respondents are business people and analysts. The 2018 survey positions Croatia in 60th place out of 180 countries, with corresponding 48 points⁷⁴ meaning that there was a negative shift by 3 places compared to the previous year.

Croatia is still among the more corrupted countries in the European Union, with a continuous downward trend since 2015. Although the number of points has not changed too much, the continuing decline in the rankings is a consequence of the advancement of other countries, which are perceived as less corrupt by their residents (Table 27).

71 The global competitiveness index is measured by analysing four measurement groups – *Enabling Environment*, *Human Capital*, *Markets* and *Innovation Ecosystem* – in each country, which is achieved by evaluating the 12 pillars of competitiveness – Institutions, Infrastructure, ICT adoption, Macroeconomic stability, Health, Skills, Product market, Labour market, Financial system, Market size, Business dynamism and Innovation capability.

72 Global Competitiveness Report 2018, World Economic Forum, 2018, <http://reports.weforum.org/global-competitiveness-report-2018/>, downloaded on July 09, 2019

73 The new methodology is based on a reduced number of indicators in the formulation of which statistical “hard” data play a greater role, while perceptive data is of lesser importance than in previous years.

74 The survey uses a scale of 0 to 100, where 0 points represents complete corruption, and 100 points national environment without corruption.

Table 27: Croatia's point scores according to Transparency International Croatia reports, 2013-2018

Corruption Perception Index for Croatia		
Year	Number of points	Rank
Corruption Perception Index 2013	48	57th / 177
Corruption Perception Index 2014	48	61st / 175
Corruption Perception Index 2015	51	50th / 168
Corruption Perception Index 2016	49	55th / 176
Corruption Perception Index 2017	49	57th / 180
Corruption Perception Index 2018	48	60th / 180

Source: Corruption Perception Index 2013 – 2018, Transparency International

Most of the surrounding countries have also achieved slightly worse results than in the previous period, including Slovenia, Montenegro, Albania and Kosovo, while Bosnia and Herzegovina has the same number of points as the year before. Contrary to this trend, Macedonia has made a positive move by two points and moved up 14 places to 93rd position. Of the EU Member States, Romania (47 points), Hungary (46 points), Greece (45 points) and Bulgaria (43 points) are worse than Croatia.

The least corrupt countries are Denmark (88 points) and New Zealand (87 points), which swapped places at the very top of the rankings this year. They are followed by Finland, Singapore, Sweden and Switzerland, which have the same number of points (85) and share the third place.

7. Access to financing

(Mirna Oberman i Ružica Šimić Banović)

Access to financing for small and medium enterprises in Croatia is analysed through the prism of international research through individual sources of financing of entrepreneurial activity in Croatia.

7.1. Access to financing in Croatia in international perspective

One of the main goals of the Strategy for Development of Entrepreneurship in the Republic of Croatia 2013-2020 was to ensure easier access to financial resources. Nevertheless, six years after the Strategy was adopted, traditional sources of financing, i.e. bank loans and leasing, still remain the most common source of financing of entrepreneurs, while other sources of financing (such as e.g. venture capital, equity, micro loans, etc.) are still underdeveloped.

According to the Croatian Banking Association, own sources of financing, loans and financial leasing are the most important sources that finance about four-fifths of investments in Croatia, and other sources of financing are not comparable in importance to them⁷⁵, which speaks in favour of the importance of traditional sources of financing of different stages of entrepreneurial ventures in Croatia.

Sources of financing that are more suitable for riskier stages of entrepreneurial venture: start-up, company takeover, and fast growth (such as e.g. business angels, venture capital funds, crowdfunding platforms) are still insufficiently developed. According to analyses of the Croatian Banking Association, one of the reasons for insufficient sources of financing in Croatia is the lack of a comprehensive vision for supporting the development of small and medium enterprises from the initial phase⁷⁶. According to the GEM research in Croatia, access to loans for small and medium enterprises is improving, but alternative forms of financing entrepreneurial ventures are still underdeveloped. During 2018, according to the GEM⁷⁷ research, of all enterprises that discontinued business activities, 7.43% did so because of difficulties in accessing financing, which is a significant decrease compared to 2017 (when 15.2% of enterprises ceased business activities for the same reasons).

GEM research monitors the availability of non-traditional sources of financing through evaluation of perception of their availability on a scale from 1 to 9, where rating 9 indicates that there are enough different sources of financing for all stages of entrepreneurial venture. In terms of rating of quality of access to money, according to the GEM research, Croatia lags behind the average of EU countries. In all the years of implementation of the GEM research, since 2002, the availability of non-traditional sources of financing for small and medium enterprises in Croatia has been given low ratings, which indicates consistently poor and limited availability of such financial resources, as well as lack of or inefficiency of measures taken by governments in recent years to improve the quality of entrepreneurial environment in terms of access to financial resources. Compared to 2017, the rating of availability of non-traditional sources of financing in 2018 remained at the level of about 4 (4.02 in 2017, 3.97 in 2018), which is below the average rating of EU countries, but also

75 <https://www.hub.hr/hr/hub-analize-67-investicije-u-hrvatskoj>, downloaded on November 16, 2019

76 CBA Analyses (May 2018), no. 64, p. 5, Financing Micro, Small and Medium Enterprises: Open Issues

77 Singer et al., What makes Croatia a (non)entrepreneurial country? – GEM Croatia 2018, CEPOR, Zagreb, 2019

below the average rating of all countries that participate in the GEM research (Table 28). While perceptions of availability of non-traditional sources of financing in EU countries are on the rise (from 4.48 in 2017 to 4.73 in 2018.), these ratings are stagnating in Croatia.

Table 28: Rating of “access to money”, as one component of entrepreneurial environment in 2017 and 2018 – GEM research

	Rating 9 indicates:	2017		2018	
		EU average	Croatia	EU average	Croatia
Access to money	“There are enough sources for new and growing enterprises, such as: equity funds, debt financing, government subsidies, private investors, business angels, venture capital funds; availability of initial public offering (IPO), crowdfunding”	4.48	4.02	4.73	3.97

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2019

In addition to the GEM research, assessment of the quality of the money market for entrepreneurial ventures is carried out by the World Bank through the Doing Business study and the European Commission through the SBA Fact Sheet.

The Doing Business⁷⁸ study monitors the quality of regulatory environment through ten components, of which the following three are relevant for access to financial resources: getting credit, registering property and protecting minority investors (Table 29).

⁷⁸ <https://www.doingbusiness.org/content/dam/doingBusiness/country/c/croatia/HRV.pdf>, downloaded on: December 05, 2019

Table 29: Indicators of quality of the regulatory environment relevant for the credit market for 2018 – from the Doing Business 2019 report

Regulatory area	Indicator			
	Croatia	Best indicator (number of countries with the indicator)	Germany	Slovenia
Getting credit				
Strength of legal rights index (0-12)	5	12 (5 countries)	6	3
Depth of credit information index (0-8)	6	8 (42 countries)	8	6
Public registry coverage (% of adults)	0	100 (4 countries)	2	100
Private registry coverage (% of adults)	100	100 (25 countries)	100	0
Registering property / Registering title transfer				
Number of procedures	5	1 (4 countries)	6	7
Time (days)	47	1 (2 countries)	52	50,5
Cost (% of property value)	4	0 (Saudi Arabia)	6.7	2.2
Quality of the land administration index (0-30)	23.5	30 (-)	22	23.0
Protecting minority investors				
Strength of minority investor protection index (0-10)	8	10 (2 countries)	7	8
Extent of disclosure index * (0-10)	5	10 (13 countries)	5	5

Source: *Doing Business 2019, Economy Profile Croatia, Economy Profile Slovenia, Economy Profile Germany, International Bank for Reconstruction and Development /World Bank*

* Extent of disclosure index relates to demands for review and approval of transactions of related parties and to demands for disclosure of transactions of related parties.

The rating of getting credit in the Doing Business study is based on three criteria: strength of legal rights index, depth of credit information index and public and private registry coverage. According to these criteria for the regulatory area of the credit market, Doing Business 2019 positioned Croatia in 2018 in 85th place out of 190 countries that have participated in the research, which is a drop by 8 places compared to 2017 when Croatia took 77th place out of 190 countries. This change is especially worrying since in 2013 Croatia was ranked 34th out of 185 countries by the same criterion.

Due to legal ambiguity after the GDPR entered into force, the Croatian Registry of Credit Obligations HROK (private registry) stopped collecting data, and deterioration in the category Getting credit – private registry coverage can be expected.

In the Doing Business study, registering property, as an important element of the regulatory environment relating to the credit market, is estimated based on the number of procedures required to register property, time required to register property, cost of registering property and quality of the land administration index. According to this criterion, Croatia took 51st place in 2018, which is a positive shift of 8 places compared to 2017.

Protecting minority investors speaks of the protection of shareholders against misuse of enterprise's property by the management. In 2018, Croatia dropped from 29th to 38th place in protecting minority investors' rights compared to 2017.

According to the **2018 SBA Fact Sheet Croatia**⁷⁹, access to finance for small and medium enterprises has improved compared to the last year and is at the level of EU average, also noting (as well as the GEM research) poor diversification of sources of financing for small and medium enterprises and the dominance of bank loans.

As the key new measures of the Government of the Republic of Croatia and its institutions in the reference period, the 2018 SBA Fact Sheet Croatia highlights the following:

- Implementation of the "Construction and equipping of manufacturing capacities of SMEs" programme by HAMAG-BICRO, focusing on development and technological readiness of small and medium enterprises. This programme encourages small and medium enterprises to invest in their own capacity.
- Implementation of the European Structural and Investment Funds (ESIF) individual guarantee programme by HAMAG-BICRO. This programme enables small and medium enterprises to obtain a guarantee to cover a part of the loan.
- The "ESIF growth and expansion loans" is a financial instrument implemented through HBOR intended for financing new long-term investments of small and medium enterprises that have been operating for at least two years. The loans are approved for a period of up to 12 years, with a maximum of one loan per enterprise.
- The "Loans for family farm projects" is a measure implemented by the Croatian Bank for Reconstruction and Development (HBOR) allowing all family farms to finance their projects, regardless of whether they are in the VAT system.

79 Source: SBA Fact Sheet 2018 – Croatia, European Commission

7.2. Banks

The financial sector in Croatia is dominated by banks controlled by European banking groups⁸⁰, and bank loans are still the most significant form of financing entrepreneurial activity in Croatia.

After several years of continuous decline, in 2018 there was an increase in total bank placements compared to the previous year. Total bank placements at the end of 2018 amounted to HRK 254.5 billion, which is an increase of HRK 8.6 billion or 4% compared to bank loan placements at the end of 2017 (Table 30).

Table 30: Disbursed bank loans in 2017 and 2018 (end of period)

Loan users	2017		2018	
	HRK million	Share %	HRK million	Share %
General government	39,884	16%	40,741	16%
Non-financial (enterprises)	81,808	33%	81,025	32%
Households	114,532	47%	121,023	47%
Other sectors	9,641	4%	11,724	5%
Total	245,865	100%	254,513	100%

Source: Croatian National Bank, Statistical data – Indicators of credit institution operations, 2015-2018⁸¹, non-consolidated revised reports

In 2018, the largest growth in loan placements was recorded in the segment of financing other sectors, by 22% compared to 2017. Placements of bank loans in the segment of enterprises decreased by 1% or HRK 783 million compared to the previous period.

The Croatian National Bank each year conducts the quarterly Bank lending survey⁸², which collects bankers' opinions on the situation in the bank loan market. According to the results of this survey, the situation has not changed in relation to 2017. Banks continued easing credit standards. Bankers stated the following as the major reasons for easing credit standards for approval of loans to enterprises: bank liquidity, competition from other banks, and expectations regarding general economic activity.

Looking at the structure of loans by industry and enterprise, most loans are disbursed to companies in trade and tourism⁸³. Of the total number of placements to enterprises, 60% of bank placements are directed to small and medium enterprises⁸⁴.

80 https://www.hub.hr/sites/default/files/inline-files/Doprinos%20banaka_1.pdf, downloaded on November 15, 2019

81 <http://www.hnb.hr/statistika/statisticki-podaci/financijski-sektor/druge-monetarne-financijske-institucije/kreditne-institucije/pokazatelji-poslovanja-kreditnih-institucija>, downloaded on November 15, 2019

82 <http://www.hnb.hr/statistika/statisticki-podaci/financijski-sektor/druge-monetarne-financijske-institucije/kreditne-institucije/rezultati-ankete-o-kreditnoj-aktivnosti-banaka>, downloaded on November 25, 2019

83 https://www.hub.hr/sites/default/files/inline-files/Doprinos%20banaka_1.pdf, downloaded on November 15, 2019

84 Semi-annual Information on the Financial Condition, the Degree of Price Stability Achieved and the Implementation of the Monetary Policy in the Second Half of 2018, May 2019, Croatian National Bank

Demand for loans by small and medium enterprises continues to grow in the last quarter of 2018, and the most important reasons for borrowing are companies' needs for financing inventories, working capital and investments. The reason for this increase in demand certainly lies in the reduction of interest rate, but also in still insufficient other sources of financing, which is confirmed by the GEM research and SBA Fact Sheet.

Commercial banks have various types of loans intended for financing small and medium enterprises in their offer: loans for financing exports, for working capital, investment loans, construction loans, loans for tourism services, mortgage loans, loans for the development of agricultural activity, loans for beginners, loans for women entrepreneurs, etc.

In addition to the above offer of financial products, most commercial banks provide additional lines of financing, which are based on business cooperation with ministries, HBOR, HAMAG-BICRO, local self-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.).

Disbursement of long-term and short-term loans to small and medium enterprises in Croatia is based mainly on the following financing terms:

Long-term loans

Amount:	mainly from HRK 50,000.00, while the maximum loan amount depends on the specific investment project and client's creditworthiness
Duration:	up to 15 years
Interest:	variable
Insurance:	various combinations of insurance instruments are possible, depending on the project

Short-term loans

Amount:	mainly from HRK 10,000.00, while the maximum loan amount depends on client's creditworthiness
Duration:	up to 12 months
Interest:	fixed or variable
Insurance:	combination of various types of insurance is possible

7.3. Leasing

Today, leasing is one of the most common alternatives to bank loan in financing small and medium enterprises when acquiring fixed assets. It is used for procurement of equipment, machinery and transport vehicles. The Leasing Act is the fundamental act governing the leasing industry in the Republic of Croatia (Official Gazette NN 141/13). According to Article 4 of the Leasing Act, leasing is a legal transaction in which, based on a purchase agreement with the vendor, the lessor acquires the right to ownership of the leased asset, and assigns a right to the lessee to temporarily use the leased asset, and the lessee is obligated to pay a fee for it. There are two basic types of leasing, finance leasing and operating leasing.

In **finance** leasing, the lessee pays a fee that takes into account the overall value of the leased asset, the lessee records the leased asset in their fixed assets. The risks and benefits associated with the asset are transferred to the lessee, and the lessee has the right to purchase the leased asset at a specific price, which, at the moment of exercising the right (usually after the expiry of the leasing period), is lower than the actual value of the asset.

Operating leasing is the legal transaction where the lessee pays a specified fee, which does not have to take into account the overall value of the asset, there is no purchase option, and the risks and benefits associated with the leased asset remain largely with the lessor. The primary purpose of operating leasing is the lease of the leased asset.

During 2018, 16 registered leasing companies operated in Croatia, and liquidation proceedings were initiated for one company. The total assets of leasing companies in 2018 amounted to HRK 19.5 billion, which is an increase of HRK 1.4 billion compared to the previous year. Compared to 2017, the number and value of newly concluded contracts increased. In finance leasing, there was an increase in the value of newly concluded contracts of HRK 1.6 billion compared to the previous year, while in operating leasing there was a decrease in value of HRK 101.5 million compared to year before⁸⁵. Finance leasing accounts for 83% of the value of newly concluded contracts in 2018.

The importance of financial intermediaries as sources of financing for small and medium enterprises is recognised by the Croatian Bank for Reconstruction and Development (HBOR), which has improved and expanded cooperation with financial intermediaries, primarily leasing companies, thus enabling additional ways of financing for small and medium enterprises. Compared to 2017, the number of finance leasing contracts increased, as well as the value of contracts. In 2018, 1,211 contracts were concluded, which is 257 contracts more compared to 2017, and the value of these contracts amounted to HRK 281.56 million⁸⁶.

⁸⁵ "Annual Report 2018", HANFA, p. 88.

⁸⁶ Annual Report of the Croatian Bank for Reconstruction and Development Group for 2018

7.4. Credit unions

Today, there is a worldwide trend of growth in the number of credit unions as well as members of credit unions, especially of those that have digitised their business. At the end of 2018, 20 credit unions operated in Croatia – one less than in 2017, continuing the downward trend in the number of credit unions. Total assets of credit unions in Croatia at the end of 2018 amounted to HRK 676 million, which is an increase by HRK 9.2 million compared to 2017⁸⁷. Also, the profit of credit unions increased by 35% compared to 2017, amounting to HRK 6.5 million.

Although credit unions in Croatia have an insignificant share in the capital market of only 0.1% according to the criteria of assets and relative shares of financial intermediaries⁸⁸, their role is specific and very important, since they provide financial services to their members, physical persons (craftsmen, self-employed and unemployed people) who have limited access to financing. Access to financial resources often represents a high barrier to the implementation of an entrepreneurial venture for these specific groups, and approval or disapproval of a loan in the amount of e.g. HRK 20,000 could mean new employment on the one hand, or closure of a business entity, on the other. It is important to note that citizen's deposits in credit institutions are insured up to the amount of EUR 100,000 EUR per person, while term deposits of credit union members are not⁸⁹.

With entering into force of the Credit Unions Act⁹⁰ from 2011, savings and loan cooperatives in Croatia have been replaced by credit unions. According to the Credit Unions Act (Official Gazette NN 141/06, 25/09, 90/11), a credit union may grant loans to credit union members in domestic currency, grant financial assistance to credit union members, and provide guarantees for obligations of credit union members in domestic currency. According to Article 9 of the Credit Unions Act, members of a credit union can be traders and craftsmen residing in the Republic of Croatia, and physical persons residing in the Republic of Croatia if they fulfil the principles prescribed by the Act.

The Credit Unions Act has also introduced numerous restrictions⁹¹, the most important of which is the restriction to operate within a single county, which has reduced the potential market and thus jeopardized the efficiency of operations.

The Croatian Association of Credit Unions (HUKU), which promotes and represents the interests of credit unions, has been operating in Croatia since 2011.

The data of the Croatian Association of Credit Unions (HUKU) show the number and total amount of loans that were disbursed by the members of the Association on an annual basis during 2017 and 2018 (Table 31).

87 "Annual Report 2018" (2019), Croatian National Bank, Zagreb, p. 87

88 "Annual Report 2015", Croatian National Bank, Zagreb, 2016, p. 29

89 https://www.hnb.hr/-/nije-isto-stedjeti-u-kreditnim-unijama-i-stedjeti-u-kreditnim-institucijama?inheritRedirect=true&redirect=https%3A%2F%2Fwww.hnb.hr%2Fpretraga%3Fp_id%3Dcom_liferay_portal_search_web_portlet_SearchPortlet%26p_p_lifecycle%3D0%26p_p_state%3Dmaximized%26p_p_mode%3Dview%26_com_liferay_portal_search_web_portlet_SearchPortlet_mvcPath%3D%252Fsearch.jsp%26_com_liferay_portal_search_web_portlet_SearchPortlet_keywords%3Dkreditne%2Bunije, downloaded on November 16, 2019

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

91 The restrictive provisions of the 2011 Credit Unions Act relate to the territorial principle restriction, according to which residence in the territory of the same local (regional) self-government unit is the condition for membership in the credit union, which has almost halved the membership of credit unions, thus also halving deposit and loan funds required for operations. Performance of payment transactions was also abolished, and lending is allowed only to physical persons and craftsmen.

Table 31: Loans disbursed by credit unions – members of the Croatian Association of Credit Unions in 2017 and 2018 (HRK)

No.	Name of credit union	2017			2018		
		Number of loans	Disbursed funds	Average loan amount	Number of loans	Disbursed funds	Average loan amount
1.	CU APOEN, Valpovo	690	11,498,000	16,664	569	10,046,000	17,656
2.	CU DEPONENT, Zagreb	122	5,558,000	45,557	147	7,812,760	53,148
3.	CU DUKAT, Viškovo	631	19,250,000	30,507	615	18,780,000	30,537
4.	CU GAMA, Zagreb	285	14,455,000	50,719	225	13,557,000	60,253
5.	CU JAMSTVO, Županja	1242	69,464,020	55,929	1,333	79,074,665	59,321
6.	CU KRAJCAR, Županja	269	54,267,752	201,739	651	64,532,854	99,129
7.	CU LIBERTINA, Čakovec	320	14,920,600	46,627	341	16,218,300	47,561
8.	CU MARJAN, Split	1480	56,826,000	38,396	1,479	62,938,000	42,554
9.	CU NOA, Osijek	270	9,171,069	33,967	287	9,734,236	33,917
10.	CU ABC, Sisak	355	10,481,000	29,524	356	10,462,000	29,388
11.	CU ZAGORSKA, Zabok	332	15,093,159	45,461	363	16,313,700	44,941
12.	CU SINDIKALNA, Zagreb	1337	17,193,000	12,859	1,259	16,966,000	13,476
13.	CU SJENICA, Čakovec	457	14,112,800	30,881			
TOTAL		7.790	312,290,400	40,089	7,625	326,435,516	42,811

Source: Croatian Association of Credit Unions, 2019

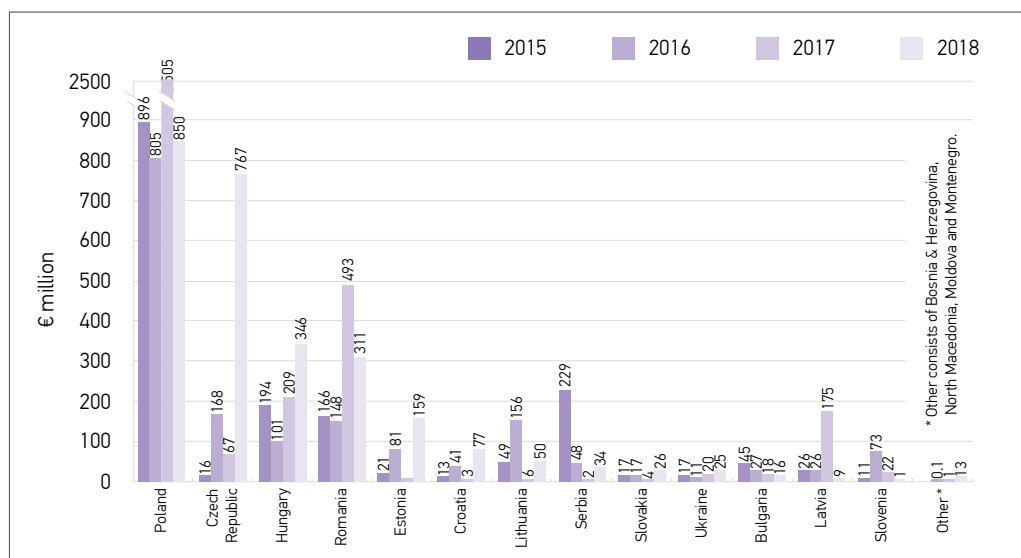
In 2018, total disbursed funds through loans of members of the Association increased by 4.5% compared to 2017, or by HRK 14.1 million. The number of granted loans in 2017 was higher by 165 loans compared to 2018, but the number of credit union members was also lower in 2018. During 2018, the average loan amount was HRK 42,811, which is higher by 6.8% compared to the previous period.

7.5. Venture capital funds

Venture capital⁹² is a type of investment by financial investors in equity 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.

In order to gain insight into Croatia's comparative position with regard to venture capital business financing, it is worthwhile to consider the key data from the Invest Europe association⁹³. Invest Europe is the world's largest association of private equity providers⁹⁴. In 2018, total raised funds for private equity investment in Central and Eastern Europe (CEE) reached EUR 1.82 billion, which is the best result in the past ten years and a 10% increase compared to 2017. At the same time, the whole Europe had a stable result of EUR 97 billion. The share of Central and Eastern Europe in total European funding slightly increased from 1.7% in 2017 to 1.9% in 2018. The most significant source of funds were government agencies with 42% of invested capital in 2018, while this share in 2017 was 34%. By shares, they are followed by funds (16% in 2018, 24% in 2017), banks (11% in 2018, 8% in 2017) and private individuals (9% in 2018, 3% in 2017)⁹⁵.

Figure 7: Value of private equity funding in Central and Eastern Europe, 2015-2018



Source: Invest Europe. 2018 Central and Eastern Europe Statistics Private Equity Statistics. June 2019, p. 15.

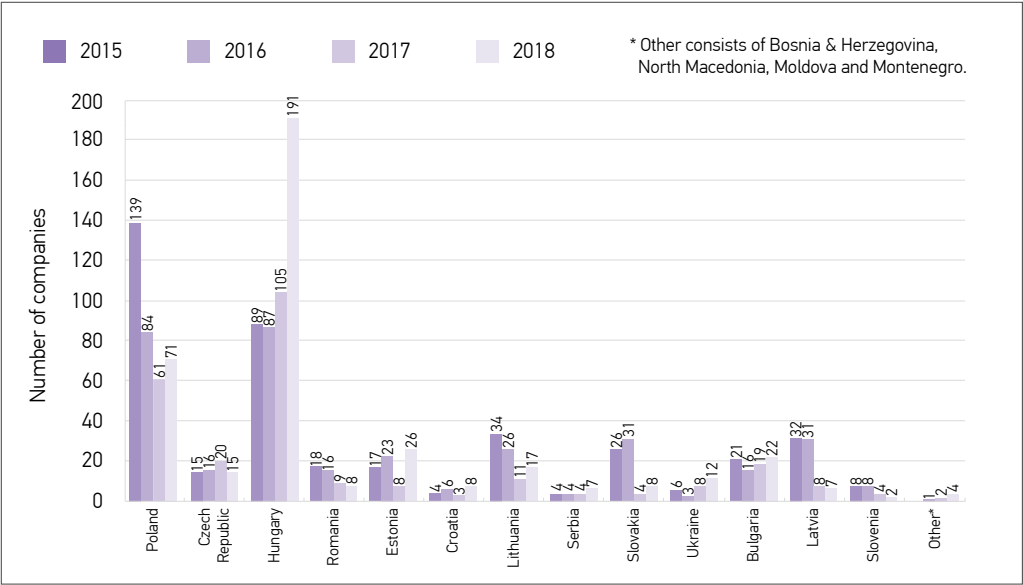
92 The term "venture capital" was mentioned in Croatian legislation for the first time in 2006, in the Investment Funds Act. The first venture capital funds have appeared in Croatia at the end of the 1990s. One of the first was SEAF – Croatia, which has, through a combination of development and commercial 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. Source: "How to Finance Business with Venture Capital Funds?", Croatian Private Equity and Venture Capital Association, Marović, M. (ed.), Zagreb, 2011

93 <https://www.investeurope.eu>, downloaded on November 06, 2019

94 Invest Europe represents venture capital funds (private equity and venture capital) and companies that invest in infrastructure, as well as their investors (including some of the largest European investment funds and insurance companies).

95 Invest Europe. 2018 Central and Eastern Europe Statistics Private Equity Statistics. June 2019 <https://www.investeurope.eu/research/data-and-insight>, downloaded on November 06, 2019

Figure 8: Number of companies that received private equity funding in Central and Eastern Europe, 2015-2018



Source: Invest Europe. 2018 Central and Eastern Europe Statistics Private Equity Statistics. June 2019, p. 16.

Private equity in CEE reached EUR 2.7 billion in 2018, which is one of the best results to date. The total number of companies in CEE that received private equity investments in 2018 increased by as much as 50%, continuing a significant upward trend in recent years. By comparison, across Europe this increase was 7% and a total value of EUR 80.6 billion of private equity investments was achieved. For a number of years, equity investments have been concentrated in several CEE countries. In 2018, Poland with a 32% share and the Czech Republic with a 29% share of all equity investments in CEE were the leaders. They are followed by Hungary with a 13% share (and the largest number of companies that received private equity funding) and Romania with a 12% share in CEE. As can be seen from Figure 7, in 2018 Croatia achieved the most significant result in recent years in terms of investment: EUR 77 million of private equity investment versus only EUR 3 million in 2017⁹⁶. In addition, there is a noticeable increase in the number of companies that received private equity funding in – a total of 8 versus just 3 in 2017 (Figure 8). Consequently, the share of private equity investment in Croatia's GDP increased from 0.005% in 2017 to 0.149% in 2018, improving Croatia's relative position according to this indicator, but is still below the CEE average (0.171%) in 2018. By comparison, the share of private equity investment in the GDP of Estonia is 0.62%, the Czech Republic 0.374%, Hungary 0.262%, while Denmark with 1.037% is at the European top⁹⁷. Despite improvements, the Croatian private equity market is still underdeveloped.

96 Invest Europe. 2018 Central and Eastern Europe Statistics Private Equity Statistics. June 2019 <https://www.investeurope.eu/research/data-and-insight>, downloaded on December 01, 2019

97 Invest Europe. 2018 Central and Eastern Europe Statistics Private Equity Statistics. June 2019, p. 18 <https://www.investeurope.eu/research/data-and-insight>, downloaded on December 01, 2019

In Croatia, Economic Co-operation Funds (ECF) are alternative private equity venture capital funds whose establishment is regulated by the Investment Funds Act⁹⁸ and the Rules on Conditions and Procedure for Participation of the Government of the Republic of Croatia in Establishing Economic Co-operation Funds⁹⁹. The initiative of the Government of the Republic of Croatia for ECFs was created through a joint venture between the private sector and the Government of the Republic of Croatia. The aim is to contribute to strengthening of a positive investment and entrepreneurial climate and further development of venture capital funds as drivers of new industries.

In 2011, five Funds that have complied with all the prescribed conditions and received a work permit from the Croatian Financial Services Supervisory Agency (HANFA) were established in Croatia. The area of investment of Funds are companies with headquarters in Croatia, which exclusively or predominantly operate within the territory of Croatia. ECF funding is intended for companies with headquarters in Croatia, which exclusively or predominantly perform their activity within the territory of Croatia, are competitive and have products and services with high growth potential, quality management, orderly and transparent business, a good business plan, and an acceptable rate of return on funds invested by ECFs¹⁰⁰. The amount of funding and the percentage of ownership structure are not limited, and exit from the ownership structure of the company that was invested in is foreseen no later than 5 years from the investment¹⁰¹. The size of an Economic Co-operation Fund is at least HRK 150 million, of which the share of the private sector is at least HRK 75 million. Maximum payment obligation of the Government of the Republic of Croatia to one Economic Co-operation Fund may amount up to HRK 300 million¹⁰². Croatian Bank for Reconstruction and Development (HBOR) was appointed by the Government of the Republic of Croatia as the qualified investor for participation in the establishment of ECFs, and it participates in the implementation of activities of ECFs together with private investors in the amount equal to the amount of investment of private investors.

ECFs are managed by management companies that analyse potential investments and submit them to the Board of Trustees for final consideration and decision. In 2013, the Alternative Investment Funds Act¹⁰³ came into force, which regulates the operations of ECFs, and prescribes the conditions for the establishment and operation of alternative investment funds (AIF) and alternative investment fund management companies (AIFM). In 2018, there were four alternative venture capital investment fund management companies, which managed five Economic Co-operation Funds (Table 32).

98 Official Gazette 150/05

99 Official Gazette 21/10

100 <https://www.hbor.hr/fondovi-za-gospodarsku-suradnju-fgs>, downloaded on November 20, 2019

101 <https://www.hbor.hr/naslovnica/hbor/fondovi-gospodarsku-suradnju-fgs>, downloaded on November 20, 2019

102 Official Gazette 47/13

103 Official Gazette 16/13, 143/14

Table 32: Alternative venture capital investment funds with private equity – Economic Co-operation Funds (as of June 2018)

Economic co-operation fund-ECF	Management company	Planned fund size (in HRK)	Qualified investor - HBOR (in HRK)	Net assets (in HRK)
Honestas ECF	Honestas Private Equity Partneri d.o.o.	155,000,000	77,500,000	9,901,805
Nexus ECF	Inspire Investments d.o.o.	380,000,000	190,000,000	244,477,343
Nexus ECF II	Prosperus Invest d.o.o.	600,000,000	300,000,000	120,208,666
Prosperus ECF	Prosperus Invest d.o.o.	340,000,000	170,000,000	256,288,563
Quaestus Private Equity Kapital II	Quaestus Private Equity d.o.o.	325,000,000	162,500,000	332,721,928
Total				963,598,307

Source: HANFA – Monthly Report, December 2018

Nexus Private Equity Partneri d.o.o. in 2017 managed 2 venture capital funds: Nexus ECF with HRK 380 million of capital raised and Nexus ECF II with HRK 600 million of capital raised. The company took over the management of the Nexus ECF II fund in September 2014, after the fund previously operated under the name Alternative Private Equity ECF and was managed by Alternative Private Equity d.o.o. In 2018, HANFA revoked Nexus Private Equity Partneri d.o.o.'s authorisation to manage open alternative venture capital investment funds Nexus ECF and Nexus ECF II, and companies Inspire Investments and Prosperus Invest were chosen as new management companies for these funds.

Table 33: Overview of investments by Economic Co-operation Funds (as of December 31, 2018)

PROSPERUS ECF			
		HRK	
Project	Sector	Invested amount	Ownership %
HPB d.d.	Banking	60,253,750	4.94%
VODOSKOK d.d.	Infrastructure	30,087,500	26.50%
ENERGIJA GRADEC d.o.o.	Renewable energy sources	30,400,000	26.05%
ADRIATIC KAMPOVI d.o.o.	Tourism	18,450,000	100.00%
HTP KORČULA d.d.	Tourism	66,200,000	57.52%
HTP OREBIĆ d.d.	Tourism	27,100,000	63.05%
DALMACIJA HOTELI d.o.o.	Tourism	7,229,970	99.00%
Total		239,721,220	
PROSPERUS ECF II			
		HRK	
Project	Sector	Invested amount	Ownership %
J&T BANKA d.d.	Banking	50,000,000	11.63%
CENTAR BANKA d.d.	Banking	97,000,000	48.35%
HOTELI PLAT d.d.	Tourism	100,000,000	50.00%
Total		247,000,000	
HONESTAS ECF			
		HRK	
Project	Sector	Invested amount	Ownership %
CONTY PLUS d.o.o.	Wood processing	10,000,000	35.00%
Total		10,000,000	
QUAESTUS PRIVATE EQUITY KAPITAL II			
		HRK	
Project	Sector	Invested amount	Ownership %
FRAGARIA d.o.o.	Agriculture	168,550,000	49.98%
TVORNICA TEKSTILA TRGOVIŠĆE d.o.o.	Textile	25,000,000	75.30%
SPAČVA d.d.	Wood processing	80,000,000	75.80%
Total		273,550,000	
INSPIRIO ECF			
		HRK	
Project	Sector	Invested amount	Ownership %
DALEKOVOĐ d.d.	Infrastructure	100,665,415	60.68%
ZAGREB-MONTAŽA d.o.o.	Infrastructure	85,577,000	51.00%
PODATKOVNI CENTAR KRIŽ d.o.o.	IT	40,700,300	90.00%
POŽGAJ FLOORING d.o.o.	Wood processing	40,700,000	66.25%
ENERGIJA GRADEC d.o.o.	Renewable energy sources	45,600,000	38.99%
BOATBOOKER d.o.o.	IT	12,500,000	90.00%
Total		325,742,715	

Source: processing by authors of the chapter based on audit reports of the stated Funds

Prosperus ECF and Inspirio ECF had the most investment projects (6 each), Prosperus ECF II and Qaustus Private Equity Capital II each had 3 projects, while Honestas ECF had one. All investments were made in the period from 2012 to 2016. As shown in Table 34, the largest number of investment projects was realised in the sectors of tourism (4) and banking, infrastructure, and wood processing industry (3 each). The largest share of invested funds is in tourism, infrastructure, banking and agriculture.

Table 34: Investment structure by sector

Sector	Number of projects	Invested amount	Structure
Banking	3	207,253,750	18.9%
Infrastructure	3	216,329,915	19.7%
Renewable energy sources	2	76,000,000	6.9%
Tourism	4	218,979,970	20%
Wood processing	3	130,700,000	11.9%
IT	2	53,200,300	4.9%
Agriculture	1	168,550,000	15.4%
Textile	1	25,000,000	2.3%
Total	19	1,096,013,935	100%

Source: processing by authors of the chapter based on audit reports of the stated Funds

In September 2015, the first regional venture capital fund – Enterprise Innovation Fund – South Central Ventures (ENIF – SC Ventures)¹⁰⁴ was launched. The Fund invests exclusively in IT companies in early stages of growth, operating in the Balkans. As a rule, the Fund acquires 10% to 35% ownership of the company it invests in. The size of the Fund is almost EUR 41 million. The Republic of Croatia, through HAMAG-BICRO, invested EUR 2.065.000 (about 5% of the Fund's total value) in ENIF – SC Ventures. By the end of 2018, the Fund invested a total of EUR 4.1 million in six Croatian start-up companies: Agrivi (June 2016), Bulb (December 2016), Sentinel (September 2017), Habiplace (April 2018), LittleDot (April 2018) and DaiBau (December 2018)¹⁰⁵.

In addition to this Fund, HAMAG-BICRO participates in other venture capital investment programmes (PRE-SEED and SEED¹⁰⁶). Through the PRE-SEED programme (established in 2015), a total of HRK 3,756,500 in grants was awarded to 23 start-up business ventures. Together with HAMAG-BICRO, 23 private investors also invested matching amounts in these business ventures, amounting to a total of HRK 7,513,000. The SEED programme was established in 2017. As part of a loan from the International Bank for Reconstruction and Development (IBRD), a total of HRK 4,450,000 was awarded to 2 domestic start-up business ventures through the SEED programme, in which, in addition to HAMAG-BICRO, two private investors also invested¹⁰⁷.

¹⁰⁴ <https://sc-ventures.com>, downloaded on December 05, 2019

¹⁰⁵ Direct correspondence with ENIF – SC Ventures, October 2019

¹⁰⁶ Pre-seed funding occurs at the earliest stage in the development of a business venture, that is, in preparation for establishment of a company, and is usually provided by the founders themselves, friends, family and others who support the entrepreneurial project. Seed funding refers to the first stage of official equity funding and usually represents the first funding that a company receives. Source: <https://www.investopedia.com/articles/personal-finance/102015/series-b-c-funding-what-it-all-means-and-how-it-works.asp>, downloaded on December 06, 2019

¹⁰⁷ Direct correspondence with HAMAG-BICRO, October-November 2019

7.6. Crowdfunding

Crowdfunding is a process in which money to transform a creative idea into a business venture or to grow an already existing company is sought. There are several types of crowdfunding platforms, based on donations, rewards, lending and equity. Crowdfunding platforms are based on donations, rewards, lending and/or equity¹⁰⁸. The most significant crowdfunding platforms for companies are those based on equity. Payers become co-owners of the company they financially support. The ownership share is generally 4 to 10%. The best-known global crowdfunding platforms include Kickstarter (www.kickstarter.com), Indiegogo (www.indiegogo.com), RocketHub (www.rockethub.com), Fundable (www.fundable.com), AngelList (www.angel.co), Seeders (<https://www.seedrs.com>) and Funderbeam (www.funderbeam.com).

Crowdfunding in the world is continuously growing, while in Croatia it has played a more significant role only in the last two to three years. The leader in the region of Southeastern Europe is Slovenia, in which as much as 80% of funds through 2,200 campaigns were invested in the period from 2012 to 2016¹⁰⁹. In 2017, 78 campaigns were conducted in Croatia, of which 26 were successful, raising about HRK 15 million¹¹⁰. By comparison, in 2016, about HRK 2.3 million¹¹¹ was raised through crowdfunding in Croatia. The Zagreb Crowdfunding Convention also contributed to the popularisation of crowdfunding.

At the end of 2016, Funderbeam SEE¹¹² was launched in Croatia. This platform for financing entrepreneurs was launched as a joint project by Estonian Funderbeam and Zagreb Stock Exchange, which has 20% ownership in the newly established company. The project was also supported by the EBRD through the Shareholder Special Fund. Funderbeam is a global crowdfunding platform, with several specific features: large amount of free information for investors, no intermediaries or brokers, and possibility of joint investment by small investors with other (professional) investors. The uniqueness of the Funderbeam platform is in the ability to trade investment shares on demand immediately after the initial investment phase¹¹³. In 2108, Funderbeam conducted two campaigns in Croatia. 259 investors participated in funding the Medvedgrad Brewery in the amount of EUR 1 million, while 105 investors invested a total of EUR 134,600 in Entrio d.o.o¹¹⁴. Campaigns in 2017 included Apsolon (previously Sense Consulting), Aspida and Include.

In 2018, the Zagreb Stock Exchange launched Progress, a new multilateral trading facility in Croatia and Slovenia, intended for small and medium enterprises. The cooperation between Zagreb and Ljubljana Stock Exchange will enable small and medium enterprises to raise capital in the Croatian and Slovenian market. The Progress Market is an SME market, managed by the Exchange, with lower transparency requirements for the issuers compared to the regulated market and, consequently, a higher associated risk of investing in financial instruments traded on the Progress Market. In addition, regulatory information about issuers is publicly available, including issuers' financial statements and information about financial instruments¹¹⁵.

108 Crowdfunding Guide, Association for Civil Society Development SMART, 2017

109 <http://www.crowdfunding.hr/odrzan-treci-zagreb-crowdfunding-convention-3722>, downloaded on December 01, 2019

110 <http://www.crowdfunding.hr/2017-crowdfunding-infografika-3771>, downloaded on December 01, 2019

111 <http://www.crowdfunding.hr/infografika-crowdfunding-u-hrvatskoj-2016-3620>, downloaded on December 01, 2019

112 Funderbeam South-East Europe <https://www.funderbeam.com/see>, downloaded on December 01, 2019

113 <https://www.funderbeam.com/see>, downloaded on December 01, 2019

114 Direct correspondence with Funderbeam SEE, October-November 2019

115 <https://progress.market/index.php?id=9&L=1>, downloaded on December 01, 2019

7.7. Business angels

Business angels are successful entrepreneurs and managers who provide initial capital for financing entrepreneurial projects, and they also provide mentoring support (knowledge, skills, contacts) to these entrepreneurs in further business development. Business angels usually invest in risky projects with high growth potential that have a pronounced technological component. The key interests of business angels are profit, development of entrepreneurial initiatives, and enthusiasm for participation in the creation of new value. Business angel investments can be individual and group, that is, syndicated investments. For their investment, business angels most often get an ownership share and consequently make a profit through the sale of their part either directly to another investor or through company's listing on a public stock exchange (the so-called IPO).

There are several modalities for encouraging business angel investment in developed financial markets. In its latest publications, the European Business Angels Network – EBAN¹¹⁶, places particular emphasis on fiscal incentives¹¹⁷ and co-investment funds with business angels¹¹⁸. EBAN is the leading pan-European association of investors in companies in early stage of development. It currently brings together more than 150 organisations – members in over 150 countries. EBAN was established in 1999, and today it represents a sector for which it is estimated to invest about EUR 7.5 billion annually, and plays an extremely important role in financing small and medium enterprises in Europe. EBAN's key activities include setting professional standards, training and certification, research, lobbying, awareness raising and capacity building, and encouraging and supporting joint (cross-border) investments.

Croatian Business Angels Network (CRANE)¹¹⁹ is the umbrella association that brings together private and institutional investors interested in investing in innovative companies in early stage of development. CRANE is a member of EBAN and is considered one of the most successful associations of business angels in Europe¹²⁰. The CRANE association was founded in 2008, and by 2018 CRANE members have invested over HRK 35 million¹²¹ in Croatian companies. The founding of CRANE was initiated by the following partner institutions: Agency for Export and Investment Promotion, Poteza Ventures, Croatian Private Equity and Venture Capital Association, Association for promoting software and online entrepreneurship 'Initium' and entrepreneurs Damir Sabol and Hrvoje Prpić.

At the beginning of 2018, the "Made in CEE"¹²² initiative was launched, which connects stock exchanges and business angel networks in finding and supporting the best start-up and scale-up companies in Central and Eastern Europe. Noteworthy local initiatives include international start-

116 <http://www.eban.org/about/who-we-are>, downloaded on December 03, 2019

117 EBAN & BOFIDI. 2018 EBAN Compendium of Fiscal Incentives, <http://www.eban.org/wp-content/uploads/2019/11/Fiscal-compendium.pdf>, downloaded on December 03, 2019

118 EBAN. 2017 Compendium of European Co-Investment Funds with Business Angels <http://www.eban.org/wp-content/uploads/2018/12/Compendium-of-European-Co-Investment-Funds-with-Business-Angels.pdf>, downloaded on December 03, 2019

119 <http://crane.hr/o-nama>, downloaded on December 03, 2019

120 In June 2018, CRANE president Davorin Štetrner was elected to the Management Board of EBAN, and since 2016, he serves as the president of EBAN CEE Board.

121 More detailed updated data on CRANE's investment is currently not available.

122 <http://ebancee.org/eban-cee-community-to-launch-made-in-the-cee-with-stock-exchanges-and-business-angels>, downloaded on December 03, 2019

up conference Zagreb Connect, which took place for the fifth time in 2018 and attracted more than 400 participants¹²³. The winners of the fifth Zagreb Connect and the eight-week Startup Factory programme are MAKABI, Zebra Cross, Wingo, OmoLab, Stratowave and Silver Monitor¹²⁴.

7.8. Croatian Bank for Reconstruction and Development (HBOR)¹²⁵

Croatian Bank for Reconstruction and Development (HBOR) is the development and export bank of the Republic of Croatia, which promotes the development of the small and medium enterprise sector by lending, insuring exports from political and commercial risks, issuing guarantees and providing business consulting.

During 2018, HBOR continued to encourage entrepreneurs to make greater use of available EU funds, continued to develop cooperation with financial intermediaries, with the goal of facilitating access to finance for small and medium enterprises (framework loans with commercial banks and leasing companies), and implemented measures to reduce interest rates and loan application processing fees. Through lending, issuing guarantees and insuring exports, HBOR supported 2,650 projects with a total amount of HRK 8.4 billion in 2018, which is 13% higher than the amount approved during 2017.

In 2018, loans for 1,970 projects were approved, worth more than HRK 5.61 billion, which is an increase of 9% compared to the previous year. This increase is largely the result of lending to projects co-financed from EU funds, for which HRK 859 million was approved during 2018, or 5 times the amount approved in 2017.

The most numerous users of HBOR's loans in 2018 were small and medium enterprises, which were granted 1,853 loans, amounting to HRK 1.96 billion. In 2018, small and medium enterprises used funds under 24 loan programmes, which are implemented either directly or within framework loans with commercial banks and leasing companies. Due to simple and efficient procedure, the largest number of projects during 2018 was supported through such framework loans – 1,577 projects in the amount of HRK 672.3 million.

Through lending programmes, issuance of performance related guarantees and insurance of export receivables, HBOR supported exporters in all export phases, from initial negotiation to final payment collection for exports. During 2018, HBOR granted Croatian exporters a total amount of HRK 5.63 billion, through: 293 loans amounting to HRK 2.88 billion; exports of HRK 2.69 billion were insured through export insurance policies; 15 export bank guarantees in the amount of HRK 55.70 million were issued at exporters' request.

During 2018, small and medium enterprises started using funds of the "ESIF Growth and Expansion Loan", as a result of the 2017 Agreement between HBOR and financial intermediaries Erste & Steiermärkische Bank d.d., Privredna banka Zagreb d.d. and Zagrebačka banka d.d. This financial instrument provides favourable funds for long-term investment loans to small and medium enterprises, with repayment periods of up to 12 years, i.e., up to 17 years in the tourism

123 <https://lider.media/aktualno/zagreb-connect-startup-silver-monitor-proglasen-najboljim-pitchem-na-konferenciji-27546>, downloaded on December 03, 2019 <http://www.poslovnih.hr/tehnologija/sve-je-spremno-za-veliku-meunarodnu-startup-konferenciju-zagreb-connect-347639>, downloaded on December 05, 2019

124 <https://www.netokracija.com/5-zagreb-connect-5-pobjednika-i-najbolji-pitch-koji-su-ispraznili-fond-od-860-tisuca-kuna-153379>, downloaded on December 05, 2019

125 Croatian Bank for Reconstruction and Development, Annual Financial Report for 2018, March 2019

sector. Loans are approved through commercial banks in such a way that 50% of the loan without interest is financed from this financial instrument, and 50% from the commercial bank's sources at market interest rate, which is determined by the commercial bank. In this way, the interest rate for entrepreneurs is half of what they would be charged without the use of ESIF funds. During 2018, HRK 173.76 million in loans was approved under this instrument for investments of small and medium enterprises, or HRK 347.52 million in total, when banks' funds are added.

Lowering interest rates for youth employment and innovative projects

During 2018, small and medium enterprises were able to use reduced interest rates within the Jobs for Youth Initiative of the European Investment Bank – EIB. This initiative provides funding for small and medium enterprises to invest into education, skills and employment of young people. The main feature of this initiative is reducing of interest rate by 0.2 percentage points for entities employing or training young people.

The reduction of interest rate was also made possible under the InnovFin Programme in cooperation with the European Investment Fund – EIF.

Investment loans for rural development

In 2018, the Financing Agreement was signed between the Ministry of Agriculture, the Paying Agency for Agriculture, Fisheries and Rural Development and the Croatian Bank for Reconstruction and Development for the implementation of financial instrument "Investment Loans for Rural Development". The goal of this financial instrument is support investments of eligible final recipients from the agriculture, manufacturing and forestry sectors. Through this financial instrument, loan funds in the total amount of HRK 510 million will be available to final beneficiaries.

7.9. Croatian Agency for SMEs, Innovations and Investments – HAMAG-BICRO

The Croatian Agency for SMEs, Innovations and Investments HAMAG-BICRO¹²⁶ deals with encouraging the establishment and development of small and medium enterprises, promoting investment in small and medium enterprises, financing the operations and development of small and medium enterprises, lending and issuing guarantees to small and medium enterprises for approved loans, awarding grants for research, development and application of modern technologies, and providing support to innovative and technologically oriented companies in Croatia.

Since 2015, HAMAG-BICRO also performs the function of Intermediary body level 2 (PT2) within the Operational Programme "Competitiveness and Cohesion" for the financial period 2014-2020. In 2018, HAMAG-BICRO also took on the role of the key public institution in coordinating the network of business support institutions through the BOND projects (Business Organisations Network Development), which is entirely funded by the European Structural and Investment Fund (ESIF).

¹²⁶ 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 creating a unique system that will provide support to entrepreneurs through all the stages of their business development – from idea research and development to commercialisation and placement in the market.

7.9.1. Guarantees

In 2018, as in previous years, guarantees were one of the most important areas of HAMAG-BICRO's activity, which enable entrepreneurs with quality business ideas who do not fulfil collateral requirements of commercial banks to obtain credit.

The most important conditions for issuing guarantees are fully completed financial package of the project, majority private ownership of the investor, liquidity of the project, non-existence of debt to the state, economic justification of the investment, and the professional and entrepreneurial abilities of the investor. Exceptionally, a guarantee can be granted to entrepreneurs that operate at a loss, if there is a justified reason for the loss. The guarantee becomes effective at the time of signing the guarantee contract by the entrepreneur and the final bank's decision on loan approval.

During 2018, in cooperation with financial institutions, national guarantees and ESIF individual guarantees were implemented in parallel, and the implementation of the ESIF Limited Portfolio Guarantee financial instrument started at the end of 2018¹²⁷.

HAMAG-BICRO provides support to entrepreneurs through issuing guarantees and letters of intent under programmes: Growing Together, EU Beginner and farmers.

In 2018, HAMAG-BICRO received 103 applications for national guarantees, most of which related to the EU Beginner guarantee programme (52.43%).

During 2018, 71 national guarantees were granted, including letters of intent, which is less than last year, when 118 guarantees were granted. The reason lies in more intensive use of ESIF guarantees by entrepreneurs (Table 35).

During 2018, 116 ESIF guarantees were granted, the largest number relating to ESIF individual guarantees with interest rate subsidy.

¹²⁷ <https://hamagbicro.hr/financijski-instrumenti/kako-do-jamstva/msp/portfeljna>, downloaded on November 11, 2019

Table 35: Guarantees granted and issued by HAMAG-BICRO and ESIF individual guarantees by programmes in 2017 and 2018

Guarantee programme	Number of granted guarantees by programmes		Number of granted guarantees by programmes		Amount of issued guarantees by programmes (million HRK)	
	2017	2018	2017	2018	2017	2018
National guarantees						
Growing Together	49	35	54	33	76	45
EU Beginner	68	34	54	32	85	51
Farmers	1	2	2	0	2.6	0
Total national guarantees	118	71	110	65	163,6	96
ESIF individual guarantees						
ESIF guarantees with interest rate subsidy	55	90	41	86	144,4	369
ESIF guarantees without interest rate subsidy	7	26	7	21	29,2	96
Total ESIF guarantees	62	116	48	107	173,6	465
TOTAL GUARANTEES	180	187	158	172	337,2	561

Source: HAMAG-BICRO, Annual Report 2017, 2018

7.9.2. Loans

In the second half of 2016, HAMAG-BICRO¹²⁸ introduced the ESIF Small Loans and ESIF Micro Loans programmes. The ESIF Micro Loans programme is divided into ESIF Micro Investment Loans and ESIF Micro Working Capital Loans.

The total amount of funds available for these ESIF financial instruments is EUR 55 million. The programmes end when all the funds have been used, and no later than December 31, 2020.

¹²⁸ On June 30, 2016, HAMAG-BICRO and the Ministry of Regional Development and EU Funds signed an Agreement on Financing for the implementation of financial instruments under the Operational Programme "Competitiveness and Cohesion" for the 2014-2020 period. Loan applications are accepted from the day of publication on the Agency's official website, i.e. from October 03, 2016.

Table 36: Basic features of ESIF loans

Programme name	ESIF Micro Investment Loan	ESIF Micro Working Capital Loan	ESIF Small Loan
Target group	Micro enterprise Small enterprise Physical persons – do not have their own registered economic entity at the time of applying for the loan, but if the loan is approved, it is necessary to register an economic entity because the loan agreement can be contracted exclusively with a registered economic entity.	Micro enterprise Small enterprise	Micro enterprise Small enterprise Medium enterprise Physical persons – do not have their own registered economic entity at the time of applying for the loan, but if the loan is approved, it is necessary to register an economic entity because the loan agreement can be contracted exclusively with a registered economic entity
Amount	From EUR 1,000.00 to EUR 25,000.00	From EUR 1,000.00 to EUR 25,000.00	From EUR 25,000.01 to EUR 50,000.00
Interest rate	0.5% - 1.5%	1.5% - 3.5%	0.5% - 1.5%
Grace period	Up to 12 months if the repayment period is at least 2 years	Up to 6 months if the repayment period is at least 2 years	Up to 12 months if the repayment period is longer than 2 years
Repayment period	Up to 5 years including grace period	Up to 3 years including grace period	Up to 10 years including grace period
Insurance instruments	Promissory note and other security instruments depending on the risk assessment	Promissory note and other security instruments depending on the risk assessment	Promissory note and other security instruments depending on the risk assessment
Purpose	Fixed assets (tangible and intangible assets) Working capital – up to 30% of the loan amount	Working capital – 100% of the loan amount	Fixed assets (tangible and intangible assets) Working capital – up to 30% of the loan amount

Source: HAMAG-BICRO, <https://hamagbicro.hr/financijski-instrumenti/kako-do-zajma/investicije/esif-mikro-zajam/>, downloaded on November 20, 2019

A total of 976 applications were received in 2018, of which 857 applications were processed by the end of the year, and 613 loan applications were approved. The total amount of approved loans in 2018 is HRK 177 million (Table 37).

Table 37: Number and amount of approved ESIF loans in 2017 and 2018

	Number of approved applications in 2017	Amount of approved applications (in thousand HRK) 2017	Number of approved applications in 2018	Amount of approved applications (in thousand HRK) 2018
ESIF Small Loan	440	148,110	455	154,732
ESIF Micro Working Capital Loan	94	14,950	45	7,605
ESIF Micro Investment Loan	97	12,009	113	14,805
TOTAL	631	175,069	613	177,142

Source: HAMAG-BICRO, Annual Report for 2017 and 2018

The largest number of ESIF loans in 2018 were approved for investments in the City of Zagreb (140), Split-Dalmatia County (83), followed by Zagreb County (45) and Krapina-Zagorje County (33).

Analysis of investment activities shows that the largest number of approved loans relates to processing industry (192), construction industry (88), accommodation and food service activities (81) and other service activities (47).

In cooperation with the Ministry of Agriculture, in September 2018 financial instruments for rural development programmes (Table 38) were launched, namely¹²⁹: Small Investment Loan for Rural Development and Micro Investment Loan for Rural Development, with total available amount of EUR 17.6 million.

Table 38: Basic features of loans for rural development

Financial instrument	Micro Investment Loan for Rural Development	Small Investment Loan for Rural Development
Target group	Micro and small business entities	Micro, small and medium business entities
Amount	From EUR 1,000.00 to EUR 25,000.00	From EUR 25,000.01 to EUR 50,000.00
Interest rate	0.5% and 1.0%, depending on the development of investments of local government units 0.1% for investments in the dairy sector	0.5% and 1.0%, depending on the development of investments of local government units 0.1% for investments in the dairy sector
Grace period	Up to 12 months if the repayment period is longer than 12 months	Up to 12 months if the repayment period is longer than 12 months
Repayment period	Up to 5 years including grace period	Up to 10 years including grace period
Insurance instruments	Promissory notes, other security instruments depending on the risk assessment	Promissory notes, other security instruments depending on the risk assessment
Purpose	Fixed assets Working capital up to 30% of the loan amount	Fixed assets Working capital up to 30% of the loan amount

Source: HAMAG-BICRO, <https://hamagbicro.hr/financijski-instrumenti/kako-do-zajma/investicije/mali-zajam-za-ruralni-razvoj>, downloaded on November 11, 2019

129 HAMAG-BICRO, Annual Report 2018

In 2018, 180 applications for loans for rural development were received, of which 87.8% of applications were for the Small Investment Loans for Rural Development programme, while 12.2% of received applications related to the Micro Innovation Loans for Rural Development programme. 89 applications were processed by the end of the year, and 48 were approved.

Table 39: Number and amount of approved loans for rural development in 2018 (in 000 HRK)

Programme	Number of approved applications	Amount of approved applications (in 000 HRK)
Small Investment Loan for Rural Development	41	13,800
Micro Investment Loan for Rural Development	7	788
TOTAL	48	14,588

Source: HAMAG-BICRO, Annual Report 2018

Most loans for rural development were approved in Osijek-Baranja County (14), Koprivnica-Križevci County (10) and Bjelovar-Bilogora County (9).

7.9.3. Grants

HAMAG-BICRO has been designated as the Intermediary body level 2 (PT2) for the implementation of the Operational Programme Competitiveness and Cohesion 2014-2020, by the Regulation on bodies in system for management and control of use the European Social Fund, European Fund for Regional Development and the Cohesion Fund related to the goal "Investment for Growth and Jobs".

As PT2, HAMAG-BICRO participates with the Ministry of Economy, Entrepreneurship and Crafts, Intermediary body level 1 (PT1), in the preparation of procedures and implementation of phases of awarding grants.

HAMAG-BICRO participates in procedures for awarding grants to the small and medium enterprise sector within the following calls for proposals: "Increase of the development of new products and services which supervene from research and development activities" "E-Impulse", "Providing high-quality services to SMEs through entrepreneurial support institutions", "Business internationalisation of SMEs through business support organisations", "With product certification to the market", "Supporting companies in meeting standards, with the aim of improving market access and increasing competitiveness" and "Increasing SME competitiveness and efficiency through ICT – phase II", as well as in procedures for awarding grants for calls "Improving the performance of micro SMEs by introducing ICT – vouchers", "Innovation vouchers" and "Innovations of newly established SMEs – phase II".

Table 40: HAMAG-BICRO – overview of grants under calls for proposals

Name of call for proposal	Goal	Target group	Grant amounts	Duration of the call	Total number of received applications	Total number of approved applications	Total amount of grants requested – HRK
Increase of the development of new products and services which supervene from research and development activities	Encourage research and development of the business sector in order to develop new products, services, technologies and business process improvements, as well as to increase cooperation with scientific research institutions.	Entrepreneurs implementing research and development projects included in priority thematic areas and cross-sectoral themes of the Smart Specialisation Strategy of the Republic of Croatia	The lowest grant amount is HRK 190 thousand, and the highest amount is HRK 56 million.	May 04, 2016 – January 02, 2018.	155	87	1,526,648,304
E-Impulse	Strengthening the competitiveness of entrepreneurs.	Small and medium enterprises, craftsmen	The lowest grant amount is HRK 30 thousand, and the highest amount is HRK 300 thousand.	The call was closed on September 30, 2016. During 2017 and 2018, complaints about negatively evaluated project applications were dealt with.	2,099	1,099	455,070,859
With product certification to the market	Help micro, small and medium enterprises to ensure preconditions for increasing exports and overall competitiveness by demonstrating the quality, safety and reliability of their products.	Small and medium enterprises	The lowest grant amount is HRK 20 thousand, and the highest amount is HRK 1 million.	May 22, 2017 to December 31, 2018 or until utilisation of funds.	96	77	25,877,146

Introduction of business process and quality management systems	Achieving an applicable standard level of internationally recognised levels of quality and safety in the exchange of goods and services by increasing the use of recognised standards that contribute to customer confidence, especially in areas of improving the quality of the management system and increasing the ability to demonstrate the quality of the system.	Small and medium enterprises	The lowest amount is HRK 50 thousand, and the highest amount is HRK 380 thousand.	Permanently open call, the deadline for submission of project proposals is June 29, 2020.	232	119 (51 applications are being processed)	33,479,822
With product certification to the market – phase 2	Through increased application of standards, together with a reliable technological solution, help small and medium enterprises to ensure preconditions for increasing exports and overall competitiveness by demonstrating the quality, safety and reliability of their products.	Small and medium enterprises	The lowest grant amount is HRK 20 thousand, and the highest amount is HRK 1 million.	The deadline for submission of project proposals is June 29, 2020.	27	13 (5 applications are being processed)	8,949,906
WWW-vouchers for SMEs	The goal of this call is to encourage small and medium enterprises to apply and improve online solutions in presenting and selling their products.	Small and medium enterprises	The lowest grant amount is HRK 15 thousand, and the highest amount is HRK 100 thousand.	The deadline for submission of project proposals is August 13, 2018.	502	440	30,807,066

Increasing SME competitiveness and efficiency through ICT – phase II	Strengthening the market position, increasing competitiveness and efficiency of SMEs' operations through use of information and communication technology, as well as supporting the development of information society in the Republic of Croatia.	Small and medium enterprises	The lowest grant amount is HRK 80 thousand, and the highest amount is HRK 1 million.	The deadline for submission of project proposals is December 21, 2018.	1,299	1,299 – project applications were being processed	465,056
Innovation vouchers for SMEs	Strengthening the capacity of SMEs for research, development and innovation through fostering collaboration with scientific-research organisations, for the purpose of developing new products, services and processes.	Small and medium enterprises	The lowest grant amount is HRK 10 thousand, and the highest amount is HRK 75 thousand.	Permanently open call, from June 11, 2017 to June 29, 2020.	11	8	614,870

Source: HAMAG-BICRO, Annual Report 2018

7.9.4. Encouraging investment in research and development and technology transfer

Through innovation programmes, HAMAG-BICRO encourages the private and public sector to invest in research and development by providing financial support to innovative and technologically oriented enterprises and scientific institutions. Programmes for encouraging investment in research and development activities are: PoC – Proof of Innovative Concept Programme, RAZUM – Development of Knowledge-Based Companies, IRCRO – Collaborative Research and Development, and UTT – Technology Transfer Office Support Programme.

PoC – Proof of Innovative Concept Programme is intended for financing innovative projects with clear and strong commercial potential, which are in the early phase of development of new products, services and technological processes. Proof of innovative concept is needed to provide evidence that a new process or technology are feasible and that potentially they can have commercial applications. Successful PoC provides greater certainty to investors that the process is technically feasible and that the prototype works. Through the realisation of PoC users greatly reduce the risks brought by further development in technical and commercial sense, determine the most appropriate strategy for commercialisation and initiate the protection of the invention. This programme has two categories of users, which are small and medium enterprises (PoC Private) and scientific institutions (PoC Public).

From 2010 to 2016, 6 calls were implemented within the Programme. A total of 222 projects were financed with HRK 55 million, with total value of projects in the amount of HRK 83 million.¹³⁰ In 2017, there were 21 projects in implementation, with the total value of projects amounting to HRK 9,307,591.

During 2018, in cooperation with external experts, HAMAG-BICRO conducted an analysis of the results of 6 PoC and it was concluded that 64% of projects have proven the planned concept.

The seventh PoC (PoC 7) call for proposals was announced on June 11, 2018, and the application deadline was September 07, 2018. From November 30, 2018 to November 29, 2019, 54 projects with a total value of HRK 23.1 million were contracted under the PoC 7 call. Most projects come from the ICT field (19).

The minimum grant amount is HRK 35,000, and the maximum amount is HRK 350,000 for one-year long projects.

RAZUM is a programme aimed at providing financial support to technologically oriented, knowledge-based small and medium enterprises, which have innovative technology projects, with the aim of raising competitiveness of domestic enterprises and products, and creating conditions needed for successful transfer of knowledge. Since October 01, 2017, from a total of 6 projects under implementation, 5 projects ended in 2017, and 1 project was completed in 2018.

IRCRO – programme to support collaborative research and development is intended to encourage cooperation between the scientific community and the economy on development projects. Projects are submitted by small and medium enterprises interested in technology transfer from research and development institutions in order to increase competitiveness by developing new or enhancing existing products, services or production processes.

¹³⁰ <https://hamagbicro.hr/bespovratne-potpore/programi-podrske-inovacijskom-procesu/poc>, downloaded on September 01, 2019

As of December 31, 2017, the implementation of IRCRO projects has been completed, monitoring of the last quarter was conducted in early 2018, and reports have been accepted.

EUREKA/EUROSTARS is a European initiative for funding market-oriented projects in different technological areas. The programme is intended for small and medium enterprises, which, in cooperation with scientific-research institutions, through transfer of technology and knowledge work on developing new products, services or processes. Partners in these projects must be from at least two different European Union Member States. The programme objectives are to encourage enterprises to invest in research and development activities and thus strengthen their innovation capacity, to encourage cooperation and pooling of resources of entrepreneurs and scientific-research institutions, and to create the foundations for placement in international markets.

In 2018¹³¹, HAMAG-BICRO implemented two EUREKA/EUROSTARS calls for proposals. A total of 5 applications were received and 2 projects were contracted. The value of the contracted projects is HRK 2,142,959.

EUROSTARS¹³² (sub-programme of EUREKA) is intended to encourage international cooperation of small research and development enterprises with international partners. One contract was concluded in 2018, based on an application submitted in 2017.

SME INSTRUMENT programme is a part the HORIZON 2020, intended for highly innovative micro, small and medium enterprises with high growth potential. The programme has 3 phases: in phase 1 (concept and feasibility assessment), EU co-financing in the amount of EUR 50,000, in phase 2 (demonstration, replication, R&D), EU co-financing from EUR 500.000 to EUR 2.5 million is possible, while phase 3 (commercialisation) does not include EU co-financing.

As the national contact point, HAMAG-BICRO provides the following for SMEs: information activities, info webinars, meetings with entrepreneurs, coaching activities for Croatian companies that have received funds from this programme.

The involvement of HAMAG-BICRO in venture capital funds is described in chapter section on venture capital funds (7.5).

¹³¹ HAMAG-BICRO, *Annual Report 2018*

¹³² Technological evaluation of all projects from all programme member countries is carried out by the EUREKA Secretariat, while the financial evaluation of the submitted projects is done by HAMAG-BICRO. Projects compete with projects from all countries implementing the Eurostars programme.

7.10. Government grant programmes, subsidised credit lines and tax relief

7.10.1. Grants of the Ministry of Economy, Entrepreneurship and Crafts

The Ministry of Economy, Entrepreneurship and Crafts implemented the following in 2018:

“Lifelong learning for crafts”

The programme was implemented with the aim to encourage the adoption of skills and competences for craft occupations and to encourage employment and self-employment in crafts.

The funds are intended to co-finance the costs of preparation and taking the vocational qualification exam, preparation and taking the master craftsman exam, retraining for occupations in the system of associated crafts, taking the vocational qualification exam for the occupation of undertaker, and issuing permits (licences) for performing the practical part of the apprenticeship. The beneficiaries of the programme are exclusively crafts, companies, cooperatives and institutions, and physical persons.

Programme amount for 2018: HRK 2,000,000.00, and the source are national funds. A total of HRK 1,998,616.00 was awarded.

“Preservation and development of traditional and artistic crafts” programme

The programme was implemented in order to preserve and develop traditional crafts that are predominately done by manual labour and inherit special handicraft skills and artistry.

Purpose of funds: investing in operations and production improvement, investing in new product/service development, customizing, adapting and improving business and manufacturing facilities, introducing quality management systems, standards and quality marks, managing and protecting intellectual property, marketing activities and investments in entering new markets, and for administrative relief.

Programme amount for 2018: HRK 2,000,000.00, and the source are national funds. A total of HRK 3,305,053.56 was awarded (additional funds in relation to the planned amount were secured through a revision of the State Budget).

“Apprenticeship for craft occupations” project

The project was implemented in order to encourage business entities to participate in the education of students who are studying to acquire occupations in the system of associated crafts according to the unified education model, thereby contributing to the acquisition of skills for independent work in the profession and to the development of students' social and entrepreneurial competences.

Purpose of funds:

- a) co-financing the compensation that the Applicant pays to students for completed practical classes and apprenticeship exercises,
- b) compensation for the mentor for the invested effort and time spent on educating students, which is determined according to the average value of the work hour based on the total cost of the salary of the mentor involved in educating students, and in accordance with the

number of hours that a student must realise in each year of education (I year – 560 hours, II year – 630 hours and III year – 640 hours).

The beneficiaries are exclusively crafts, companies, cooperatives and institutions.

Project amount for 2017 and 2018: HRK 10,000,000.00, of which 85% are funds from the European Social Fund, and 15% from national funds.

During 2017, HRK 5,505,625.25 was awarded, and in 2018 HRK 10,492,830.50.

“Scholarships for students in craft occupations” project

The project is intended for secondary school students who are being educated in deficit occupations in the system of associated crafts according to the unified education model, for occupations from the Regulation on Associated and Privileged Crafts and Manner of Issuing Privileges (Official Gazette, NN 42/08).

Total project amount: HRK 18,000,000.00, of which 85% are funds from the European Social Fund, and 15% from national funds. During 2017, HRK 21,078,000.00, and in 2018 HRK 26,622,000.00 was awarded.

“Cooperative entrepreneurship development” programme

The Programme was implemented in 2014, and was re-launched in 2018. The “Cooperative entrepreneurship Development” programme is aimed at business entities that are registered as cooperatives in order to encourage the development of cooperative entrepreneurship. The total available grant amount within this open public call for proposals is HRK 1,000,000.00. In 2018, HRK 2,504,029.64 was awarded (additional funds in relation to the planned amount were secured through a revision of the State Budget).

“Development of SMEs and crafts in areas populated by national minorities” programme

The Development of SMEs and crafts in areas populated by national minorities programme was launched in 2018. Public call for proposals is intended for business entities registered in territories of local self-government units belonging to the first four groups of the least developed units according to the development index value and with a share of more than 5% of members of national minorities according to the 2011 Census. The total available grant amount is HRK 7,500,000.00. Through a revision of the State Budget, HRK 12,915,686.00 was awarded in 2018.

Table 41: Grants approved by the Ministry of Economy, Entrepreneurship and Crafts in 2017 and 2018

Activity/measure	2017			2018		
	Number of approved grants	Approved amount in HRK	Average grant amount in HRK	Number of approved grants	Approved amount in HRK	Average grant amount in HRK
Education in crafts – Scholarships for students in craft occupations	2,342	21,078,000.00	9,000.00	2,958	26,622,000.00	9,000.00
Education in crafts – Apprenticeship for craft occupations	98	5,505,625.25	56,179.85	188	10,492,830.50	55,812.93
Education in crafts – Lifelong learning for crafts	901	2,375,240.00	2,636.23	861	1,998,616.00	2,321.27
Education in crafts – Preservation and development of traditional and artistic crafts	121	4,879,358.64	40,325.28	76	3,305,053.56	43,487.55
Development of SMEs and crafts in areas populated by national minorities				93	12,915,686.00	138,878.34
Cooperative entrepreneurship development				22	2,504,029.64	113,819.53
TOTAL	3,462	33,838,223.89	9,774.18	4,198	57,838,215.70	13,777.56

Source: Grant Register of the Ministry of Economy, Entrepreneurship and Crafts

7.10.2. Loan programmes with subsidised interest

Loan programme “WITH LOAN TO SUCCESS 2014”

Ministry of Economy, Entrepreneurship and Crafts has been implementing the “WITH LOAN TO SUCCESS 2014” loan programme in cooperation with counties and commercial banks since the last quarter of 2014. The programme is intended for small and medium enterprises until utilisation of credit potential, that is, until the expiration of the four-year period (until December 31, 2018). The programme is implemented through subsidising interest on entrepreneurial loans by the Ministry of Economy, Entrepreneurship and Crafts and counties participating in the programme. In this way, efforts are made to facilitate access to financing for beneficiaries of the programme (companies, crafts, for-profit institutions) in order to improve business activities, apply technological innovations, establish financial equilibrium and continue successful business operations.

The loan programme is implemented through two sub-programmes: Measure 1 and Measure 2.

Loan programme Measure 1 – With loan to competitiveness

This programme is intended for small and medium enterprises and can be used for purchase, construction, renovation or expansion of business facilities, or for purchase of new equipment or parts of new equipment. Loan amount is from HRK 100,000.00 to HRK 5,000,000.00 for all purposes except for financing exclusively working capital. Financing of working capital can be approved in the amount of up to 20% (for service activities) and 30% (for manufacturing activities) of total approved loan. Loan repayment period is up to 10 years for the purchase, construction, renovation or expansion of business facilities, and up to 7 years for the purchase of new equipment or parts of new equipment. Loan utilisation period is up to 12 months. Nominal interest rate is up to 7% at the time of signing the contract, and if HAMAG-BICRO's guarantee is used as collateral, interest rate cannot be higher than 6.5%.

Funds for interest subsidies are provided by the Ministry of Economy, Entrepreneurship and Crafts and counties, where the Ministry of Economy, Entrepreneurship and Crafts provides:

- 2 percentage points if the purpose of the loan is to finance manufacturing activities
- 1 percentage point if the purpose of the loan is to finance service activities

Loan programme Measure 2 – With loan to business security

This programme is intended for small and medium enterprises and can be used to finance current liquidity and permanent working capital. Loan amount is from HRK 30,000.00 to HRK 200,000.00 (maximum one loan per entrepreneur). Repayment period is up to 4 years. Loan utilisation period is up to 6 months. Nominal interest rate is up to 8% at the time of signing the contract, and if HAMAG-BICRO's guarantee is used, interest rate cannot be higher than 7.5%. Funds for interest subsidies are provided by the Ministry of Economy, Entrepreneurship and Crafts, covering 5 percentage points.

In 2017, 297 loans were approved, the amount of approved loans was HRK 156,785,581, with subsidies from the Ministry in the amount of HRK 2,216,344.82.

In 2018, 242 loans were approved, the amount of approved loans was HRK 122,892,245.27, with subsidies from the Ministry in the amount of HRK 1,552,522.63.

8. Education for entrepreneurship

(Sunčica Oberman Peterka)

Entrepreneurial competence is recognised as one of the eight key competences for lifelong learning¹³³, which means acting in accordance with opportunity and ideas, and the ability to transform them into value for others. It is based on creativity, critical thinking, problem solving, taking the initiative, persistence and the ability to work in a team with the aim of planning and managing projects of cultural, social or financial value. Having the ability to act in an enterprising way in many situations and contexts has been recognised as very important for each individual¹³⁴. Encouraging the development of these competences is one of the objectives of establishing the European Education Area, which will be able to use the full potential of education and culture as major drivers of job creation, social equality and active citizens, and creating a European identity in all its diversity.

Although in the Entrepreneurship 2020 Action Plan the European Commission¹³⁵ states that “Europe needs more entrepreneurs”, statistics in Europe are not encouraging – only 37% of Europeans prefer self-employment, while more than 50% of adults in the US and China say so. Consequently, the number of (potentially) self-employed people in Europe is declining, while there is an upward trend in China and the US¹³⁶.

Such situation in Europe is partly caused by the existing educational systems, which do not encourage the development of entrepreneurial culture and do not contribute to building entrepreneurial skills. With the aim of developing an entrepreneurial culture and encouraging innovation and creativity among young people, a series of resolutions have been adopted at the level of the European Parliament and the European Commission, which create a framework for redesigning the educational system in order to develop entrepreneurial competences at the level of EU Member States. Entrepreneurial education is becoming part of curriculum at all levels of education (primary, secondary, tertiary, vocational education and adult education) in a growing number of EU Member States¹³⁷. In addition to curriculum development, educational institutions should encourage entrepreneurial culture and innovation by involving key stakeholders in preparation of learning outcomes and in the process of experiential learning.

In 2015, the European Parliament resolution of 8 September 2015 on promoting youth entrepreneurship through education and training¹³⁸ was adopted, which specifically emphasises the need for a broader approach to entrepreneurship. It is believed that in order to fill job vacancies in the EU, it is necessary to bridge the gap between education and training and the needs of the labour market. This can be achieved by creating new generations of creative young people with entrepreneurial spirit and the skills necessary for entrepreneurial activity.

133 Lifelong competences are: literacy; multilingual competence; STEM competences (mathematical competence and competence in science, engineering and technology); digital competence; personal, social and learning to learn competence; citizenship competence; entrepreneurship competence; cultural awareness and expression competence (Source: <http://data.consilium.europa.eu/doc/document/ST-8299-2018-INIT/en/pdf>)

134 Pittaway, L., Cope, J., Entrepreneurship education – a systematic review of the evidence, *International Small Business Journal* 25(5):479-510, 2007

135 The survey was conducted among respondents older than 15 years. Source: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52012DC0795&from=EN>, downloaded on October 29, 2019

136 Ibid.

137 Ibid.

138 Source: <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P8-TA-2015-0292+0+DOC+XML+V0//EN>, downloaded on October 29, 2019

In 2010, the **National Strategy for Entrepreneurial Learning 2010-2014** was adopted in Croatia, with two primary objectives – sensitise the public about entrepreneurship, develop a positive attitude towards lifelong learning for entrepreneurship, and introduce learning and training for entrepreneurship as key competences in all forms, types and levels of formal, non-formal and informal education and learning. Evaluation of the implementation of the Action Plan for Implementation of the 2010-2014 Strategy has not been conducted, nor national strategy for entrepreneurial learning for the next period created, which was stated in the publication “Entrepreneurship Education at School in Europe”¹³⁹, which was published in 2016 by Education, Audiovisual and Culture Executive Agency of the European Commission (Eurydice).

According to the **Strategy¹⁴⁰ for Development of Entrepreneurship in the Republic of Croatia 2013-2020**, one of the five strategic goals is to improve entrepreneurial skills, which is mostly related to strengthening the management of small enterprises, increasing the number of highly qualified employees, and supporting lifelong learning of employees. According to data from the Strategy, in Croatia there are almost four times fewer employees involved in lifelong learning programmes than the EU average. Monitoring the achievement of the goal of improvement of entrepreneurial skills is done by measuring the share of workforce in training and the share of scientists employed in entrepreneurship.

In the **Entrepreneurship 2020 Action Plan**, entrepreneurial education and training with the purpose of supporting growth and establishment of businesses is one of the three main areas of activity, which is in line with the goals of policies that the European Union has been proposing and implementing for years.

Strategic Plan¹⁴¹ of the Ministry of Economy, Entrepreneurship and Crafts for the 2019-2021 Period lists increasing investment in research and development, strengthening innovation by creating an institutional framework for monitoring national innovation policy for promoting innovation, more effective implementation of the legislative framework to stimulate investment and digitalisation of the economy and industry as the primary objectives in the period. The stated objectives are rounded off by the more general goal of continuous improvement of entrepreneurial infrastructure in order to enhance the entrepreneurial climate in Croatia and increase competitiveness of Croatian entrepreneurs globally. In the context of improving entrepreneurial skills, the need to encourage lifelong learning (entrepreneurs and employees), and vocational and entrepreneurial education connected to the labour market, is pointed out as one of the preconditions for increasing the competitiveness of the small and medium enterprise sector¹⁴².

139 The *Entrepreneurship Education at School in Europe* report provides an overview of strategies, curricula and learning outcomes, an insight into the methods of funding and education and professional development of teachers in field of primary and secondary, and general and vocational education in 33 European countries, including Croatia. Source: European Commission/EACEA/Eurydice, 2016. *Entrepreneurship Education at School in Europe*. Eurydice Report. Luxembourg: The Publications Office of the European Union, <https://publications.europa.eu/hr/publication-detail/-/publication/74a7d356-dc53-11e5-8fea-01aa75ed71a1/language-hr>, downloaded on October 29, 2019

140 Source: Strategy for Development of Entrepreneurship in the Republic of Croatia 2013-2020, https://narodne-novine.nn.hr/clanci/sluzbeni/2013_11_136_2926.html, downloaded on November 02, 2019

141 Strategic Plan of the Ministry of Economy, Entrepreneurship and Crafts for the 2019-2020 Period, MINGO, Zagreb, available at: mingo.hr/public/STRATE%C5%A0KI%20PLAN%202019_2021%20MGPO.pdf

142 Strategic Plan of the Ministry of Economy, Entrepreneurship and Crafts for the 2019-2020 Period, MINGO, p. 33, available at: mingo.hr/public/STRATE%C5%A0KI%20PLAN%202019_2021%20MGPO.pdf, downloaded on November 02, 2019

Strategy¹⁴³ for Education, Science and Technology 2014-2020 is a reform document from 2014 that envisages significant changes in the field of science and education in Croatia over a multi-year period. One of the priority goals of the strategy is to provide prerequisites for increasing the participation of adults in lifelong learning and education processes. The strategy proposes that funds from state/local budget or European funds are utilized to create adult education programmes with the goal of training for professional, innovative and entrepreneurial behaviours in the fields of modern technologies and development of innovative services, and for their popularisation. For the purpose of transferring entrepreneurial knowledge and skills, establishment of a network of mentors and advisers from the ranks of experienced entrepreneurs is proposed. It is also envisaged to build a career counselling system, as a product of collaboration between the Croatian Employment Service, economic entities and similar institutions. One of the proposed measures is the development of education, training and qualification programmes for small and medium enterprises.

In 2010, the Ministry of Science, Education and Sports drafted and adopted the National Framework Curriculum for Pre-school Education, General Compulsory and Secondary Education, which defines entrepreneurship education through specific training objectives for setting, evaluating and achieving personal goals, work planning and implementing business plans, easier adaptation to new situations, ideas and technologies, acquiring basic knowledge about the economy and running a business, and becoming aware of the importance and opportunities for self-employment.

In Croatian primary education, until 2019, entrepreneurship is only sporadically mentioned in the curriculum and promoted, depending on preferences and knowledge of teachers and/or school principals, or within implementation of individual projects¹⁴⁴.

In secondary education, entrepreneurship has been recognised as a set of knowledge and skills in vocational schools, through subjects Entrepreneurship and Training Firm¹⁴⁵ / Vocational Practice for many years. Training Firm serves for the acquisition and demonstration of practical entrepreneurial skills by pupils in a simulated business environment. In order to improve the activities of training firms, Central Office for Training Firms (SUVT)¹⁴⁶ was founded in 2017. Once a year, the Training Firms Fair is organised, where pupils/employees present their work¹⁴⁷. The

143 Strategy for Education, Science and Technology, Government of the Republic of Croatia, 2014, http://www.europski-fondovi.eu/sites/default/files/dokumenti/Strategija%20znanosti%2C%20obrazovanja%20i%20sporta_NN_124_2014.pdf, downloaded on November 02, 2019

144 Since 2017, Pavlek Miškina elementary school in Zagreb has been implementing the UP programme – Pupils Entrepreneurs pilot project, as a free-of-charge extracurricular activity in duration of 35 hours for pupils in higher grades. The programme is designed as a simulation of an entrepreneurial incubator in which pupils develop business ideas and establish fictitious companies, with prior training and adoption of the basics of entrepreneurship. The project is being implemented by *A-Link savjetovanje* company from Zagreb, *Dobar dan* association, a Pavlek Miškina elementary school female teacher, and visiting entrepreneurs – mentors. Source: www.dobardan.hr Within the pilot programme of entrepreneurship education that was implemented by the South East European Centre for Entrepreneurial Learning (SEECCL) from 2009 to 2016, some schools have developed and incorporated into their school curricula experimental educational activities as the start of implementation of entrepreneurship education. Information on whether these programmes were continued the after the piloting period is not available.

145 In 2000, within the national strategy for education of entrepreneurs, the Ministry of Economy, Labour and Entrepreneurship supported the establishment of training firms in schools. Ministry of Science, Education and Sports started promoting the idea of training firm in 2003, by joining the ECO NET project. ECO NET is a joint project of the Government of the Republic of Croatia and the Government of the Republic of Austria, whose aim was to spread the teaching concept of training firm in Croatia.

146 WHAT IS SUVT? (online), available at: <https://www.asoo.hr/suvt/default.aspx?id=36>

147 WHAT IS TRAINING FIRM? (online), available at: <https://www.asoo.hr/suvt/default.aspx?id=35>

most recent Training Firms Fair was held in 2019, as part of the 2018/2019 academic year¹⁴⁸. List of training firms by county can be found on the website of the Agency for Vocational Education and Training and Adult Education¹⁴⁹.

In 2019, the Ministry of Science and Education¹⁵⁰ began the implementation of the experimental programme "School for Life", in which 48 primary and 26 secondary schools from all counties in the Republic of Croatia participate. The experimental programme is carried out in the 1st and 5th grades of primary schools, and in the 7th grade for the subjects of biology, chemistry and physics. In secondary schools it is carried out in the 1st grade of gymnasium in all subjects, and in the 1st grade of four-year vocational schools in general education subjects. Within this experimental programme, entrepreneurship is one of the cross-curricular topics that teachers, of their own choice, should implement in the teaching process, as an additional aspect of the topic they are addressing. In addition to entrepreneurship, other cross-curricular topics are: civic education, sustainable development, personal and social development, learning how to learn, use of ICT, and health.

Starting from school year 2014/2015, the Education and Teacher Training Agency (ETTA) initiated a series of continuing professional development seminars and workshops for school principals, teachers and other school staff, some of which focus on entrepreneurship education¹⁵¹. During 2018, two professional meetings dedicated to entrepreneurship were held¹⁵². The Agency for Vocational Education and Training and Adult Education also organises additional training programmes for teachers. In 2018, 6 professional meetings on topics related to entrepreneurship were organised¹⁵³.

The possibility of acquiring entrepreneurial competences within the Croatian educational system is most prominent at the tertiary level of education. Students are offered study programmes in entrepreneurship at undergraduate, graduate and postgraduate levels of university and professional studies at universities, polytechnics and colleges (Tables 42, 43 and 44).

148 Rules and instructions for organisation and implementation of the WSC Fair in school year 2018/2019, Agency for Vocational Education and Training and Adult Education, 2019, available at: <https://www.worldskillscroatia.hr/media/1375/pravila-smotre.pdf>

149 Agency for Vocational Education and Training and Adult Education, downloaded on December 03, 2019, <https://www.asoo.hr/svvt/default.aspx>

150 <https://skolazivot.hr/o-projektu/eksperimentalne-skole>, downloaded on December 10, 2019

151 European Commission/EACEA/Eurydice, 2016. *Entrepreneurship Education at School in Europe*. Eurydice Report. The Publications Office of the European Union in Luxembourg.

152 <https://www.azoo.hr/index.php?view=article&id=6760>, downloaded on December 07, 2019

153 <https://www.asoo.hr/UserDocsImages/Stručni%20skup-%20Nina%20-%202019.pdf>, downloaded on December 07, 2019

Table 42: List of universities in Croatia with entrepreneurship programmes at undergraduate, graduate and/or postgraduate levels of study in academic year 2018/2019

University / Faculty		Public / Private	Undergraduate study	Graduate study	Postgraduate study	
					Specialist	Doctoral
J.J. Strossmayer University of Osijek – Faculty of Economics in Osijek		Public	Entrepreneurship	Entrepreneurial Management and Entrepreneurship	Entrepreneurship	Entrepreneurship and Innovativeness
University of Zagreb	Faculty of Economics & Business	Public		Specialist Graduate Professional Study Economics of Entrepreneurship	Strategic Entrepreneurship *** Entrepreneurship and Entrepreneurial Management	-
	Faculty of Organization and Informatics Varaždin	Public	Economics of Entrepreneurship	Economics of Entrepreneurship	-	-
	Faculty of Law – Legal Studies	Public		Entrepreneurship and Management		
	Faculty of Law – Social Work Studies	Public		Social Economy and Social Entrepreneurship		
University of Split – Faculty of Economics		Public	Professional Study 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	-	-
University of Zadar – Department of Tourism and Communication Sciences		Public		Entrepreneurship in Culture and Tourism		

Source: Agency for Science and Higher Education, 2019, web pages of universities in Croatia, 2019

Table 43: List of polytechnics in Croatia with entrepreneurship programmes at undergraduate and/or graduate levels of study in academic year 2018/2019

Polytechnic	Public / Private	Study
VERN Polytechnic	Private	Undergraduate Professional Study Economics of Entrepreneurship (Zagreb) ***
		Undergraduate Professional Study Entrepreneurship in Applied Art and Design (in preparation) ***
		Specialist Graduate Study Entrepreneurial Management (Zagreb)
Polytechnic of Rijeka – Business Department	Public	Undergraduate Professional Study Entrepreneurship (Rijeka, Pazin) ***
		Specialist Graduate Professional Study Entrepreneurship (Rijeka)
Nikola Tesla Polytechnic Gospić	Public	Undergraduate Professional Study Economics of Entrepreneurship (Gospić)
Marko Marulić Polytechnic Knin	Public	Undergraduate Professional Study Commercial Business with Entrepreneurship (Knin) ***
		Specialist Graduate Professional Study Economic and Regulatory Framework of Entrepreneurship (Knin)

Source: Agency for Science and Higher Education, 2019, web pages of polytechnics in Croatia, 2019.

Table 44: List of colleges in Croatia with entrepreneurship programmes at undergraduate and/or graduate levels of study in academic year 2018/2019

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

Source: Agency for Science and Higher Education, 2019, web pages of colleges in Croatia, 2019

Since the academic year 2015/2016, there are also online studies in entrepreneurship – accredited distance learning systems. This form of education in the field of entrepreneurship is offered by two educational institutions in Croatia – Faculty of Economics Rijeka (Graduate Study Entrepreneurship) and University College Nikola Šubić Zrinski (Professional Study Economics of Entrepreneurship and Specialist Study Management of Small and Medium Enterprises).

In addition to the formal educational system, education for beginner entrepreneurs and/or already operational enterprises in Croatia is offered by institutions outside this system, such as centres for entrepreneurship, business incubators, Croatian Chamber of Economy, Croatian Employers' Association and private enterprises active in the sector of adult education.

GEM research¹⁵⁴ monitors the perception of quality of education for entrepreneurial activity at primary, secondary and tertiary levels of education, using grades on a scale from 1 to 9, where grade 9 indicates the highest quality of education for entrepreneurial activity (Table 45). In 2018, quality of education for entrepreneurial activity at primary and secondary level in Croatia was rated with grade 2.45, which is still a very low grade for this component of the entrepreneurial ecosystem. Quality of education at the tertiary level was rated with grade 3.71, which indicates a slightly higher contribution of tertiary education to the development of entrepreneurial competences.

Table 45: Perception of quality of education for entrepreneurial activity in 2018 and 2019 (ratings ranging from 1 to 9)

	2017		2018	
	EU average	Croatia	EU average	Croatia
Education and training (primary and secondary level of education)	3.34	2.39	3.26	2.45
Education and training (tertiary level of education)	4.67	3.69	4.75	3.71

Source: "GEM Croatia", CEPOR – SMEs and Entrepreneurship Policy Center, 2019

Ratings of perception of quality of education for entrepreneurial activity in Croatia at all three levels of education in 2018 remained almost identical, with only minor shifts. Therefore, it is necessary to more closely follow the recommendations of the European Commission and implement the objectives defined in national strategic documents.

The European Commission and the OECD have joined forces to develop HEInnovate (www.heinnovate.eu), a tool that measures innovative and entrepreneurial potential of higher education institutions. Through eight key areas (leadership and governance, organisational capacity: funding, people and incentives, entrepreneurial teaching and learning, preparing and supporting entrepreneurs, digital transformation and capability, knowledge exchange and collaboration, internationalised institution, measuring impact), a higher education institution can make a self-assessment of its innovative and entrepreneurial potential, and determine the priorities and activities of its action towards the creation of an innovative and entrepreneurial institution. Since 2017, the European Commission and the OECD have been drafting national reports based on the HEInnovate tool. These reports provide an overview on how enterprising higher education

¹⁵⁴ Singer et al. (2019), What makes Croatia a (non)entrepreneurial country? GEM Croatia 2018, CEPOR

institutions in a given country are, and make concrete and constructive recommendations for change and improvement where necessary. So far, the reports have been made for nine EU Member States, including Croatia¹⁵⁵ (Bulgaria, Hungary, Ireland, Poland, the Netherlands, Romania, Austria and Italy).

OECD's report for Croatia (Supporting Entrepreneurship and Innovation in Higher Education Croatia) notes the strengthening of the capacity of higher education institutions in Croatia to exchange knowledge and cooperate with external stakeholders, but also the need for further progress in this area. Key obstacles include outdated national intellectual property legislation, legal barriers to the employment of people who do not come from the academic community, existence and operation of centres for entrepreneurship linked exclusively to economic education, implementation of innovative and entrepreneurial initiatives on an *ad hoc* basis, with minimal institutional support, which makes their implementation dependent on the enthusiasm and commitment of individuals, poor development of human resource development in higher education institutions, and inconsistency in the availability of funding for innovation and entrepreneurship. Based on the report, recommendations have been created, aimed at the Government of the Republic of Croatia and higher education institutions. The Government is expected to strengthen the connection between strategic objectives and funding of higher education institutions, and increase public funding for higher education (in 2019 in Croatia it is 0.7%, and the European median is 1.4%); to strengthen the capacity of representatives of higher education institutions to exchange knowledge and cooperate with the business sector, non-profit organisations, governmental organisations and other higher education institutions. Particularly emphasised is the importance of further reforming the governance model of public universities, in line with the action plan of the Strategy for Education, Science and Technology 2014-2020. Recommendations to higher education institutions emphasise the need for better access to entrepreneurship education at all university departments and constituents; introducing activities that stimulate exchange of knowledge as a strategic commitment of the institution, while providing them with visibility and incentives for cooperation.

The discussion about measuring the impact of these programmes is one of the important areas in the development of entrepreneurship education and its evaluation. Different entrepreneurship education programmes have different goals, and the means of measuring the achievement of goals of these programmes are also different¹⁵⁶. Sometimes programmes are aimed at creating more owners of new entrepreneurial ventures, some programmes aim to strengthen the entrepreneurial competence of all individuals, while other programmes aim to understand the role of entrepreneurship in the development of society. In order to measure the achievement of the desired effects of entrepreneurial courses and programmes, a tool for measuring the impact of entrepreneurship programmes has been developed within the European project EEPHEIC¹⁵⁷ (Evaluation of Entrepreneurship Education Programmes at Higher Education Institutions and Centers), available and free of charge for everyone interested in the matter. The tool is hosted on the HEInnovate¹⁵⁸ platform.

155 Source: https://heinnovate.eu/sites/default/files/heinnovate_country_review_of_croatia.pdf, downloaded on November 11, 2019

156 Oberman Peterka, S., Koprivnjak, T., Mezulić, P., Challenges of evaluation of the influence of entrepreneurship education, *Economic Review*, 12 (2015)

157 Faculty of Economics in Osijek participated in this project as a partner, with partners from the Netherlands, Denmark, Germany and the United Kingdom (<https://epic.ecorys.com>, downloaded on November 27, 2019)

158 Available at: <https://heinnovate.eu/en/user/login?destination=epic/dashboard>
More information about the project is available at: <https://epic.ecorys.com>.

GEM research also enables the monitoring of perception of entrepreneurship as a business career choice. As in the previous year, slightly more than 60% of adults have a positive attitude towards entrepreneurial career in Croatia in 2018, which brings Croatia near the average of EU countries participating in GEM research. By measuring the perception of the status of entrepreneurs in society, it can be observed that the percentage of respondents who believe that successful entrepreneurs have high status in society has decreased – from 47.7% in 2017, to 43% in 2018. Since the percentage at the EU level increased to 69.2%, the gap between Croatia and the average of European countries has also increased. Attitudes about the status of entrepreneurs in society warn of a lack of social values that contribute to the creation of entrepreneurial culture. A positive shift in the perception of media attention to entrepreneurship in Croatia (from 48.1% in 2017 to 53.7% in 2018) neared Croatia to the EU average of 56.9% (Table 46).

Table 46: Perception of social attitudes towards entrepreneurship in 2017 and 2018 (% of adult population)

	2017		2018	
	Croatia	EU average	Croatia	EU average
Being entrepreneur is a good career choice	62.2	58.6	62.1	59.8
Successful entrepreneurs have a high status in society	47.7	67	43	69.2
Media attention to entrepreneurship	48.1	55.6	53.7	56.9

Source: "GEM Croatia", CEPOR – SMEs and Entrepreneurship Policy Center, 2019

Project INTENSE– development of students' entrepreneurship skills

INTENSE¹⁵⁹ – International Entrepreneurship Skills Europe – is an international project funded by the European Commission through the Erasmus+ programme in the 2016-2019 period. The main objective of the project was to encourage entrepreneurial behaviour and internationalisation of students in order to increase employability, and project activities were based on the development and implementation of courses on the subject of internationalisation of small and medium enterprises. The project brought together teams of students, small and medium enterprises, and employees of higher education institutions in EU countries that participated in the project, with the aim of raising awareness of the importance of internationalisation of business and assisting small and medium enterprises in this process. Hochschule für Technik und Wirtschaft, Berlin (Germany) was the project leader, while project partners included representatives of the Netherlands (University of Applied Sciences, Utrecht), Finland (University of Applied Sciences LTD TUAS, Turku), Belgium (UC Leuven-Limburg, Leuven) and Croatia (Faculty of Economics in Osijek).

¹⁵⁹ INTENSE (online), <http://www.efos.unios.hr/intense/>, downloaded on November 01, 2019

9. Access to information and advisory services

(Josipa Pervan)

Public and private institutions, which act as support to entrepreneurs by providing services of informing, counselling, education and connecting with investors, have an important role in strengthening the capacity for entrepreneurial activity of individuals and organisations. Since 2002, based on the results of the GEM research, it is possible to monitor changes in the perception of the quality of entrepreneurial infrastructure in Croatia. According to the results of the GEM research, in 2018 there was a decrease in the rating of quality of commercial and professional infrastructure for support of the development of the small and medium enterprise sector in Croatia. Within the rank from 1 to 9, where 9 is the maximum rating, the rating for Croatia dropped from 4.66 in 2017 to 3.76 in 2018 (Table 47), which puts Croatia at the back of the EU rankings according to this component of the entrepreneurial environment. As Croatia had the worst placement also in 2015 and 2016, this indicates poor availability and quality of business support infrastructure in Croatia compared to other EU countries. In 2018, the Netherlands (6.1) had the highest rating of the perceived quality of commercial and professional infrastructure of all countries that participate in the GEM research¹⁶⁰.

Table 47: Perception of quality of commercial and professional infrastructure for support of the development of the small and medium enterprise sector in 2017 and 2018

	Rating 9 indicates:	2017		2018	
		EU average	Croatia	EU average	Croatia
Commercial and professional infrastructure	There are consultancy, professional, legal and accounting services; companies can afford them; they are of high quality	5.19	4.66	5.19	3.76

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2019

Decrease in the rating compared to 2017 further distanced Croatia from the EU average, which is 5.19 for the third consecutive year. In order to make progress, it is necessary to offer services whose diversity and quality is suited to the needs of small and medium enterprises in Croatia.

Below is an overview of institutions that make up the entrepreneurial infrastructure, and advisory institutions relevant for the small and medium business sector in Croatia.

160 Singer et al. (2019), What makes Croatia a (non)entrepreneurial country? GEM Croatia 2018, CEPOR, p. 87

9.1. Entrepreneurial infrastructure

The Act on Improving Entrepreneurial Infrastructure¹⁶¹ defines entrepreneurial infrastructure as... *the totality of all spatially specific forms of conduct of various entrepreneurial activities arising as a result of deliberate and organised spatial development concept of units of local and regional self-government, i.e., the Republic of Croatia.*

Entrepreneurial infrastructure comprises **entrepreneurial zones and business support institutions**, and their activity should be aimed towards balanced regional development, improvement of entrepreneurship, and increasing investment and employment in the area where they are located. **Business support institutions** include development agencies, entrepreneurial centres, business and entrepreneurial incubators, and incubators for new technologies, science and technology parks, competence centres and free zones, whose activities are aimed at creating a quality, user-oriented entrepreneurial environment in Croatia by implementing programmes aimed at developing entrepreneurship.

The Act on Improving Entrepreneurial Infrastructure stipulates the establishment of the Unified Register of Entrepreneurial Infrastructure (JRPI)¹⁶² – integrated electronic database of subjects of entrepreneurial infrastructure. In December 2019, there were 431 subjects of entrepreneurial infrastructure in Croatia registered in the Register, which are users of supports, incentive measures, grants or concessions granted by the line ministry (Ministry of Economy, Entrepreneurship and Crafts) or other state administration bodies¹⁶³. The register is maintained by Ministry of Economy, Entrepreneurship and Crafts¹⁶⁴.

Entrepreneurial zones

Entrepreneurial zones are infrastructurally equipped areas defined by spatial plans, designed for carrying out certain types of economic activities. The objective of entrepreneurial zones is to make business easier for entrepreneurs through lower operating costs based on the shared use of space and other entrepreneurial zone resources with other entrepreneurs. In 2019, there were 246 entrepreneurial zones registered in the Unified Register of Entrepreneurial Infrastructure¹⁶⁵.

Development agencies

According to the Act on Improving Entrepreneurial Infrastructure, development agencies are *registered legal entities responsible for operational implementation of measures for the development of the economy and entrepreneurship at the local (regional) and national levels, encouraging and attracting investments, and initiating and implementing projects to encourage economic development and entrepreneurship.*

161 Act on Improving Entrepreneurial Infrastructure, Official Gazette, NN 57/18

162 Unified Register of Entrepreneurial Infrastructure, MINGO, 2019, <http://reg.mingo.hr/pi/public/>, downloaded on: November 06 2019

163 Instructions for the creation and use of the Unified Register of Entrepreneurial Infrastructure (Official Gazette, NN 123/2013)

164 <http://reg.mingo.hr/pi/public/>, downloaded on: November 06, 2019

165 Unified Register of Entrepreneurial Infrastructure, MINGO, 2019, <http://reg.mingo.hr/pi/public/>, downloaded on: November 06, 2019

There are three types of development agencies, with regard to the founder and focus of activity: *local development agencies* founded by units of local self-government, *county development agencies* founded by units of regional self-government, and *development agencies for specific activities*. According to the Act on Regional Development, county development agencies have the role of regional coordinators and are responsible for coordinating and encouraging regional development of units of local (regional) self-government. There were 72 development agencies registered in the Unified Register of Entrepreneurial Infrastructure in 2019¹⁶⁶.

Istrian Development Agency – IDA d.o.o. – an example of good practice

(www.ida.hr)

Istrian Development Agency – IDA d.o.o. was established in late 1999 as the first regional development agency in the Republic of Croatia and the key operational body for the preparation and implementation of development programmes of the Istria County. The founders of IDA are Istria County and all 10 Istrian cities. IDA's mission is to create and implement measures for the development of entrepreneurship in order to increase the competitiveness of the economy of Istria County. Over the last 20 years, IDA's activities have focused on: providing financial support through targeted lines of credit and a guarantee fund, development of entrepreneurial infrastructure (entrepreneurial incubators and coworking centres, entrepreneurial zones and clusters), attracting and promoting investments, preparation and implementation of EU projects, implementation of educational programmes for small and medium enterprises and the public sector, strategic planning as the basis of development, and consultation on preparation and evaluation of development strategies, branding of Istria County through the IQ label – Istrian Quality, investing in research, innovation and development through the Research Centre for Metal Industry of Istria County (METRIS), IstraLab network and the Centre for the Popularization of Science and Innovation of Istria County, informing and consulting entrepreneurs and promoting entrepreneurship in public.

Entrepreneurial centres

The Act on Improving Entrepreneurial Infrastructure defines entrepreneurial centres as registered legal entities whose activity is focused on operational implementation of measures for the development and promotion of entrepreneurship in the local and wider area (counties and regions). The role of these business support institutions is to provide informing and advisory services to entrepreneurs when launching or developing entrepreneurial ventures. In cooperation with local and regional administration, entrepreneurial centres participate in implementation of projects aimed at providing support to the development of the small and medium enterprise sector. They operate as parts of county or city administrations, as independent enterprises or as associations, and they are funded mainly from local budgets and EU projects. There were 43 entrepreneurial centres registered in the Unified Register of Entrepreneurial Infrastructure in 2019¹⁶⁷.

¹⁶⁶ Ibid.

¹⁶⁷ Ibid.

ZICER Plavi ured, entrepreneurial centre of the City of Zagreb – an example of good practice

(www.plaviured.hr)

Plavi ured (official name: Zagreb Innovation Centre d.o.o., business unit Entrepreneurial Centre) is the entrepreneurial centre of the City of Zagreb, established with the aim of improving the entrepreneurial environment. *Plavi ured* is a platform and channel for communication of relevant institutions at the state and city level with Zagreb entrepreneurs. In order to improve entrepreneurial competences, *Plavi ured* organizes numerous trainings and consultations for current and potential entrepreneurs. In addition to the Start-up Academy, a four-day seminar through which participants receive basic information about entrepreneurship and a series of professional lectures, personal and online counselling services are available to users. *Plavi ured's* priority is to transfer knowledge and information in a structured and comprehensive way. Digital guides that are available on the plaviured.hr portal, facilitate access to information. The exchange of knowledge and ideas, connection through numerous trainings, conferences, meet-ups, hackathons and informal gatherings in ZICER's premises create added value for both new and existing entrepreneurs.

Business incubators

The purpose of business incubators is to provide technical and educational assistance to entrepreneurs in early stages of development of entrepreneurial ventures and enable their development and sustainability after leaving the incubator. The Act on Improving Entrepreneurial Infrastructure distinguishes between two types of business incubators: *entrepreneurial incubators* and *incubators for new technologies*. Entrepreneurial incubators provide support to beginner entrepreneurs through a variety of business services and resources, including business premises under favourable conditions, up to the third, but no longer than fifth year of operation. Incubators for new technologies focus on areas of new (high) technologies that support launching and growth of innovative entrepreneurial projects through incubation programmes, providing resources and professional services needed for growth and development. In 2019, there were 39 business incubators and 12 incubators for new technologies¹⁶⁸ registered in the Unified Register of Entrepreneurial Infrastructure: Business Incubator BIOS, Technology Innovation Centre Medimurje, Zagreb Innovation Centre (ZICER), Technology Park Varaždin, Istrian Development Agency (TI Pula), Technology Park Vinkovci, Technology Park Bjelovar, R.D.I. MOSAIC, UNIST Technology Park, BICRO BIOCentre, Centre for Technology Transfer and Enterprise Support Centre CroTechHub.

Business accelerators are specialised business entities that provide support services to entrepreneurs in the post-incubation stage – stage of development and business expansion in the domestic and foreign markets. Although the Act on Improving Entrepreneurial Infrastructure (after the 2018 amendments) no longer explicitly lists business accelerators as business support institutions, there are 8 accelerators listed in the Unified Register of Entrepreneurial Infrastructure¹⁶⁹: Zagreb Innovation Centre (ZICER), Entrepreneurship Incubator ZIP, Business Accelerator Split, IRI Centre, ZEZ Cooperative, Crane, Mediterranean Educational Chamber's Centre of Innovation and E.C.H.R.

¹⁶⁸ Ibid.

¹⁶⁹ Ibid.

Business Incubator Network of Virovitica-Podravina County – an example of good practice (www.inkubatorivpz.hr)

“Business Incubator Network of Virovitica-Podravina County” consists of four incubators – in Pitomača, Virovitica, Slatina and Orahovica. Their goal is to achieve the highest possible availability of services of business support institutions to entrepreneurs, especially young people. The incubation capacity is sufficient to accommodate 60 beginner entrepreneurs, with co-financing of all rent costs in the first year of operations by Virovitica-Podravina County. In addition to incubation, the Business Incubator Network of Virovitica-Podravina County provides its tenants with consulting services, drafting business and marketing plans, preparing tender applications, bookkeeping, training. Within the Incubator Network, there is a dislocated office that provides market services, aimed at experienced entrepreneurs who seek to continue to grow and develop. Around 150 projects for business entities are implemented annually.

Science and technology parks

According to the Act on Improving Entrepreneurial Infrastructure, science and technology parks are *registered legal entities established for the purpose of commercialisation of scientific results and encouraging cooperation between scientists and entrepreneurs*.

Technology parks facilitate networking between experts and entrepreneurs whose economic goals are based on new technologies. They are focused on development and scientific-research activities, and are usually established in the vicinity of higher education institutions and research centres. Step Ri Science and Technology Park of the University of Rijeka is the only business support institution in Croatia that is registered as a science and technology park in the Unified Register of Entrepreneurial Infrastructure¹⁷⁰. However, it should be emphasised that there are great similarities in the functions and activities of science and technology parks and incubators for new technologies (12 recorded in the Register).

Step Ri Science and Technology Park of the University of Rijeka (www.step.uniri.hr)

Step Ri Science and Technology Park of the University of Rijeka is a business support institution established in 2008, which is focused on fostering entrepreneurship based on knowledge and new technologies. Step Ri accomplishes its mission through providing trainings, business consulting related to research and development, supporting innovation development, creation of new products, services and business models, internationalisation of business, etc. Step Ri conducts about 30 training courses each year, attended by approximately 500 participants – entrepreneurs and scientists. Cooperation with INA on the implementation of a six-month mentoring programme for people with business ideas was established, and BIG BANG CAMP – the first camp intended for scientists who want to commercialise their technology was successfully implemented.

¹⁷⁰ Ibid.

Competence centres

Competence centres carry out development and applied research and their commercialisation and provide support in designing intellectual property within specific thematic areas and branches of competence. They are designed to provide support to strengthening capacities of the business sector, mainly small and medium enterprises, which lack their own research and development capacities. They can be organised as a consortium between entrepreneurs and one or more organisations for research and dissemination of knowledge, as an innovation cluster whose members are involved in research and development activities, or as a legal entity that manages research infrastructure and performs economic activities. In 2019, 9 centres of competence were listed in the Unified Register of Entrepreneurial Infrastructure¹⁷¹: Competence Center AluTech, Competence Centre (Vinkovci), Innovation Centre Nikola Tesla, CEPOR – SMEs and Entrepreneurship Policy Center, Research Centre for Metal Industry of Istria County (METRIS), Institution for Research and Dissemination of Knowledge in the Field of Nutrition and Health CEKOM 3LJ, Center for Competences for Advanced Engineering Nova Gradiška, Pannonian Wood Competence Center and Polytechnic Pula – Accredited Technical-Business College.

PANNONIAN WOOD COMPETENCE CENTER d.o.o. Virovitica

(www.pdck.hr)

Pannonian Wood Competence Center d.o.o. (PDCK) is the first competence centre for the wood processing sector in Croatia, established by the Virovitica-Podravina County. The Center was 98 percent co-financed by the ERDF (European Regional Development Fund) from the Operational Programme Regional Competitiveness 2007-2013. The purpose of the PDCK is to strengthen the competitiveness of small and medium enterprises in the wood processing sector. PDCK offers a wide range of services in developing and designing furniture and other innovative wood products with high value added, as well as services for research and development of wood technologies, wooden structures for construction, and related activities of the wood processing industry. In 2013, PDCK was declared a project of national interest for the wood processing sector. It is the recipient of the 2017 “Creators for Centuries” award for contribution to the development of entrepreneurship in Central and Southeastern Europe, and in 2018 it was declared the most successful local project in the category of investment infrastructure projects by the Ministry of Regional Development and EU Funds.

Free zones are a part of the territory of the Republic of Croatia where business activities are performed under special conditions. There were 11 free zones in Croatia in 2019¹⁷²: 7 land (Krapina-Zagorje Free Zone, Podunavska Free Zone Vukovar, Free Zone Kukuljanovo, Free Zone Port Rijeka-Škrlevo, Free Zone Osijek, Free Zone Split-Dalmatia, Free Zone Zagreb) and 4 port free zones (Free Zone of Port Ploče, Free Zone of Port Pula, Free Zone of Port Rijeka and Free Zone of Port Split). To their investors, they provide competitive cost of utilities and various tax and customs benefits.

¹⁷¹ Ibid.

¹⁷² Free zones (2017), Invest Croatia, <http://investcroatia.gov.hr/poticaji-2/slobodne-zone/>, downloaded on: November 06, 2019

9.2. Advisory institutions relevant for the small and medium enterprise sector

Croatian Chamber of Economy (CCE) – Entrepreneurship Department, www.hgk.hr

Croatian Chamber of Economy is a professional and business organisation of all legal entities engaged in economic activity with headquarters in Croatia. Economic entities, whose membership in the Chamber, in accordance with the Croatian Chamber of Economy Act, is compulsory, are offered access to information, databases, education, legal advice, information on sources of financing, advice when applying for EU funds, and co-financing appearances at fairs. There are 21 county chambers and a large number of sectors and departments within the CCE. Entrepreneurship Department has been operating within the Industry Sector of the Croatian Chamber of Economy since 2012.

U 2018, to support the development of entrepreneurship, the CCE conducted activities in the following areas¹⁷³:

Internationalisation of the Croatian economy

For the purpose of internationalisation of the Croatian economy, business delegations in the country and abroad were organised (20 incoming and 22 outgoing), where conditions of investment and business in Croatia were presented. During the delegations' visits, Business to Business talks between domestic companies and potential foreign investors were organised. In accordance with the expressed interest of its members, the CCE provided support in organising and participating at 65 international fairs.

Promotion of economic development

In 2018, the CCE awarded 10 new quality labels, and by the end of 2018, a total of 134 companies were awarded 205 labels "Croatian Quality" and "Original Croatian".

Five "Buy Croatian" fairs were held, of which four were held in Vukovar, Rijeka, Zagreb and Bjelovar, and one specialised event "Buy Croatian – Croatian Product for Croatian Tourism" was held in Zagreb. A total of 618 exhibitors promoted their products at these fairs.

In addition to the "Buy Croatian" events, the CCE also organised a gathering of tourism workers – "Days of Croatian Tourism", as well as the "Tourism Flower – Quality for Croatia" event, at which prizes for the tourism business sector were awarded. It assisted in the realisation of 53 fairs in Croatia, which are intended to support Croatian manufacturers and service providers in positioning themselves in the market.

Work of associations and communities

The CCE promoted the interests of its members by participating in the creation of national laws and by-laws, in the formulation of European legislative framework and international economic policies.

¹⁷³ Report on the implementation of the work programme of the Croatian Chamber of Economy for 2018, Croatian Chamber of Economy, Zagreb, 2019, <https://www.hgk.hr/documents/godisnje-izvjesce-o-realizaciji-programa-rada-hgk-za-2018-godinu5d1600a106780.pdf>, downloaded on December 01, 2019

Trainings

The CCE organises conferences, seminars, roundtables and similar events for its members. Some of them are: Real Estate Business Forum, Conference on Food Safety and Quality, day of Croatian Financial Institutions, 15 workshops on public procurement (in cooperation with the Ministry of Economy Entrepreneurship and Crafts), 12 seminars on the Croatian taxation system (in cooperation with the Croatian Chamber of Tax Advisers), World Investment Fund Day, and others.

Peaceful dispute resolution

The CCE continues its practice of out-of-court dispute resolution between economic entities, which contributes to faster dispute resolution, protection of the rights of consumers and businesses, and strengthening business discipline. Peaceful dispute resolution is conducted through institutions operating within the CCE, which include the Permanent Arbitration Court, the Mediation Centre and the Court of Honour. In 2018, there were 278 settled cases out of the 285 received. Seven new agreements on implementation of mediation were reached, and 17 processes were completed.

Programmes and projects

In 2018, the CCE participated in the implementation of 12 projects co-financed by EU funds – either as a leader or a partner (Table 48).

Table 48: Projects of the Croatian Chamber of Economy in 2018, co-financed with EU funds

CCE as a leader	CCE as a partner
Digital chamber	Strategic Project for support of cluster competitiveness initiatives
European Entrepreneurship Network – EEN	Strategic project for support of establishment of innovation network for industry and thematic innovation platforms ¹⁷⁴
Dual education	PerformFISH – Integrating innovative approaches for competitive and sustainable performance across the Mediterranean aquaculture value chain
New concept of training for energy efficiency	Mediterranean innovation strategy for transnational activities of clusters and networks of the Blue Growth – MISTRAL
Vina Croatia – Vina Mosaica	
Fish from Croatia – Eat what's worth eating	
Renewed heritage for sustainable and smart development in a hyper-connected world	
BLUE BOOST	

Source: *Report on the implementation of the work programme of the Croatian Chamber of Economy for 2018, Croatian Chamber of Economy, 2019* ¹⁷⁴

¹⁷⁴ The Ministry of Economy, Entrepreneurship and Crafts is the leader je (that is, the beneficiary) of the Strategic project for support of establishment of innovation network for industry and thematic innovation platforms, while the CCE is a project partner. The project is co-financed from the European Regional Development Fund (85%), while the remaining costs are borne by partners, and the foreseen duration of the project is 2016-2020. The aim of the project is to improve the national innovation system, connect its stakeholders, and establish effective communication between the public, scientific and research, and business sectors in order to effectively collaborate in research, development and innovation activities. The purpose of the project is to raise awareness of the importance of research, development and innovation in the business sector, and to create an efficient framework to support and encourage private sector investment in research, development and innovation

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

Croatian Chamber of trades and Crafts is a professional and business organisation that promotes and represents the interests of Croatian craftsmen before state authorities in shaping the economic system, provides opinions and suggestions to state authorities when passing laws in the field of craftsmanship, establishes commissions for apprentice and master craftsman exams, and assists craftsmen in establishing and operating a craft business.

Members of the Croatian Chamber of trades and Crafts are craftsmen operating in the territory of the Republic of Croatia, whose membership in the CCTC is compulsory, as well as natural and legal persons who voluntarily join.

In order to promote crafts and craftsmanship, during 2018 the Croatian Chamber of trades and Crafts participated in various projects, organised fairs at home and abroad, provided business advisory services and participated in preparation of strategic documents through working groups¹⁷⁵, especially in preparation of the Croatian National Development Strategy 2030.

Projects

In 2018, the Croatian Chamber of trades and Crafts participated in the European project “Consumer Law Ready” as a national partner institution. The aim of the project was to educate craftsmen / small and medium enterprises on contemporary consumer rights and provide assistance in complying with European consumer laws. Qualified local trainers from the CCTC held educational trainings in Zagreb, Pula and Dubrovnik, with 39 participants (30 of whom were craftsmen). The CCTC also participated in the development of activities for the project “Entrepreneurship promotion”, funded by EU funds (ERDF) in the 2019-2021 period, in which it will participate as one of the partners.

Fairs

Within the project “Internationalisation of SMEs’ business activities and increasing the capacity of Croatian crafts for business abroad with the support of the Croatian Chamber of Trades and Crafts”, the CCTC organised and financially supported appearances of its members at numerous international and regional fairs. International fairs organised by the CCTC in 2018 were held in Munich, Mostar, Gračanica, Novi Sad, Belgrade, Celje, Zenica and Skopje, while regional fairs were organised in Virovitica (VIROEXPO), Osijek, Crikvenica (KVARNER EXPO), Nedelišće (MESAP), Krapina, Gudovac, Karlovac, Pula, Split and Križevci.

A total of 686 exhibitors presented themselves to domestic and foreign public at international and regional fairs.

Advisory services

Croatian Chamber of Trades and Crafts provides advisory services to its members. In 2018, CCTC received more than 4,000 inquires, with the majority being related to advice on doing business in the European Union, financial reports, business records, fiscalization, excise duties, and the like.

¹⁷⁵ Source: Report on the Work of the Croatian Chamber of Trades and Crafts for 2018, Croatian Chamber of Trades and Crafts, Zagreb, 2019, available at: <https://www.hok.hr/o-hok-u/godisnja-izvjesca/izvjesca-o-radu>, downloaded on November 04, 2019

Croatian Employers' Association (CEA) – Small and Medium Enterprises' Association, www.hup.hr/hup-udruga-malih-i-srednjih-poduzetnika.aspx

Croatian Employers' Association is a voluntary, non-profit and independent employers' association that offers its members lobbying services, free legal aid, informs them about current events in the Croatian economy, organises conferences and seminars, and promotes business networking of entrepreneurs. Apart from Zagreb, the CEA has offices in Rijeka, Split, Osijek and Varaždin. There are 30 branch associations within the CEA representing the interests of different economic sectors, one of which is the *Small and Medium Sized Enterprises' Association*.

Since its establishment in 1997, the Small and Medium Sized Enterprises' Association promotes the importance of small and medium enterprises in Croatia and strives to improve the regulatory and business environment through its activities and work. The Association is involved in drafting legal and other regulatory acts through participation of entrepreneurs or representatives of the Association in working groups, bodies, commissions or committees. As a representative of small and medium enterprises, the Association participates in presenting views and recommendations for the development of small and medium enterprises (including education, employment, finance, women entrepreneurship, business transfer...) at conferences, roundtables, forums, consultations.

Croatian Employers' Association – CEA Score 2018

CEA has developed the CEA Score – a system of 73 indicators of economic and social development that measures the achievement of the objectives and results of reforms in 12 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. CEA Score is calculated two times a year.

The CEA Score for 2018 is 36 points¹⁷⁶. Although economic growth was recorded in 2018, the score deteriorated due to the fact that other countries are implementing reforms more actively and are making faster progress, which is evident from their indicators.

Lower position is the result of a drop in points in as many as 7 areas out of the surveyed 12. The largest drop was recorded in areas of fiscal consolidation, investment and business barriers, and encouraging investment, while the most critical is the area of burden on the economy, which again scored only 19 points out of possible 100. A negative trend was also observed in areas of productivity and competitiveness, public administration, the judiciary, and entrepreneurial climate. However, several areas have made progress, albeit rather limited. The greatest progress was made in the area of efficiency of public companies, from 65 points in 2017 to 73 points in 2018, which is also the best individual score for Croatia in 2018.

¹⁷⁶ CEA SCORE 1/2019, Dance on a wire: Why did the score drop by 2 points compared to 2017?, Croatian Employers' Association, Zagreb, 2019, <https://www.hup.hr/EasyEdit/UserFiles/Ivana%20Zlatari%C4%87/hupskor20191.pdf>, downloaded on November 08, 2019

Croatia is by far the worst ranked country in comparison with the *New Europe*¹⁷⁷ countries that were included in the survey. Such a negative trend has been present since the first measurement in 2011, and it is compounded by the fact that Croatia has the lowest growth rate of all the observed countries.

Based on the results of the CEA Score for 2018 and in order to achieve better results in the future, the CEA has made recommendations HUP on three development priorities that Croatia should focus on¹⁷⁸:

1. Implementing reforms in the public sector in order to better control public expenditure and to provide relief to citizens and entrepreneurs by at least 2% of GDP,
2. Easier hiring and firing of workers, especially in the small business sector that creates economic dynamism,
3. Modernisation of education through partial liberalisation with the introduction of an incentive system and extensive reform.

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

CEPOR is an independent policy centre (think-tank) whose goal is to influence the public-political environment emphasising the role of small and medium enterprises in the Croatian economy and contribute to the development of entrepreneurial culture and stimulating institutional and regulatory framework for entrepreneurial activity. In achieving its goal, CEPOR continuously monitors the small and medium enterprise sector and the development of entrepreneurial activity in Croatia through two projects:

- Participation in the GEM – Global Entrepreneurship Monitor research since 2002, whose results for Croatia for 2018 are published in the publication “What makes Croatia a (non) entrepreneurial country? – GEM Croatia 2018” and publicly presented at roundtables organised by CEPOR, Croatian Banking Association and Croatian Employers’ Association in Vodic, Vukovar and Rijeka.
- Preparation of the Small and Medium Enterprises Report, since 2011.

Since 2018, with the support of the European Fund for Southeast Europe – Development Facility (EFSE – DF) CEPOR has been implementing the project “Development of Business Transfer Ecosystem in Croatia”. The main activities of the project are related to: promotion of the importance of timely preparation for business transfer, development of advisory support for owners of small and medium enterprises in the process of business transfer, Development of financial instruments for business transfer, and improvement of the market for the sale and purchase of small and medium enterprises. In 2018 and 2019, within this project CEPOR implemented the SME Buyers’

177 EU10, EU Member States of Central and Eastern Europe: Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovakia and Slovenia, which became EU members in 2014, that is, EU 11 (with Croatia, since 2013).

178 CEA SCORE 1/2019, Dance on a wire: Why did the score drop by 2 points compared to 2017?, Croatian Employers’ Association, Zagreb, 2019, <https://www.hup.hr/EasyEdit/UserFiles/Ivana%20Zlatari%C4%87/hupskor20191.pdf>, downloaded on November 08, 2019

Club training programme, on the topic of growth through acquisition of another company. During two years of implementation of the programme, 40 participants underwent training.

CEPOR is a member of TRANSEO – European Association for SME Transfer.

European bank for Reconstruction and Development (EBRD), www.ebrd.com

The European Bank for Reconstruction and Development was founded in 1990 with the aim to provide assistance in the process of transition of countries of Central and Eastern Europe. The EBRD was founded by 39 countries, the European Investment Bank and the European Union. In 2019, EBRD has 69 member countries worldwide.

Over the years, the EBRD has implemented a number of initiatives aimed at strengthening small and medium enterprises. These initiatives include the Small Business Initiative and SME Finance and Development platforms through which EBRD offers financial products intended for small and medium enterprises, Funderbeam SEE, a crowdfunding platform for start-up enterprises, and “Progress Market”, a trade platform, which was created in collaboration with the Zagreb Stock Exchange. During 2018, the EBRD implemented 13 projects in Croatia and invested EUR 171 million, and between 1993 and 2019, it financed a total of 210 projects and invested more than EUR 3.8 billion¹⁷⁹. The EBRD’s Blue Ribbon programme is aimed at small and medium enterprises with growth potential and offers tailored financial and advisory services over five years in the critical stages of enterprise development – before, during, and after the investment. Two companies in Croatia are involved in this programme.

European Enterprise Network (EEN), <http://een.ec.europa.eu>

The European Enterprise Network provides support and advisory services to entrepreneurs in Europe with the aim to exploit the opportunities provided by the Single European Market. Services of the European Enterprise Network are aimed at small and medium enterprises, but are also available to business institutions, research centres and universities across Europe. The Network was started in 2008, and its activities are funded through the Programme for the Competitiveness of Enterprises and SMEs – COSME. The Network brings together around 600 business support institutions and over 4,000 experts from more than 50 countries in the field of entrepreneurship, innovation and technology transfer with the goal of promoting competitiveness and innovation at local and European level. The EEN operates through 92 consortiums, which consist of chambers of commerce, development agencies, technology parks, institutes and universities.

European Enterprise Network in Croatia is a partner consortium composed of six partner institutions: Croatian Chamber of Economy – also the coordinator of the Croatian consortium, HAMAG-BICRO, Technology Development Centre in Osijek – Tera Tehnopolis, Science and Technology Park of the University of Rijeka – Step Ri, Technology Transfer Office of the University of Split and Technology Park Varaždin.

¹⁷⁹ European Bank for Reconstruction and Development, Croatia data, available at: <https://www.ebrd.com/where-we-are/croatia-data.html>

Coworking

Coworking, which is an organisation whose activity is based on the networking of individuals who perform different activities in a shared workspace, is becoming increasingly developed in Croatia. Coworkers work independently, but they can also cooperate with each other. Because of the lower costs associated with use of space, resources and equipment, coworking facilitates starting their own business or improving an existing business. Most often, they are independent professionals (freelancers), freelance artists, small enterprises or start-ups. Coworking can be divided according to type of ownership (private, state / public), organisational form (non-governmental organisation / limited liability company), physical location, specialisation (several of them are specialised, e.g. Cook Hub coworking kitchen – for food start-up ventures), and target audience (e.g. experts from creative industries, disadvantaged groups)¹⁸⁰.

Coworking Croatia is a professional self-sustainability programme of the Croatian Society of Independent Professionals, which brings together and encourages collaboration between existing coworking spaces, and encourages opening of new spaces in Croatia. Coworking Croatia seeks to influence community building by holding events, through micro-networking and pooling social, professional and material resources. In 2019, 20 coworking spaces operated in Croatia¹⁸¹: eight in Zagreb (Algebra Lab, BIZkoshnica, HUB385, Impact Hub Zagreb, Regus HOTO, Travel & Technology HUB, Virtual Office, ZICER Zagreb Innovation Centre), five in Split (Amosfera, Architecture Collective AK-47, CoCreative, Saltwater, Wip), three in Rijeka (KIWI Creative space, Youth Club Rijeka, RiHub) and one each in Zadar (COIN), Pula (*Klub Kotač*), Rovinj (Coworking Rovinj-Rovigno) and Zabok (STIR UP).

180 Project COWORKMed (online), available at: <https://coworkmed.interreg-med.eu>

181 Coworker.com (online), available at: <https://www.coworker.com/search/croatia>

Conclusion

Publication **Small and Medium Enterprises Report – Croatia 2019** is CEPOR's contribution to the review of the state and performance of the small and medium enterprise sector in Croatia on an annual basis. The need to produce this Report is the result of the fragmentation of information on small and medium enterprises, which hinders comprehensive insight into issues and tendencies of this important sector of the economy.

The Report shows the importance, problems and obstacles to the development of the small and medium enterprise sector in Croatia, about which there is a high level of consensus in conclusions and recommendations of international research in which Croatia has been involved for many years (Global Entrepreneurship Monitor, Doing Business, Global Competitiveness Report, Corruption Perceptions Index).

Based on the analysis of available data on the small and medium enterprise sector from domestic sources and from the perspective of international research, the Report contributes to building a consistent information base for the adoption of policies, programmes and measures needed to improve the conditions for entrepreneurial activity in Croatia.

State of the small and medium enterprise sector in Croatia

The role of small and medium enterprises in the Croatian economy has been indisputable and stable for years: in 2018, small and medium enterprises remain the largest employer in Croatia (72.2%), have the largest share in the total number of enterprises (99.7%), significantly contribute to total income (58%) and export activities of the country (53%). Although compared to the year before, in 2018 the number of micro and small enterprises increased, as well as their share in exports, the highest level of productivity and the highest export orientation are still recorded by large enterprises, which indicates a significant potential for internationalisation of small and medium enterprises and harnessing the potential of the European Union's Single Market.

Entrepreneurial activity in Croatia measured by the TEA index in 2018 amounts to 9.6%, which is the best result in the last six years. Motivational index (TEA index because of perceived opportunity / TEA index out of necessity) of Croatia in 2018 is low (there are only 1.9 times more entrepreneurs who engage in entrepreneurial activity because of perceived opportunity compared to those who do so out of necessity), which places Croatia at the very bottom of the ranking of 17 EU countries involved in the GEM research.

The latest GEM indicators show that retirement, personal reasons and sudden events are the main reasons for exit from business activity for as many as 34.6% entrepreneurs. Unprofitability, which was the leading cause for exit from business activity in 2017, was the reason for exit from business activity for 19.7% of entrepreneurs in 2018. The fact that retirement is one of the most common reasons for exit from business activity highlights the importance of timely planning of the business transfer and finding the best solution for the sustainability of the enterprise after the retirement of the owner.

In 2017, the most intensive growth of entrepreneurial activity measured by the TEA index was again recorded in the Dalmatia region (from 11.2% in 2017 to 14.4% in 2018) by which Dalmatia retained the status of the region with the largest entrepreneurial capacity in Croatia. Although the trend of decline in entrepreneurial activity continued in Lika and Banovina, which resulted

in the lowest level of entrepreneurial activity in the country, at the same time the motivational index improved, which means that more and more business ventures are started because of a perceived opportunity, and not out of necessity (as was the case in previous years).

Women entrepreneurship

In 2018, the share of women in the structure of business owners remained unchanged, at the level of 22%, while this share in crafts is 33.8%. According to GEM results for 2018, the activity of men in starting business ventures is 1.7 times higher than that of women.

Significant differences in entrepreneurial activity of women and men in Croatia and in other EU countries, to a greater or lesser extent, indicate the need for further investment in promoting and encouraging the development of women entrepreneurship. Absence of a greater effect of the Strategy of Women Entrepreneurship Development in the Republic of Croatia 2014-2020 on closing the gap in entrepreneurial activity of women and men indicates the necessity to evaluate the efficiency and redefine policy instruments and programmes so as to achieve greater progress in the development of women entrepreneurship and balance the ratio of women and men.

Social entrepreneurship

Although Croatia has “Strategy for the Development of Social Entrepreneurship in the Republic of Croatia for the period 2015-2020”, social entrepreneurship is still in its infancy, as indicated by the lack of a concrete legislative framework for social entrepreneurship, failure of institutions dealing with social and social welfare issues to recognise their own responsibility for the development of social entrepreneurship, and misunderstanding of the concept of social entrepreneurship among the general public.

In contrast to developed European countries, where social entrepreneurship is one of the drivers of the growth of the social economy, which has more than 2.8 million social enterprises, more than 232 million members of social cooperatives, mutual associations and similar entities, over 13.6 million employees and more than 82.8 million volunteers, the total number of actors of social entrepreneurship in Croatia in 2018 is 526.

The importance of social entrepreneurship for society as a whole is reflected in stimulating employment, contribution to the fight against poverty, increasing competitiveness, conserving resources and enhancing the quality of life of individuals and society. Because of these potential contributions of social entrepreneurship to the national economy and quality of life, more active engagement of individuals, institutions and the entire community in changing the attitude towards social entrepreneurship in Croatia is necessary.

Immigrant entrepreneurship

Immigrant entrepreneurship is not a widely discussed topic in Croatia – 81% of Croatian citizens consider themselves insufficiently informed about immigration issues, and only 11% of Croatian citizens see immigration as an opportunity rather than a problem for their country. Despite the European Union's recommendations on promoting immigrant entrepreneurship, the few immigrant entrepreneurs in Croatia face a number of obstacles in starting and developing businesses. In addition to the usual barriers, which local entrepreneurs constantly warn about, immigrants face additional barriers, especially if they do not come from the European Economic Area.

Some of the biggest barriers to entrepreneurial activity of foreign entrepreneurs in Croatia are administrative barriers, high tax burden, unavailability of information in English, corruption, lengthy procedures, excessive initial capital requirements and the like. Based on studying the issues of immigrant entrepreneurship and the best European practice, recommendations that should have a stimulating effect on their development have been made, some of which are: introduction of bilingual instructions on starting a business, one-stop-shop for setting up a business for foreign nationals, accelerating the processing of necessary documentation, organising mentoring meetings with Croatian entrepreneurs, and sensitizing the general public and makers of public policies about the importance and potential of immigrant entrepreneurship, which is also crucial for its development within the community.

Institutional and legislative framework

Numerous international studies that monitor the quality of institutional and legislative framework for business activity point out the complexity and non-transparency of the legislative framework as the most significant obstacle to strengthening entrepreneurial activity in Croatia. One of the problems is the lack of regular evaluation of the effects of the legislative framework on the environment in which small and medium enterprises operate, especially when introducing new regulatory solutions that the Government should implement, in accordance with the European Union's Think Small First principle.

According to the GEM research, government policies (policies supporting entrepreneurial activity, policies towards regulatory framework) related to the small and medium enterprise sector are a significant obstacle to strengthening the intensity of entrepreneurial activity in Croatia. The ratings of both groups of government policies throughout the observed period are lower than the EU average, and are also among the lowest ratings compared to other components of entrepreneurial environment in Croatia. According to the Global Competitiveness Report 2018, Croatia achieved the worst results in areas of institutional efficiency and innovation capability, which is particularly worrying given the importance of innovation capacity for market competitiveness.

Access to financing

The sources of financing of entrepreneurial activity in Croatia are still insufficiently adapted to different stages of the business venture. After bank loans, which are the dominant source of financing of entrepreneurial activity in Croatia, leasing is one of the most common forms of financing of small and medium enterprises.

According to the GEM research, underdevelopment of alternative forms of business venture financing is one of the critical points that require reform, and are directly related to strengthening the competitiveness of the Croatian economy. Introducing tax incentives for investments in start-up ventures would significantly increase the number of business angel investments in Croatia.

The share of private equity investment in the Croatian GDP in 2018 is 0.149%, which is an increase compared to 2017, when it was 0.005%, but still below the average of countries of Central and Eastern Europe (0.171%).

Credit unions, as providers of microfinance services have only an insignificant 0.1% share of the Croatian capital market according to the criteria of assets and relative shares of financial intermediaries, but their role is specific and very important, since they provide financial services to craftsmen, self-employed and unemployed people who have limited access to financing. At the

end of 2018, 20 credit unions operated in Croatia, whose assets increased by over HRK 9 million, with a 35% increase in profit compared to the previous year.

The Government of the Republic of Croatia encourages the development of the small and medium enterprise sector by awarding grants (subsidies) and by subsidising interest on loans intended for entrepreneurial activity. In 2018, the number of grants allocated by the Ministry of Economy, Entrepreneurship and Crafts increased by 748, and the amount increased by over HRK58 million.

However, it is difficult to evaluate the effectiveness of Government programmes for providing access to finance for small and medium enterprises in Croatia due to incoherence and lack of coordination of financing programmes intended for small and medium enterprises, which are implemented by several ministries. Involvement of the line ministry in operational implementation of financing programmes represents ministry's departure from its primary role, which is to focus on policy and regulatory aspects of the economic sector.

Education for entrepreneurship

In the Entrepreneurship 2020 Action Plan, entrepreneurial education and training to support growth and business creation is one of the three main areas of activity, which is in line with the goals of policies that the European Union has been proposing and implementing for many years.

Although there have been minimal positive developments in the level of grades of perception of quality of education for entrepreneurial activity in Croatia at all three levels of education according to the GEM research, continuous lagging behind the EU average indicates that the recommendations of the European Commission and the objectives defined by national strategic documents are poorly implemented in the Croatian educational system.

There is a significant number of institutions and organisations in Croatia outside the system of formal education that offer education for beginner entrepreneurs and/or already operational enterprises, such as centres for entrepreneurship, business incubators, Croatian Chamber of Economy, Croatian Employers' Association and private companies active in the sector of adult education.

Access to information and advisory services

An important role in strengthening the capacity of individuals and organisations for entrepreneurial activity is played by institutions – both public and private – that provide support to entrepreneurs through services of informing, counselling, education and connecting with investors. According to the Act on Improving Entrepreneurial Infrastructure, business support institutions providing these support services include development agencies, entrepreneurial centres, business incubators, science and technology parks, competence centres and free zones.

According to the results of the GEM research, in 2018 there was a decrease in the rating of perception of quality of commercial and professional infrastructure for supporting the development of the small and medium enterprise sector in Croatia from 4.66 in 2017 to 3.76, where 9 is the maximum rating. Despite the increase in the rating of perception of quality, Croatia is still below the EU average. This again made Croatia the country with the worst rating in comparison to EU countries, moving away further from the EU average, which is 5.19.

Recommendations based on the GEM research for 2018

Due to their relevance, presented below are the recommendations identified on the basis of the GEM research results in Croatia¹⁸², which are relevant also for the conclusions in this Report.

Recommendations for individuals / bearers of entrepreneurial activity in the direction of assuming greater responsibility for personal decisions and choices and more proactivity and innovation:

- Insist on provision of appropriate education for acquiring entrepreneurial competences,
- Focus on acquiring entrepreneurial competences using sources of informal learning,
- Turn dissatisfaction with one's quality of life into an entrepreneurial challenge by considering self-employment, with prior acquisition of an adequate level of entrepreneurial competence.

Recommendations for institutions / bearers of responsibility for the quality of the entrepreneurship ecosystem in the direction of assuming greater responsibility towards citizens and more proactivity and innovation:

- Harmonisation of policies, strategies, programmes and instruments based on cooperation and simultaneity and the use of the principle of open coordination,
- Simplification of the regulatory framework in which entrepreneurial activity is taking place, to better take advantage of the "window of opportunity",
- Strengthen the innovation capacity of the economy through encouraging cooperation between research institutions and the economy, and by launching a support programme for the use of services of industrial designers by small and medium enterprises,
- Ensure that formal education at all levels is capable of building entrepreneurial competences,
- Widen the spectrum and quality of services that professional infrastructure provides to entrepreneurs and innovators,
- Intensify policies and programmes for balancing of entrepreneurial activity with regard to gender, age, sectors and regions,
- Increase the quality of public administration,
- Strengthen the state venture capital fund for financing innovative and growing small and medium enterprises and provide tax breaks for business angels,
- Develop and implement a system of monitoring and evaluation of the effects of government policies and programmes, ensuring public availability of data,
- Development and transparency of a framework for statistical monitoring of activities of small and medium enterprises,
- Promote successful entrepreneurial ventures.

182 Source: Singer, S. et al.: "What makes Croatia a (non)entrepreneurial country? – GEM Croatia 2018", CEPOR, 2019, pp. 111-112.

Excerpt from reviews

“The study, through an international prism, is a comprehensive insight into current and longitudinal state of small and medium enterprises in Croatia. The examined aspects provide insight into entrepreneurial demographics and different types of entrepreneurship, as well as an overview of entrepreneurial policies, business support environment and its programmes, and other support services. The study provides a clear and concise insight into the state of small and medium enterprises in Croatia, points out the advantages and disadvantages from the perspective of international comparisons, as well as trends in entrepreneurship. As such, it is a useful source of information for researchers, entrepreneurs, entrepreneurial policy makers and business support institutions, as well as for other individuals interested in entrepreneurship in the region.”

Barbara Bradač Hojnik, PhD, Associate Professor

University of Maribor, Faculty of Economics and Business

“CEPOR’s scientific study analyses the small and medium enterprise sector in a systematic and consistent manner, and provides critical, accurate and useful recommendations for interventions in the sector, which are based on long-standing research with adequate data and sound methodology. Therefore, this study should be the starting point for everyone involved in the adoption of policies and measures that directly and indirectly impact the small and medium enterprise sector in Croatia.”

Vlatka Škokić, PhD, Associate Professor

University of Split, Faculty of Economics, Business and Tourism

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EUROPEAN FUND FOR SOUTHEAST EUROPE
DEVELOPMENT FACILITY

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The European Fund for Southeast Europe (EFSE) fosters economic development in Southeast Europe and the European Eastern Neighbourhood Region by investing in the success of micro and small enterprises and private households.

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SMEs and Entrepreneurship
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CEPOR – SMEs and Entrepreneurship Policy Center is an independent policy center which deals with issues of small and medium enterprises in Croatia. CEPOR was established in 2001, based on an agreement between the Government of the Republic of Croatia and Open Society Institute Croatia.

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

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

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