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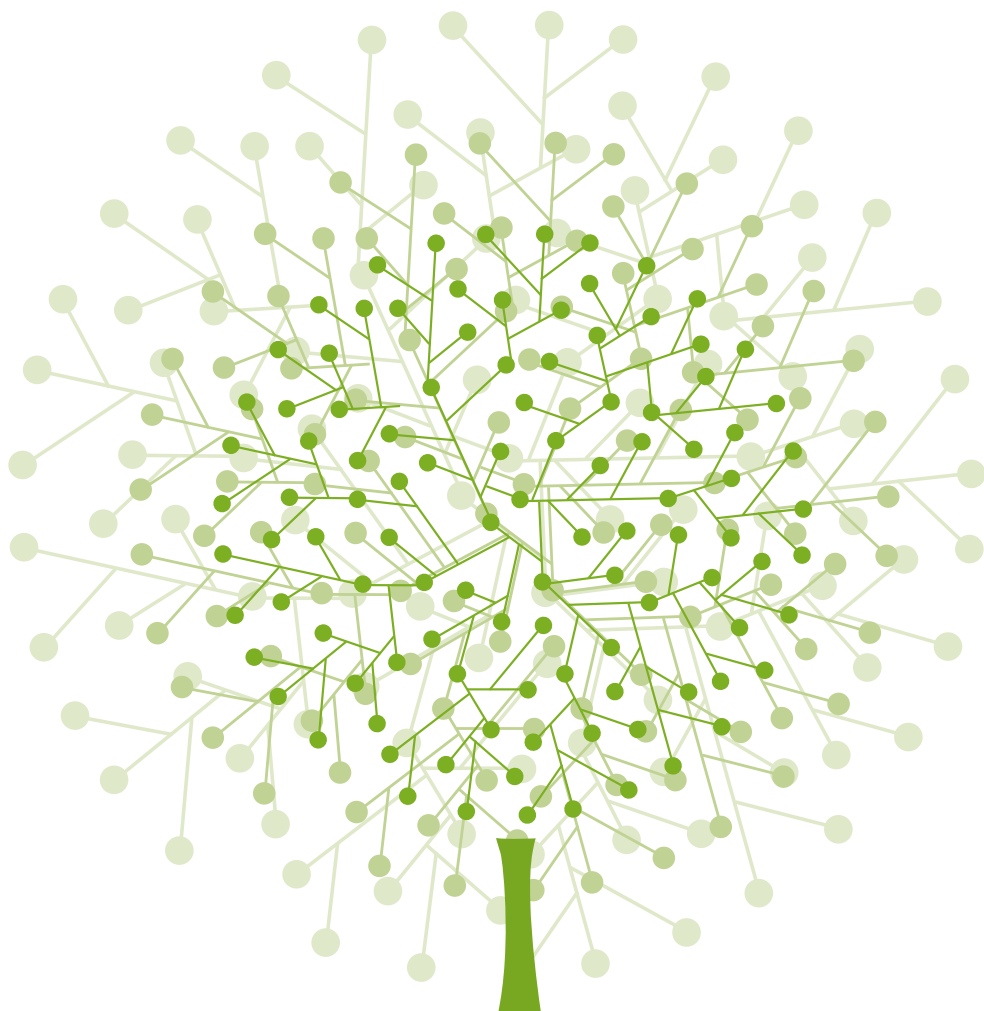


**CEPOR**

SMEs and Entrepreneurship  
Policy Centre

# **Small and Medium Enterprises Report Croatia – 2018**

*including the results of  
GEM – Global Entrepreneurship Monitor research  
for Croatia for 2017*







# CEPOR

SMEs and Entrepreneurship  
Policy Centre

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for Croatia for 2017*



Hrvatska banka za  
obnovu i razvitak



EUROPEAN FUND FOR SOUTHEAST EUROPE  
DEVELOPMENT FACILITY



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BANK**

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# Introduction

**Small and Medium Enterprises Report – Croatia 2018** is published by **CEPOR<sup>1</sup> – SMEs and Entrepreneurship Policy Center** – the first policy think tank, 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 by emphasizing the role of entrepreneurship and small and medium enterprises in the development of Croatian economy.

**Small and Medium Enterprises Report – Croatia 2018** is the seventh CEPOR's annual report, which provides an overview of the state of the small and medium enterprise sector. CEPOR has been preparing this publication since 2011 in Croatian and English, with the aim of providing an overview of all the 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 the financial indicators of performance of the sector, the Report describes activities carried out in 2017 and 2018 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.

Small and Medium Enterprises Report – Croatia 2018 consists of seven chapters. The first chapter deals with the analysis of the state of the Croatian economy based on the perspective of achieving the Europe 2020 goals, through the European Semester reports. The second chapter analyses the state and importance of the small and medium enterprise sector in Croatia in 2017. The third chapter talks about the issues of women entrepreneurship in Croatia. The fourth part presents the environment of the small and medium enterprise sector – institutional and legislative framework and obstacles to the development of small and medium enterprises through the prism of international research. The fifth part analyses the possibilities of financing the development of the small and medium enterprise sector in Croatia. The sixth chapter presents the representation of entrepreneurship education at all levels of formal education in Croatia, while access to and availability of information and advisory services for small and medium enterprises are described in the seventh part of the Report.

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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 centers for entrepreneurship. More information: [www.cepor.hr](http://www.cepor.hr)



# 1. State of the Croatian economy from the perspective of the European Semester

European Semester reports outline the prospect of achieving the Europe 2020 strategy goals, and serve as a basis for understanding the state of the economy and implications for the small and medium enterprise sector.

The 2017 Report notes recovery of the Croatian economy. It is estimated that real GDP growth was 3.2%<sup>2</sup> in 2017. Household expenditure is stated as the biggest driver of economic growth, which is a result of wage and employment growth. Growth is expected in the following years, but with lower rates. Improvements in the labour market continued in 2017, but labour utilisation remains low. Despite moderate improvements after the crisis, both the activity rate and the employment rate, which were 71.7% and 65.6% respectively in the third quarter of 2017, were among the lowest in the EU (averaging 78.2% and 72.6% respectively)<sup>3</sup>. Also visible is the decrease of the general government deficit from 3.3% of GDP in 2015, to 0.9% of GDP in 2016, leading Croatia out of the excessive deficit procedure.

Within the Europe 2020 strategy, Croatia has good results with respect to some national targets (early school leaving, reduction of greenhouse gas emissions, decreasing poverty and social exclusion), however, achievement of the targets in several areas is either questionable or still below the level at which the EU average is planned. Especially notable is lagging behind in achieving the research and development investment target, which is defined at 1.4% of GDP by the National Reform Programme, while the rate at the EU level is 3% of GDP. Croatia's research and development investment intensity is at the same level as in the previous year and amounts to only 0.84% of GDP, which brings into question the achievement of the defined target (which is already well below the EU target of 3%). Croatia is achieving its national employment rate target (65.2%), which is also significantly below the EU average (75%) and among the lowest in the EU. The rate of tertiary education attainment in the age group of 30 to 34 years in 2016 in Croatia was 29.5%, which is a decrease compared to 2015 (30.9%). Such a change warns that Croatia is unlikely to achieve its national target by 2020.

Of the five recommendations for 2017, according to the European Semester Country Report Croatia 2018, "limited progress" was achieved in most of the recommendations, except in the recommendation concerning the functionality of public administration where it was noted that no progress was made. Within recommendations on fiscal policy and pension system reform there are still activities in which no progress was recorded in 2017<sup>4</sup>. Areas/problems that must be a

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2 COMMISSION STAFF WORKING DOCUMENT Country Report Croatia 2018 Including an In-Depth Review on the prevention and correction of macroeconomic imbalances, Brussels, 7.3.2018., SWD(2018) 209 final

3 Ibid.

4 Ibid, pp. 58-63: **Recommendation 1:** Pursue its fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact, which entails remaining at its medium-term budgetary objective in 2018. By September 2017, reinforce budgetary planning and the multiannual budgetary framework, including by strengthening the independence and mandate of the Fiscal Policy Commission. Take the necessary steps for the introduction of the value-based property tax. Reinforce the framework for public debt management, including by ensuring annual updates of the debt management strategy – *limited progress*.

**Recommendation 2:** Discourage early retirement, accelerate the transition to the higher statutory retirement age and align pension provisions for specific categories with the rules of the general scheme. Improve coordination and transparency of social benefits – *limited progress*.

**Recommendation 3:** Improve adult education, in particular for older workers, the lowskilled and the long-term

priority in Government policies arise from such assessments:

- Continued implementation of fiscal policy in line with the Stability and Growth Pact and reinforcing budgetary planning and the multiannual budgetary framework, which includes updating the public debt management strategy. In the area of taxation, it is recommended to take the necessary measures for the introduction of the value-based property tax;
- Reform of the pension system with the aim of preventing early retirement, introduction of a higher statutory retirement age and aligning pension provisions for specific categories with the rules of the general pension scheme. Improving coordination and transparency of social benefits;
- Low coverage of active labour policy measures leaves room for progress, especially in adult education, in particular for older workers, the low-skilled workers and the long-term unemployed. All of these are indirectly linked to the reform of the education system, which needs to be accelerated;
- There is no progress in the public administration reform. High fragmentation of public administration is causing territorial disparities in the delivery of public services requiring reduction of fragmentation and improvement of the functional distribution of competencies;
- Competitiveness and investments are hindered by a restrictive business environment. A comprehensive reform of the business environment is needed, including reducing costs of regulation and administrative burdens for enterprises, improving the quality and efficiency of the justice system, liberalisation of regulated professions and improvement of corporate governance in the state-owned enterprise sector.

From the perspective of achieving the targets of Europe 2020 and the perspective of the European Semester, the development of the Croatian economy, and thus the small and medium enterprise sector in the future period, will depend on the responses to the identified problems.

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unemployed. Accelerate the reform of the education system – *limited progress*.

**Recommendation 4:** Reduce the fragmentation and improve the functional distribution of competencies in public administration, while enhancing the efficiency and reducing territorial disparities in the delivery of public services. In consultation with social partners, harmonise the wage-setting frameworks across the public administration and public services – *no progress*.

**Recommendation 5:** Speed up the divestment of state-owned enterprises and other state assets, and improve corporate governance in the state-owned enterprise sector. Significantly reduce the burden on businesses stemming from costs of regulation and from administrative burdens. Remove regulatory restrictions hampering access to and the practice of regulated professions and professional and business services. Improve the quality and efficiency of the justice system, in particular by reducing the length of civil and commercial cases – *limited progress*.

## 2. State of the small and medium enterprise sector in Croatia in 2017

Criteria for classifying entities in the small and medium enterprise sector<sup>5</sup> in Croatia are defined by the Accounting Act and the Small Business Development Promotion Act. The most recent amendment to the Accounting Act in 2017 defined the category of micro enterprises.

State of the small and medium enterprise sector in Croatia in 2017 is shown in comparison with 2016, while in certain cases, in order to observe certain tendencies, data for the 2013–2017 period is used. Some depictions of the state of the small and medium enterprise sector include distinguishing between categories of micro and small enterprises, but due to the lack of available data, in some cases, unified results for micro and small enterprises are shown. Particular attention is paid to employment, total income and export activities of this sector.

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

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

The share of small and medium enterprises in the Croatian economy in 2017 is 99.7%, which is a constant throughout the observed period. Compared with the previous year, in 2017, an increase of 4.9% in the number of micro and small enterprises and an increase of 3.9% in the number of medium enterprises was recorded in 2017 (Table 1).

**Table 1:** Enterprise structure with regard to size from 2013 to 2017

	2013		2014		2015		2016		2017	
	Number of entities	%	Number of entities	%	Number of entities	%	Number of entities	%	Number of entities	%
Small and medium enterprise sector	100,841	99.7	104,116	99.7	106,221	99.7	114,156	99.7	119,752	99.7
Micro and small enterprises	99,573		102,895		105,029		112,809		118,352	
Medium enterprises	1,268		1,221		1,192		1,347		1,400	
Large enterprises	350	0.3	354	0.3	348	0.3	327	0.3	329	0.3
<b>Total</b>	<b>101,191</b>	<b>100</b>	<b>104,470</b>	<b>100</b>	<b>106,569</b>	<b>100</b>	<b>114,483</b>	<b>100</b>	<b>120,081</b>	<b>100</b>

Source: "Analysis of financial results of entrepreneurs in Croatia in 2013–2017", FINA, 2018

5 Throughout the text, the term "small and medium enterprise sector" includes micro, small and medium enterprises.

Micro, small and medium enterprises employ nearly three-quarters (73.2%) of all employees in business entities in Croatia in 2017, and there was no major change in this share compared to 2016. Within the sector, micro enterprises, which employ 27.5% of all employees in business entities, stand out in particular. The number of employees in micro enterprises in 2017 increased by 4.3% compared to 2016, by 3.1% in small enterprises, by 4.5% in medium enterprises, and by 2.3% in large enterprises (Table 2).

**Table 2:** Enterprise size and employment, total income and exports in 2016 and 2017

Economic criterion for sector evaluation	Enterprise size							
	Micro		Small		Medium		Large	
	2016	2017	2016	2017	2016	2017	2016	2017
Number of employees	232,898	242,867	222,772	229,752	166,274	173,713	231,166	236,552
Employment (share)	27.3%	27.5%	26.1%	26.0%	19.5%	19.7%	27.1%	26.8%
Total income (million HRK)	87,052	94,384	149,443	161,307	141,579	148,281	255,035	274,423
Total income (share)	13.7%	13.9%	23.6%	23.8%	22.4%	21.9%	40.3%	40.5%
Exports (000 HRK)	8,801,609	10,121,387	23,172,448	26,989,911	34,045,279	35,254,300	53,414,542	65,477,447
Exports (share)	7.4%	7.3%	19.4%	19.6%	28.5%	25.6%	44.7%	47.5%

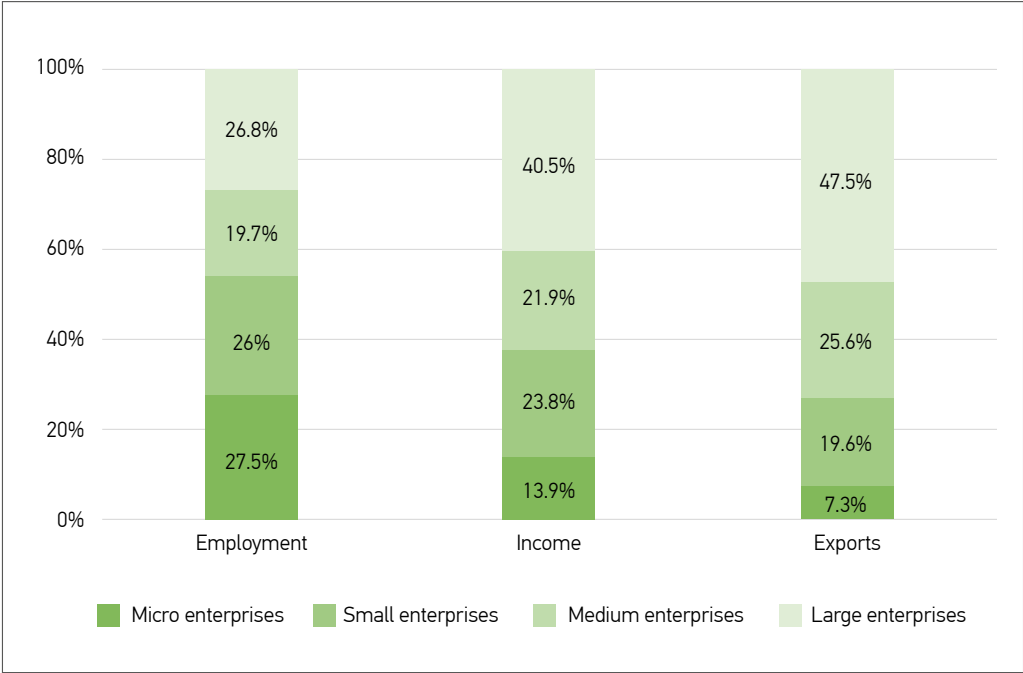
Sources: "Analysis of financial results of entrepreneurs in Croatia in 2016", FINA, 2017  
 "Analysis of financial results of entrepreneurs in Croatia in 2017", FINA, 2018

In 2017, the share of micro, small and medium enterprises in total income generated at the level of Croatia was 59.6%, representing a slight decrease compared to 2016. However, changes in income depending on enterprise size are more noticeable: compared to 2016, total income of micro enterprises in 2017 increased by 8.4%, of small enterprises by 7.9%, of medium enterprises by 4.7%, and of large enterprises by 7.6% (Table 2).

In the total exports of Croatian enterprises in 2017, the small and medium enterprise sector participates with a share of 52.5%, which represents an increase of 2.8 percentage points compared to 2016. The value of exports of micro enterprises in 2017 increased by 15%, of small enterprises by 16.5%, of medium enterprises by 3.6% (which was not enough to maintain a share of 28.5% in total exports from 2016), and of large enterprises by 22.6%, compared to 2016 (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 2017.

**Figure 1:** Total employment, income and exports by enterprise size in 2017



Micro enterprises account for the largest share of 27.50% in total employment at the level of Croatia, but they have the lowest shares in total income and exports of 13.90% and 7.30%, respectively. Small enterprises account for a 26% share in total employment, share of 23.80% in total income and share of 19.60% in total exports. Medium enterprises have a share of 19.70% in total employment, share of 21.90% in total income and share of 25.60% in total exports. Large enterprises show the highest productivity and export orientation. In 2017, with a share of 26.80% in total employment, large enterprises achieve the highest shares in income (40.50%) and exports (47.50%). These data point to the under-utilised potential of small and medium enterprises in the field of internationalisation of business and exploitation of the potential offered by the European Union's Single Market.

The average number of employees in micro and small enterprises records a continuous slight decrease trend in the period from 2013, when it averaged 4.2 employees, to an average of 4 employees in 2017. At the same time, total income per employee in micro and small enterprises is continuously increasing, with a total increase of 8.4% u 2017, compared to 2013 (Table 3).

**Table 3:** Average number of employees and productivity in micro and small enterprises from 2013 to 2017

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)
2013	99,573	414,507	4.2	206,905	499,159
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

Source: "Analysis of financial results of entrepreneurs in Croatia in 2013–2017", FINA, 2018

The average number of employees in medium enterprises is continuously increasing in the observed period, from an average of 118.8 employees in 2013, to an average of 124.1 employees in 2017. Total income per employee, as well as in small enterprises, is continuously increasing (by 14.5% in 2017 compared to 2013), indicating an increase in productivity and competitiveness of small and medium enterprises in Croatia (Table 4).

**Table 4:** Average number of employees and productivity in medium enterprises from 2013 to 2017

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)
2013	1,268	150,605	118.8	112,309	745,719
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

Source: "Analysis of financial results of entrepreneurs in Croatia in 2013–2017", FINA, 2018

## Starting business ventures and growing enterprises

GEM – Global Entrepreneurship Monitor is the world's largest study of entrepreneurship in which Croatia has been involved since 2002<sup>6</sup>. GEM research monitors the level of activity in starting business ventures at the national level measured by the TEA index<sup>7</sup>. Entrepreneurial activity in Croatia measured by the TEA index in 2017 amounts to 8.9%, which is the best result in the last five years. Compared to 2015, the index increased by 1.2 percentage points, while compared to 2016, it increased by 0.5 percentage points (Table 5). According to this indicator, Croatia is keeping up with the average of EU countries (8.3% in 2017), but significantly lags behind the average of countries with efficiency-driven economies, to whose group it belongs within countries included in the GEM research (18.5% in 2017).

**Table 5:** Entrepreneurial activity in Croatia from 2013 to 2017, measured by the TEA index

	2013	2014	2015	2016	2017
TEA index (%), Croatia	8.3	8.0	7.7	8.4	8.9
TEA index (%), GEM average <sup>8</sup>	14.4	14.0	14.5	14.2	18.5
TEA index (%), EU average	8.0	7.8	8.0	8.6	8.3

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2018

Entrepreneurial activity is associated with motivation for entrepreneurial action, which 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 index<sup>9</sup>. It is desirable that motivational index is as high as possible, because that speaks of potentially better preparedness for starting a business venture and of greater optimism, which is based on recognised opportunity. Motivational index of Croatia in 2017 is 1.8, meaning that there are 1.8 times more entrepreneurs who engage in entrepreneurial activity because of perceived opportunity, and not out of necessity (Table 6). Throughout the observed period, Croatia has a lower motivational index than the EU average, as well as the average of all countries involved in the GEM research.

6 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.

7 TEA (Total Early Entrepreneurial Activity) index represents the number of entrepreneurially active people (it combines the number of people who are starting an entrepreneurial venture and the number of people who are owners or owners/managers of enterprises younger than 42 months) per 100 examinees that are 18-64 years old.

8 Average of the group of countries with efficiency-driven economies, involved in the GEM research in that year, to which Croatia also belongs.

9 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.

**Table 6:** Reasons for entry into entrepreneurial activity in Croatia from 2013 to 2017

Year	TEA Opportunity (%)			TEA Necessity (%)			Motivational index		
	Croatia	EU average	GEM average	Croatia	EU average	GEM average	Croatia	EU average	GEM average
2013	5.0	5.8	10.0	3.1	1.8	3.9	1.6	4.3	3.0
2014	4.1	5.7	10.0	3.7	1.8	3.7	1.1	4.6	3.3
2015	4.6	6.0	10.1	3.1	1.7	4.1	1.5	4.0	2.9
2016	5.6	6.6	10.2	2.6	1.7	3.5	2.2	5.3	6.6
2017	5.6	6.2	10.6	3.1	1.6	4.0	1.8	5.0	3.6

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2018

The long-term unemployment rate in Croatia has probably influenced a high share of entrepreneurs who decide to start a business venture out of necessity. According to Eurostat data, the unemployment rate in 2017 stood at 11.1%, while the unemployment rate of youth was 27%, ranking Croatia among the top European countries with the highest unemployment rates<sup>10</sup>.

Starting business ventures out of necessity is one of the ways out of unemployment. 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 idea<sup>11</sup>. Grant in the amount of up to HRK 55,000 is awarded to co-finance the costs of opening and operating a business entity. In 2017, a total of 5,824 people registered in the unemployment register have used grants for self-employment, which is an increase of 17% compared to the previous year (Table 7), but this still represents an insufficiently used measure to address the issue of unemployment, since the share of active users of CES's self-employment grants in the total number of unemployed in previous years does not exceed 1%.

<sup>10</sup> Eurostat, Unemployment statistics, available at: [http://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment\\_statistics](http://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment_statistics), downloaded on August 01, 2017

<sup>11</sup> 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.



**Table 7:** Users of grants for self-employment of the Croatian Employment Service from 2013 to 2017

Year	Number of self-employed persons – new users of CES's grants for self-employment	Number of self-employed persons – who have stopped using CES's grants for self-employment	Total number of users of CES's grants for self-employment in the year
2013	4,906	937	5,737
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

Source: Croatian Employment Service, 2018

In addition to starting entrepreneurial ventures as a form of self-employment, growing enterprises are also important for addressing the issue of unemployment, given their capacity to create jobs. 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. According to the GEM survey, in 2017, 14.2% of enterprises in Croatia had new products that are new to everyone, which is an increase in the number of enterprises in this category (Table 8), but the share of the number of enterprises that have products that are new to no one remains at the same level (71.7%).

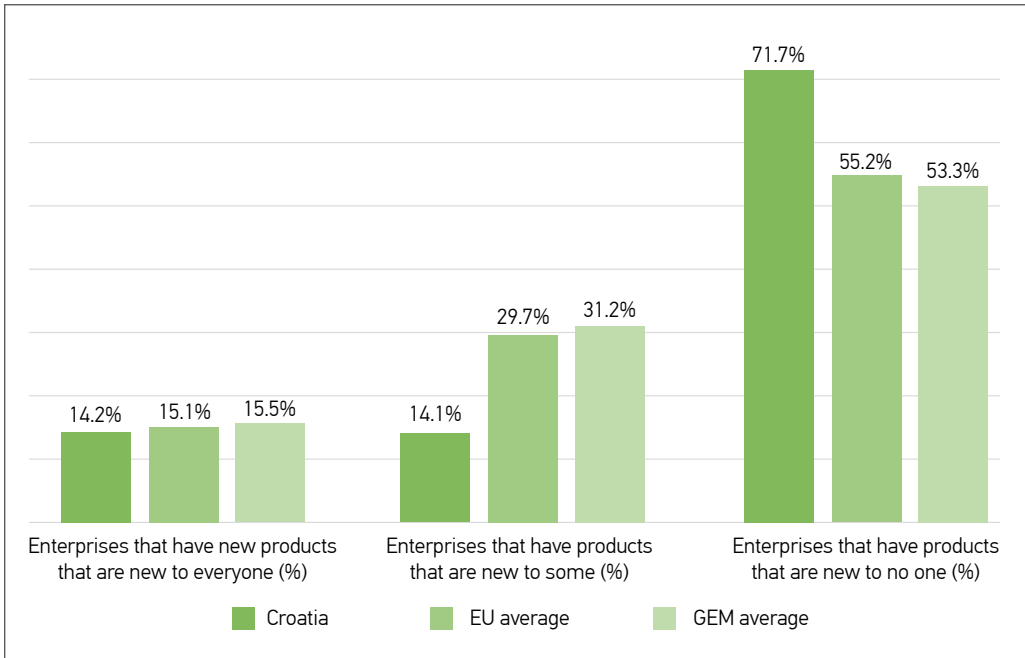
**Table 8:** Innovative capacity of enterprises in Croatia according to the new product development criterion from 2013 to 2017

Criterion for categorisation of growing enterprises	2013	2014	2015	2016	2017
Enterprises that have new products that are new to everyone (%)	8.1	8.2	8.8	10.9	14.2
Enterprises that have products that are new to some (%)	21.9	19.1	19.4	17.2	14.1
Enterprises that have products that are new to no one (%)	70.1	72.7	71.8	71.9	71.7

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2018

By comparing the data for Croatia for 2017 with the average of EU countries and all countries involved in the GEM research, it is evident that Croatia came close to the average of EU countries that have new products that are new to everyone (in 2015, Croatia had 8.8% of such enterprises compared to the EU average of 14.4%), with a simultaneous decrease of the share of enterprises that have products that are new to some. It is important to point out that in 2017 Croatia retained a significant advantage in the share of enterprises that have products that are new to no one (Figure 2).

**Figure 2:** Growing enterprises in Croatia according to the new product development criterion in 2017



Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2018

**50 technology companies with the fastest growth in Central Europe**  
**Deloitte Technology Fast 50 Central Europe 2017<sup>12</sup>**

*The consulting company Deloitte has been monitoring technology companies in Central Europe for many years, profiling 50 fast-growing technology companies in the region. This project is being implemented since 2000, and the latest results from 2017 are based on data on income growth over four years (2013-2016). The programme includes the following activities: IT and digital solutions, Internet, media and telecommunications; biotechnology, nanotechnology and medical technology; clean tech and energy.*

*On the list of 50 technology companies with the fastest growth in Central Europe in 2017, there are eight Croatian companies that belong to activities of IT industry and digital solutions, Internet, media and telecommunications, and clean tech and energy.*

12 Deloitte Technology Fast 50 Central Europe 2017, available at: <https://www2.deloitte.com/content/campaigns/ce/technology/fast-50/ce-fast-50-2018.html>, downloaded on August 03, 2018

*The best positioned Croatian company, which has taken the 10th place in the overall rankings, is Rimac Automobili. It is followed by Code Consulting Ltd., Telum d.o.o., Profico d.o.o., Undabot d.o.o., Hangar 18 d.o.o., Gauss Ltd. and Infinum d.o.o. The results of Croatian companies positioned Croatia in 2nd place of Central Europe countries, right behind Poland, which had 19 fast-growing technology companies.*

*A special recognition, Rising Star Award is given to companies that have exceptional potential, but are too new to meet all the criteria for the main Fast 50 category. Two Croatian companies were recognised in this category: Q Software and Merit Media Int.*

## Investment in research and development and innovation of small and medium enterprises in Croatia

Investment in research and development is a key component for increasing innovation and competitiveness of the economy. Gross domestic expenditure for research and development in Croatia in 2016 was 2.3% higher compared to 2015<sup>13</sup>. The business sector has the highest share (44.8%) in total expenditure for research and development, followed by the government state and private non-profit sector (21.9%) and the higher education sector (33.4%). The higher education sector records an increase in investment in 2016 compared to 2015 by 40.8%, while the other two sectors record reduced investment. In 2016, the private sector reduced investment in research and development by 10.6% compared to 2015, while the government and private non-profit sector reduced investment by 8.7% (Table 9).

**Table 9:** Gross domestic expenditure on research and development – Croatia, 2013 – 2016 (in thousand HRK)

	2013	%	2014	%	2015	%	2016	%
Business sector	1,346,810	50.1	1,251,944	48.3	1,461,802	51.2	1,307,082	44.8
Government and private non-profit sector	686,275	25.5	676,146	26	700,106	24.5	639,148	21.9
Higher education	654,919	24.4	666,514	25.7	691,771	24.3	974,107	33.4
<b>Total</b>	<b>2,688,004</b>	<b>100</b>	<b>2,594,604</b>	<b>100</b>	<b>2,853,679</b>	<b>100</b>	<b>2,920,337</b>	<b>100</b>

Source: "Statistical Information 2017", Croatian Bureau of Statistics, 2017, Research and Development in 2016, First Release No. 8.2.1., 2017, Croatian Bureau of Statistics

Global Innovation Index (GII) is a global survey that measures the level of innovation of a

<sup>13</sup> Data for 2017 was not available prior to the completion of the Report.

country's economy. The level of innovation is determined according to five components that enable innovative activities: institutions, human capital and research, infrastructure, market sophistication and business sophistication, while the two components that determine the actual level of innovation are knowledge and technology, and creative results. According to data from this international survey<sup>14</sup>, in 2017 Croatia took 41<sup>st</sup> place out of a total of 127 countries in which the level of innovation of the economy was measured by this survey. Croatia's rank represents a jump of six places compared to 2016 (when the survey covered 160 countries), and Switzerland is at the top of the scale, same as in previous years. Croatia is behind Germany, which is in 9<sup>th</sup> place, Austria in 20<sup>th</sup>, Czech Republic in 24<sup>th</sup>, Italy in 29<sup>th</sup>, Slovenia in 32<sup>nd</sup>, and Hungary in 39<sup>th</sup> place. Of the neighbouring countries, situated behind Croatia are Montenegro in 48<sup>th</sup> place, Macedonia in 61<sup>st</sup>, Serbia in 62<sup>nd</sup>, and Bosnia and Herzegovina in 86<sup>th</sup> place.

## Financial performance of small and medium enterprises

In 2017, Croatian business sector records a decrease in net profit by 8.9% compared to the previous year. All categories of enterprises with regard to size achieved a positive consolidated result (although lower than in 2016), i.e., the profits achieved were higher than the losses (Table 10).

**Table 10:** Financial efficiency of enterprises in 2016 and 2017

Enterprise	2016		2017	
	Million HRK	%	Million HRK	%
<b>Micro</b>				
Profit	6,912	17.9	8,580	20.7
Loss	6,609	45.1	7,457	38.2
Consolidated result	303	1.3	1,122	5.1
<b>Small</b>				
Profit	8,906	23	9,725	23.5
Loss	3,229	22	4,488	23
Consolidated result	5,677	23.6	5,237	23.9
<b>Medium</b>				
Profit	7,957	20.6	7,715	18.6
Loss	2,260	15.4	2,184	11.2
Consolidated result	5,697	23.7	5,532	25.3
<b>Large</b>				
Profit	14,921	38.6	15,377	37.1
Loss	2,562	17.5	5,383	27.6
Consolidated result	12,359	51.4	9,994	45.7
<b>Total</b>				
Profit	38,696	100	41,397	100
Loss	14,661	100	19,512	100
Consolidated result	24,035	100	21,885	100

Sources: "Analysis of financial results of entrepreneurs in Croatia in 2016", FINA, 2017  
 "Analysis of financial results of entrepreneurs in Croatia in 2017", FINA, 2018

<sup>14</sup> More information: <https://www.globalinnovationindex.org/home>, downloaded on August 01, 2018

Consolidated result “breaks-even” the effects of changes in profit and loss – the biggest change in 2017 compared to 2016 is the increase of the share of the consolidated result of micro enterprises (from 1.3% in 2016 to 5.1% in 2017) and the decrease of consolidated result of large enterprises (from 51.4% to 45.7%).

Micro enterprises recorded a net profit of HRK 8.6 billion in 2017, which is an increase of 24.1% compared to the profit achieved in 2016. This result increased their share in the total generated profit of enterprises in Croatia, which was 20.7% in 2017.

Small enterprises achieved a net profit of HRK 9.7 billion in 2017, which is an increase of 9.2% compared to the result achieved in 2016, but the share in the total generated profit of enterprises in Croatia in 2017 remained unchanged compared to 2016.

Medium enterprises achieved a net profit of HRK 7.7 billion in 2017, which is a decrease of 3% compared to 2016. This decrease was reflected in a reduction of the share of medium enterprises in the total profit of the economy in 2017 (to 18.6% from 20.6% in 2016).

Profit of large enterprises in 2017 increased by 3% compared to 2016, but it was not enough for large enterprises to maintain the level of share in the total profit in 2016 (a slight decline to 37.1% versus 38.6%).

## **World Digital Competitiveness Ranking 2018**

### **IMD World Digital Competitiveness Ranking 2018<sup>15</sup>**

*The International Institute for Management Development (IMD) from Lausanne has been monitoring competitiveness of nations for nearly 30 years in cooperation with the network of partner institutes worldwide. According to the latest report for 2018, Croatia took 44th place out of a total of 64 countries involved, thus improving its position by 4 places compared to 2017.*

*IMD – World Digital Competitiveness Ranking analyses and ranks the ability of countries to adopt digital technologies to encourage their use in public services, business models and society in general. Digital competitiveness is based on an analysis of 3 factors: knowledge, technology and future readiness. Each of these three factors is divided into 3 sub-factors that contain a total of 50 criteria<sup>16</sup>. The USA is at the top of the digital competitiveness ranking, followed by Canada, the United Kingdom, Australia, South Korea, Taiwan, Germany, Japan, France and Malaysia. The report shows that countries in which government institutions support and involve digitalisation in their development are at the forefront of technological innovation.*

*The latest result for Croatia shows that positive moves have been made in the knowledge category, especially in the fields of training and education and scientific concentration, as well as in the future readiness category where improvement in the technology adoption index can be observed. The following indicators were identified as the mean weaknesses: international experience, foreign highly-skilled personnel, employee training, immigration laws, attitudes toward globalization, agility of companies, use of big data and analytics, knowledge transfer and public-private partnerships.*

## **2.2. Dynamics of development of the small and medium enterprise sector**

Data on the establishment of new and closing of existing enterprises is the basis for monitoring the dynamics of development of the small and medium enterprise sector. In 2017, according to the Croatian Bureau of Statistics data, 16,759 legal entities were established in Croatia, that is, 8.3% more legal entities compared to 2016 (Table 11).

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<sup>15</sup> "IMD World Digital Competitiveness Ranking 2018", available at: [http://konkurentnost.hr/wp-content/uploads/2018/06/imd\\_world\\_digital\\_competitiveness\\_ranking\\_2018-1.pdf](http://konkurentnost.hr/wp-content/uploads/2018/06/imd_world_digital_competitiveness_ranking_2018-1.pdf), downloaded on August 02, 2018

<sup>16</sup> National Competitiveness Council, available at: <http://konkurentnost.hr/novosti/imd-svjetska-ljestvica-digitalne-konkurentnosti-2018-hrvatska-poboljsala-svoju-poziciju-za-4-mjesta/>, downloaded on August 02, 2018

**Table 11:** Number of established legal entities in 2016 and 2017

	2016	2017	Difference in the number of newly established enterprises
<b>Trading companies</b>	13,450	14,882	10.6%
<b>Other</b>	2,025	1,877	-7.3%
<b>Total</b>	<b>15,475</b>	<b>16,759</b>	<b>8.3%</b>

Source: *Number and structure of business entities in December 2017, First Release No. 11.1.1/4., 2018, Croatian Bureau of Statistics*

The GEM research monitors the rate of exit from business activity, that is, termination of entrepreneurial activity. In 2017, this rate was 1.9% in Croatia, while the EU average was 2.1%. Furthermore, GEM research also monitors the causes of cessation of business activity (Table 12). The most common causes of cessation of business activity in Croatia during 2017 were related to issues of business profitability (34.15%), followed by personal or family reasons (25.39%), and problems with access to sources of financing (15.17%).

**Table 12:** Causes of cessation of business activity in Croatia and in selected countries in 2017 (%)

Causes of cessation of business activity	Croatia	USA	Canada	France	Germany	Japan
Opportunity for sale	0	0	27.90	8.48	5.94	12.71
The company is not profitable	34.15	7.96	18.40	23.85	29.24	26.61
Problems with access to finance	15.17	5.17	11.87	16.59	5.75	3.23
Other job or business opportunity	5.66	30.16	13.60	5.80	12.92	7.81
The exit was planned	1.36	8.36	2.36	0	9.20	7.34
Retirement	4.69	5.37	6.54	4.59	2.53	0
Personal or family reasons	25.39	21.13	13.68	13.15	26.54	25.32
Incident situations	1.08	1.90	1.48	8.63	1.83	16.99
Tax policy/Administration	12.49	19.95	4.17	18.91	6.06	0

Source: *GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2018*

GEM data for Croatia for 2017 show that 4.69% of entrepreneurs decided to cease business activities due to retirement, and additional 25.39% of entrepreneurs because of personal or family reasons, which indicates the importance of timely planning of the business transfer and finding the best solution after the retirement of the owner. By comparing data on causes of cessation of business activity in a few selected countries, it can be observed that entrepreneurs in the United States indicate another job or business opportunity (30.16%) as the most common causes of cessation, opportunity for sale is cited in Canada (27.90%), and company non-profitability in Japan (26.61%), similar to entrepreneurs in Germany (29.24%) and France (23.85%). Comparative analysis of the data indicates that tax policy and administration are major causes of cessation

of business activity the USA (19.95%) and France (18.91%), while this percentage in Croatia is somewhat lower, but equally significant (12.49%). Canada (4.17%) and Germany (6.06%) show much lower percentages in this category, while in the case of Japan tax policy and administration are not a cause of cessation of business activity. Presented data on the reasons for exit from business activity warns that different institutional environments and national cultures indirectly affect entrepreneurial activity also at this stage of the life cycle of a business venture.

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

The GEM research also monitors regional differences<sup>17</sup> in business venture start-up activity. In 2017, a significant increase of entrepreneurial activity measured by the TEA index was recorded in the Dalmatia region, from 7.7% in 2016 to 11.2%, which is also the highest value of the index among all Croatian regions in 2017. Regions of Istria, Primorje and Gorski Kotar, and Zagreb and surroundings, which had a lower index compared to 2016, follow. The Northern Croatia region marked a slight increase in entrepreneurial start-up activity, measured by the TEA index, while the lowest level of the TEA index was recorded in regions of Lika and Banovina and Slavonia and Baranja (Table 13).

**Table 13:** Regional differences in business venture start-up from 2013 to 2017 – TEA (%) and rank

Region	2013		2014		2015		2016		2017	
	TEA	Rank	TEA	Rank	TEA	Rank	TEA	Rank	TEA	Rank
Istria, Primorje and Gorski Kotar	9.6	3	6.8	4	11.8	<b>1</b>	7.5	4	9.8	3
Zagreb and surroundings	10.0	2	9.5	<b>1</b>	8.2	3	11.4	<b>1</b>	9.9	2
Dalmatia	10.7	<b>1</b>	9.2	2	9.0	2	7.7	3	11.2	<b>1</b>
Northern Croatia	3.8	6	8.8	3	7.7	4	8.1	2	8.8	4
Lika and Banovina	7.5	4	4.4	6	4.4	5	7.5	4	6.7	5
Slavonia and Baranja	6.8	5	5.8	5	3.9	6	5.7	5	5.1	6

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2018

17 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

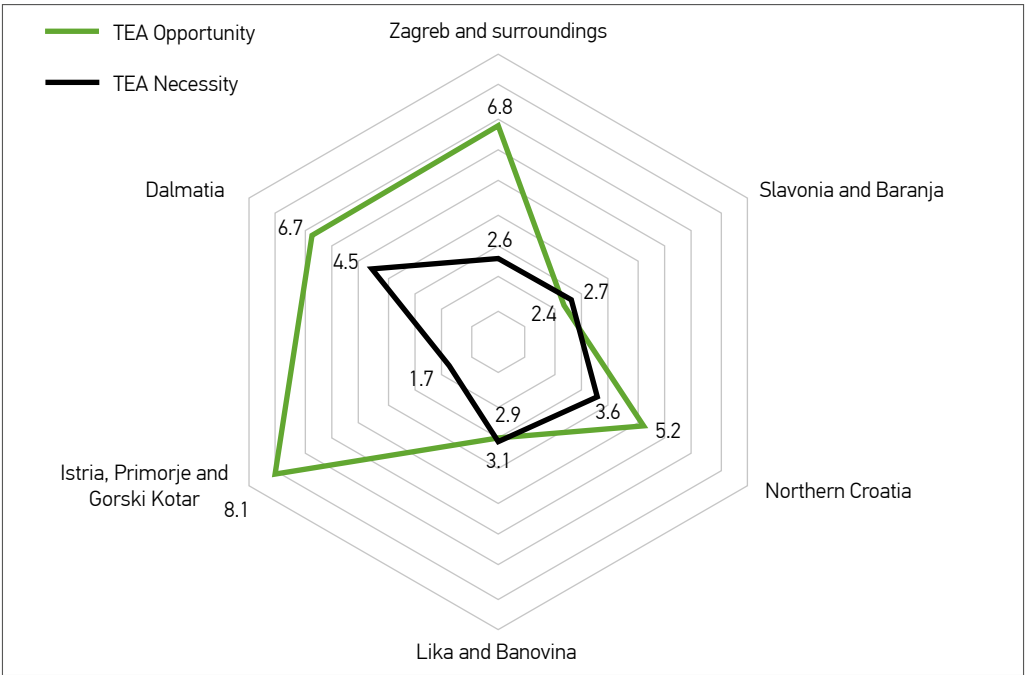
**Lika and Banovina** – Karlovac County, Lika-Senj County, Sisak-Moslavina County

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



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 2017, the most business ventures because of perceived opportunity (TEA Opportunity) were started in Istria, Primorje and Gorski Kotar, and the least in Lika and Banovina (Figure 3).

**Figure 3:** Regions in Croatia according to motivation for entrepreneurial activity in 2017



Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2018

The results of GEM research of regional differences in attitudes towards entrepreneurship in 2017 indicate improving perceptions of respondents on perceiving opportunities for starting new entrepreneurial projects compared to the previous year. However, increased perception of opportunities does not always mean increasing intentions for entrepreneurial activity. An increase in the number of respondents who intend to start a business venture in the next three years is present in most regions (except Zagreb and surroundings, and Slavonia and Baranja). Also, a greater number of respondents see an opportunity to start a business venture in the next 6 months in all the observed regions, except Slavonia and Baranja. Leading in this category are the regions of Istria, Primorje and Gorski Kotar, and Dalmatia.

Over 55% of respondents in all regions see entrepreneurship as a good career choice in 2017, but compared to 2016, a decline of interest in entrepreneurship as a career is recorded in Istria, Primorje and Gorski Kotar and Slavonia and Baranja. Less than 50% of respondents from most regions, except Northern Croatia and Lika and Banovina, see positive influence of media on the development of entrepreneurial culture (Table 14).

**Table 14:** Comparison of regional differences in attitudes towards entrepreneurship in 2016 and 2017, 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	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Istria, Primorje and Gorski Kotar	23.8	28.4	32.1	45.7	57.7	58.6	60.3	57.6	53	49
Zagreb and surroundings	26.4	22.9	31.7	34.2	52.7	52.2	59.7	62.3	46.8	44.4
Dalmatia	22.2	26.1	28.1	45.3	56.6	55.5	63.3	64.9	43.6	49
Northern Croatia	20.6	21.7	21.7	27.6	51.9	48	64.6	63.4	53.3	52
Lika and Banovina	16.1	19.3	11.4	25	41.3	45.8	61.2	65.2	35.7	53.3
Slavonia and Baranja	19.9	17.8	14	21.1	36	43	64.3	59.5	46.5	45.7

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2018

## 2.4. Crafts in Croatia

In 2017, there were 77,335 active crafts in Croatia, which represents 39.5% of all active trading companies. Compared to 2016, the number of active crafts increased by 1.9%, while, compared to 2013, the number of active crafts decreased by 3.8%. At the end of 2017, active crafts employed 176,805 people (including owners/partners in the craft and their employees), that is 13.4% of the total number of employees in legal persons in Croatia, thus maintaining the same share as in 2016 (Table 15).

**Table 15:** Number of active crafts and employees in crafts in Croatia, state in December 2013 – 2017

	2013	2014	2015	2016	2017
<b>Number of active crafts</b>	80,407	78,070	76,222	75,861	77,335
<i>Share in active trading companies</i>	38.3%	35.5%	33%	39.9%	39.5%
<b>Number of employees in crafts</b>	181,503	176,973	175,942	176,022	176,805
<i>Share of employees in crafts in the total number of employees</i>	13.7%	13.6%	13.5%	12.9%	13.4%

Source: *Trades and crafts in numbers, Croatian Chamber of Trades and Crafts, December 2017, according to the Croatian Bureau of Statistics data*

During 2017, there were the most active crafts in the City of Zagreb (16.8%), followed by Split-Dalmatia County (13.1%) and Primorje-Gorski Kotar County (10.1%).

According to guild structure, the most active crafts in Croatia in 2017 belonged to the guild of service crafts (39.5%), followed by the guild of hospitality and tourism (15.7%), and trade (12.5%).

During 2017, through the Entrepreneurial Impulse programme of the line ministry, 3,459 grants were awarded to crafts, of which 898 grants for lifelong learning for craftsmen, 98 grants for apprenticeships, 121 grants for the preservation and development of traditional and artistic crafts, and 2,342 grants for scholarships for pupils in craft occupations. The total value of awarded grants was HRK 33.8 million.

In the school year 2017/2018, 3,324 pupils were enrolled in craft occupation programmes, majority of which in the City of Zagreb and Zagreb County (27.4%), and in Split-Dalmatia County (11.3%). Compared to the previous 2016/2017 school year, there was a decline in interest of young people in craft occupations in school year 2017/2018 by 20%, and by as many as 35% compared to 2015/2016, which indicates a significant problem in the future occupational structure in the labour market, which may have a negative impact on business operations of the small and medium enterprise sector.

## 2.5. Cooperatives in Croatia

Croatian Centre for Cooperative Entrepreneurship (<http://zadruga.coop/hr>) is a public institution representing and coordinating the interests of cooperatives and cooperative associations in Croatia, and works on enhancing and developing the cooperative system in general. According to the Cooperatives Act, a cooperative is a voluntary association of members in which each member participates directly. Cooperative is a legal entity and its establishment and operation must be an expression of the common interests of its members. In accordance with the cooperative principles and values of the cooperative form of business, in addition to economic objectives, cooperative takes care of the social interests of its members, thus creating benefit for the local community in which it operates.

At the end of 2017, the total number of 1,171 cooperatives operated in Croatia<sup>18</sup>, with a total of 20,619 cooperative members and 2,612 employees. In the same year, 28 new cooperatives with 214 cooperative members were founded. Compared to 2016, the number of cooperatives decreased by 3.9%, while the number of cooperative members and employees did not change significantly (Table 16).

**Table 16:** Cooperatives, cooperative members, employees and income of cooperatives in Croatia, 2013 – 2017

	2013	2014	2015	2016	2017
<b>Number of cooperatives</b>	1,169	1,247	1,302	1,218	1,171
<b>Number of cooperative members</b>	19,485	20,192	21,462	20,483	20,619
<b>Average number of cooperative members in a cooperative</b>	16.7	16.2	16.5	16.8	17.6
<b>Number of employees</b>	2,734	2,716	2,744	2,595	2,612
<b>Average number of employees in a cooperative</b>	2.3	2.2	2.1	2.1	2.2
<b>Income (billion HRK)</b>	1.69	1.60	1.59	1.63	– <sup>20</sup>

Source: Croatian Centre for Cooperative Entrepreneurship, 2018

The largest number of cooperatives work in the sector of agriculture and forestry (42%), processing industry (17%) and services (14%). According to geographical distribution, the largest number of cooperatives operates in Split-Dalmatia County (16.1%), Osijek-Baranja County (9.4%) and the City of Zagreb (10.7%), while the smallest number of cooperatives operates in Požega-Slavonia County (0.9%).

<sup>18</sup> Croatian Centre for Cooperative Entrepreneurship, 2018

<sup>19</sup> At the time of preparation of the Report, data on income of cooperatives in 2017 was not available.

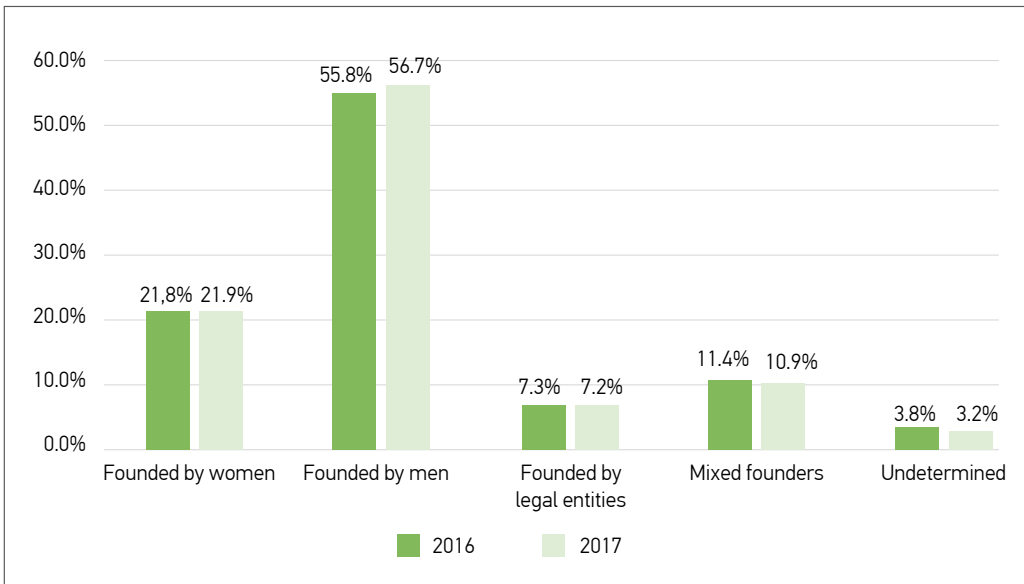
### 3. Women entrepreneurship

*"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).<sup>20</sup>*

Women entrepreneurship in Croatia can be monitored statistically through the activities of trading companies and crafts in which one or more women own at least 51% share of ownership. Women in entrepreneurship in Croatia are an important, but still insufficiently represented category of entrepreneurs. According to FINA<sup>21</sup> data, the share of female owners of trading companies in the total number of trading companies in 2016 was 21.8%, which is an increase in the share of women entrepreneurs by 3.5% percentage points compared to the previous year. In 2017, the share of women entrepreneurs remained almost unchanged at 21.9% (Figure 4). In the structure of crafts, the participation of women in ownership is greater (33.8% in 2017)<sup>22</sup>. In 2017, women entrepreneurs participated with 4.4% in total income (Figure 5) and with 8.2% in total employment (Figure 6).

**Figure 4:** Share of women entrepreneurs in the total number of enterprises that submitted annual financial reports for 2016 and 2017



Source: Financial Agency, 2018

<sup>20</sup> [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, 2018

<sup>21</sup> "Analysis of the share of women entrepreneurs in the ownership structure of trading companies", FINA, 2017

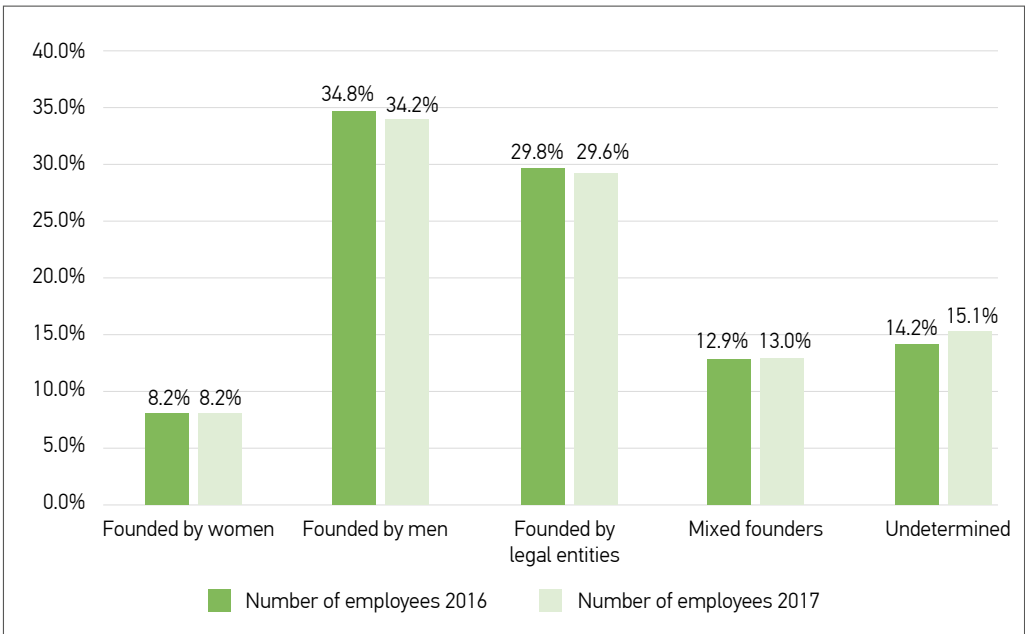
<sup>22</sup> Statistical information, June 2018, Croatian Chamber of Trades and Crafts, downloaded on October 15, 2018

**Figure 5:** Share of total income, according to majority ownership of the company



Source: Financial Agency, 2018

**Figure 6:** Share of employment, according to the ownership structure of the company



Source: Financial Agency, 2018

Under-representation of women in entrepreneurship is not only a characteristic of Croatia; the situation is similar in other EU countries to a greater or lesser extent, indicating the necessity to invest additional efforts at the policy level in promoting and encouraging entrepreneurship as a career choice among female population.

In 2017, the largest share of women entrepreneurs, as in previous years, was recorded in Bjelovar-Bilogora County (24%), followed by the City of Zagreb with 23.2%.

Observed by activities, companies with majority women ownership are prevalent in the S area of activity – other service activities<sup>23</sup> with 55.5%, which confirms the findings of the OECD's Policy Brief on Women's Entrepreneurship<sup>24</sup> that women's entrepreneurial ventures are less oriented towards high growth and job creation. After that, women entrepreneurs are most represented in the area of education (P) with 34%, the area of professional, scientific and technical activities (M) with 39.9%, and the area of administrative and support service activities (N) with 24.5%.

GEM research enables analysis of the difference in business venture start-up activity between women and men (Table 17). According to GEM results, in 2017, the share of men in business venture start-up activities is 11.5%, while the share of women is 6.4%, which indicates 1.8 times higher activity of men in business venture start-up in relation to women. The gap in business venture start-up activity between men and women in Croatia is smaller in 2017 compared to 2016 when men were 2 times more active than women in business venture start-up, but in all the observed years (2013-2017), this ratio in Croatia is worse than the average of all countries involved in the GEM research.

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23 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

24 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 1, 2018

**Table 17:** Difference in business venture start-up activity by women and men in Croatia from 2013 to 2017, measured by the TEA index

	2013		2014		2015		2016		2017	
	GEM average	Croatia	GEM average	Croatia	GEM average	Croatia	GEM average	Croatia	GEM average	Croatia
<b>TEA Women</b>	11.0	<b>5.1</b>	11.3	<b>4.8</b>	11.1	<b>5.7</b>	10.0	<b>5.6</b>	10.5	<b>6.4</b>
<b>TEA Men</b>	15.4	<b>11.5</b>	14.9	<b>11.3</b>	15.4	<b>9.7</b>	14.6	<b>11.2</b>	14.4	<b>11.5</b>
<b>TEA Men / TEA Women</b>	1.4	<b>2.2</b>	1.3	<b>2.4</b>	1.6	<b>1.7</b>	1.6	<b>2</b>	1.5	<b>1.8</b>

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2017

### Women and men in 2017

Croatian Bureau of Statistics has been publishing the publication entitled “Women and Men in Croatia” since 2006. According to data from the publication, in 2017 there were 51.7% women and 48.3% men in the structure of the population.

Analysis of the educational structure of the population by gender indicates that there were 160,361 students enrolled in the academic year 2016/2017, of which 56.7% were women. Female students were in the majority at all faculties, except at faculties of engineering, in which 26.9% of women and 73.1% of men were enrolled. In 2016, 32,895 students graduated from higher education institutions, of which 59.9% were women. Of 1,525 students enrolled in postgraduate specialist studies, 66.8% were women. 3,311 students were enrolled in doctoral studies in the 2016/2017 academic year, of which 1,808 or 54.6% were women.

Out of the total number of employees in 2016, 45.9% were women. The average gross salary of employees in legal entities in 2016 was HRK 8,037, and the share of women's salaries in men's salaries was 86.8%.

## Programmes and projects to encourage the development of women entrepreneurship

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.

Absence of a greater effect of the Strategy on closing the gap in entrepreneurial activity of women and men points to rootedness of obstacles to the development of women entrepreneurship in Croatia, and the necessity of conducting efficiency evaluation of the Strategy of Women Entrepreneurship Development in accordance with defined performance indicators in order to, on the basis of results, redefine the spectrum of policy instruments and programmes so as to achieve greater progress in the development of women entrepreneurship.

One of the major programmes with which this Strategy was implemented, Entrepreneurial Impulse programme of the line ministry, was discontinued in 2016.

The following programmes and projects aimed at encouraging the development of women entrepreneurship in Croatia were being implemented in 2017:

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 2017, women entrepreneurs were approved 49 loans in the total amount of HRK 24.5 million, which is 34% less than the total amount of loans granted to women entrepreneurs in 2016 (Table 18).

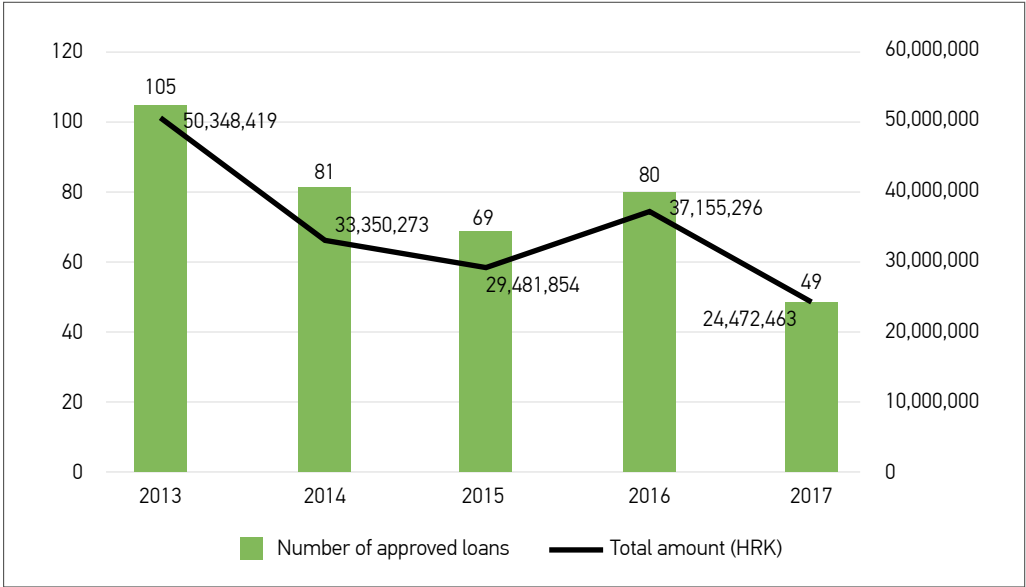
**Table 18:** Loans approved under HBOR's programme for crediting women entrepreneurship

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

Source: Croatian Bank for Reconstruction and Development, 2018

Figure 7 provides a graphical representation of the total amount of loans approved to women entrepreneurs under HBOR's programme for crediting women entrepreneurship in the period from 2013 to 2017. In 2017, the smallest amount of funds for the realisation of this Programme in the last five years was allocated.

**Figure 7:** Loans approved under HBOR's programme for crediting women entrepreneurship

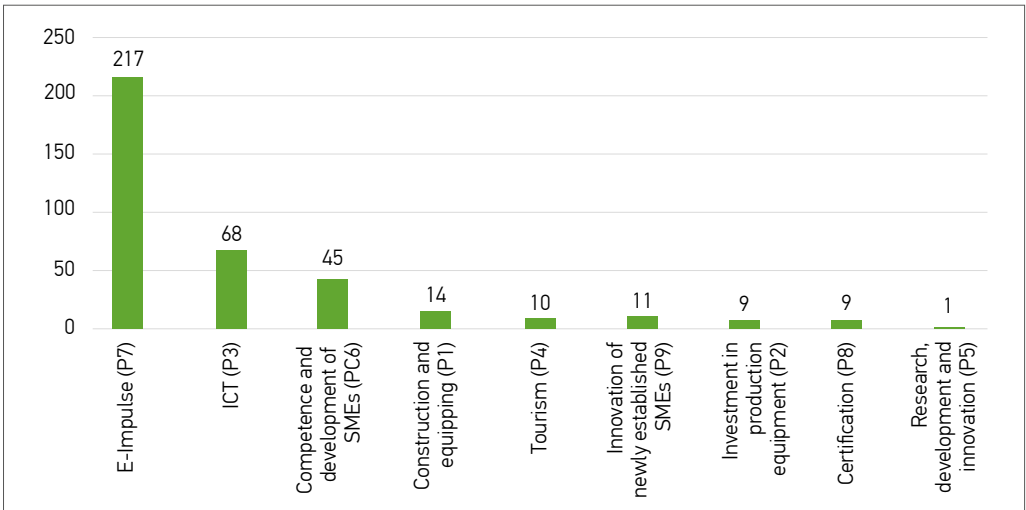


Source: Croatian Bank for Reconstruction and Development, 2018

Croatian Agency for SMEs, Innovations and Investments - HAMAG BICRO

During 2017, projects of 384 enterprises that are majority-owned by women were co-financed from ESI – European structural and investment funds. The largest number relates to the E-Impulse call (217 projects). On average, about 25% of enterprises co-financed from ESI funds are owned by women (Figure 8).

**Figure 8:** Overview of the number of projects co-financed from ESI Funds – women entrepreneurs



Source: Annual Report 2017, HAMAG-BICRO

## European Bank for Reconstruction and Development (EBRD) – Programme for women entrepreneurs “Women in Business”

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, 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 and other support to enable women entrepreneurs to share experiences and learn. In 2016 and 2107, in cooperation with local consultants, EBRD implemented and co-financed 52 consulting projects with women entrepreneurs.

## 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](http://www.cesi.hr)) is a non-profit association, which in 2017 continued the implementation of the FREE – Rural Women and Entrepreneurship project whose main goal 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. The project is financed by the European Commission, and in addition to Croatia, it 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 2017, an education of women in rural areas regarding starting a business was held, and 12 women participated in the pilot education consisting of online programme “Virtual Academy for Women Entrepreneurship” through educational modules: Product Development, E-Sale, Social Media, Finance, Business Strategy. Likewise, 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 was organised. Nine women participated in the pilot programme/education “Virtual Entrepreneur Circles”, who successfully worked on developing skills and knowledge for starting/managing a business.

## 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 a web portal ([www.womeninadria.com](http://www.womeninadria.com)), social networks and organisation of networking events for women, thus seeking to provide support to women entrepreneurs and those in the corporate world, and effect an improvement of the situation of women in the business world. During 2017, a series of networking events for women entrepreneurs was organised in Zagreb with the purpose of exchanging ideas and experiences, as well as awards ceremony for best women entrepreneurs, whose role is to promote women entrepreneurship, and serve as inspiration for all women entrepreneurs or those who want to become involved in 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 Center

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

## Aurora

Aurora ([www.aurora.hr](http://www.aurora.hr)) is a platform that displays 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.

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

Quality of the entrepreneurship ecosystem depends on the consistency of policies, programmes, the effectiveness of the regulatory environment and efficiency in the distribution of competences among institutional actors, whose mission is to design and/or implement policies, programmes and legislative solutions at national level.

### 4.1. National policies and programmes relevant for the development of small and medium enterprises

Development of the small and medium enterprise sector and entrepreneurship in Croatia is guided through the following national policies and programmes:

**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 economic performance, improving access to finance, promoting entrepreneurship, improving entrepreneurial skills and improving the business environment;

**Strategic Plan of the Ministry of Entrepreneurship and Crafts for the 2016–2018 Period**, from 2016, which is based on the Strategy for Development of Entrepreneurship in the Republic of Croatia 2013–2020, specifies the programmes for increasing the competitiveness of small and medium enterprises in Croatia;

**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 through, among other things, stimulating education for the purpose of attaining the necessary competences for employment and self-employment, stimulating entrepreneurial projects, stimulating 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 left rural areas;

**Action Plan for Reducing the Administrative Burden on the Economy, from January 2017**, with which it is planned to reduce administrative burden on the economy by 30% and remove obstacles to freedom of the services market by the end of 2017. The Action Plan builds on 34 measures for reducing administrative burden on the economy that were implemented during 2016 in the areas of public procurement, occupational safety, starting a craft, trade, real estate brokerage, tax consulting and accounting.

**EUROPE 2020 – European Strategy for Smart, Sustainable and Inclusive Growth** that was launched in 2010 in order to create conditions for smart, sustainable and inclusive growth. Europe 2020 envisages reaching the five key European Union targets by the end of 2020, which include employment, research and development, climate change and 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 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 2017**, foresees, among other things, measures of particular importance for improvement of entrepreneurial activity, such as the introduction of assessment of economic impact of regulations on the small enterprise sector through the application of the SME test, and improvement of litigation proceedings to enable a more efficient judicial system, which represents an important element of stimulating investment and business environment.

**Operational Programme Competitiveness and Cohesion 2014–2020** is the fundamental programmatic document implementing for implementing the cohesion policy of the European Union, and contributes to the objective **Investment for Growth and 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.

The quality and compliance of national policies and programmes in Croatia with the guidelines and documents of the European Union, and their effectiveness in creating a stimulating business environment for small and medium enterprises can be analysed through the results of three studies: SBA Fact Sheet, GEM research and Doing Business.

**SBA Fact Sheet** is an annual report of the European Union that monitors compliance of national policies and programmes relevant for the small and medium enterprise sector of EU Member States with the guidelines defined in the Small Business Act of Europe<sup>25</sup>. The Small Business Act represents a comprehensive framework for defining European Union policy towards the small and medium enterprise sector aimed at removing regulatory and political obstacles to the emergence and development of 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 **2017 SBA Fact Sheet**, indicators for Croatia are weaker than the EU average in most areas analysed by this report, except in the areas of State Aid and Public Procurement, and Internationalisation in which Croatia achieved better indicators than the EU average. The general conclusion of the report is that there is significant space for improvement of the entrepreneurial environment in Croatia. According to the latest report, Croatia has made the most progress in the areas Think Small First and Responsive Administration, where the adoption of the Action Plan for Reducing the Administrative Burden on the Economy is emphasized as a measure of significant improvement of the entrepreneurial environment.

**GEM research** also monitors the quality of environment in which small and medium enterprises operate. In all the years of implementation of the GEM research in Croatia (since 2002) Government policies related to the small and medium enterprise sector have been identified as extremely restrictive to its development. In 2017, ratings of Government policies towards regulatory framework were lower (from 2.18 in 2016 to 2.14), but ratings of policies supporting entrepreneurial activity improved significantly (from 2.80 in 2016 to 3.26) (Table 19)<sup>26</sup>. Ratings of both components of entrepreneurial environment are significantly below the EU average (e.g. in 2017, policies towards regulatory framework were rated with 3.93, and the Netherlands had the highest rating – 5.75; average rating for policies supporting entrepreneurship in the EU was 4.18, and France had the highest rating – 5.56)<sup>27</sup>.

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25 Source: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0394:FIN:EN:PDF>, downloaded on June 09, 2018

26 Likert scale of 1 to 9 was used to assess the accuracy of the offered statements in 2016 and 2017 – rating 1 means completely false, and rating 9 completely true. Ratings below 5 mean that these components of entrepreneurial environment have a constraining effect on entrepreneurial activity, and components rated with ratings above 5 have a fostering effect. Since in the Small and Medium Enterprises Report – Croatia 2016 ratings of components of entrepreneurial environment based on the application of Likert scale from 1 to 5 were used, ratings from Table 19 cannot be directly compared with the ratings presented in that Report, p. 32. However, rating 3 is the separator on that scale, and components with ratings below 3 had a constraining, while ratings above 3 had a fostering effect on entrepreneurial activity.

27 Singer et al. (2018), What makes Croatia a (non)entrepreneurial country? GEM Croatia 2017, CEPOR, pp. 70-71

**Table 19:** Evaluation of Government policies in 2016 and 2017

	2016			2017		
	GEM average	EU average	Croatia	GEM average	EU average	Croatia
<b>Policies supporting entrepreneurial activity</b>	4.21	3.98	2.80	4.26	4.18	3.26
<b>Policies towards regulatory framework</b>	3.98	3.90	2.18	3.87	3.94	2.14

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2018

Weak ratings of Government policies towards regulatory framework, together with indicators of insufficient innovativeness of the small and medium enterprise sector, insufficient involvement of women in entrepreneurial activity and weaker performance of the small and medium enterprise sector in Croatia indicate the importance of creating consistent and interrelated policies for the development of the small and medium enterprise sector and ensuring regulatory framework and institutional infrastructure that will ensure efficiency in their implementation.

World Bank's Doing Business study monitors the quality of regulatory environment and its impact on business activity in individual countries of the world. The results of the Doing Business 2018<sup>28</sup> study position Croatia in 51st place<sup>29</sup> out of 190 countries included in this study.

Table 20 provides an overview of indicators of regulatory environment for Croatia in relation to the best positioned countries in the Doing Business 2018 study, and Germany and Slovenia, according to indicators of complexity of regulatory environment for enterprise start-up and paying taxes.

<sup>28</sup> Doing Business survey of the reference year is based on the data from the previous year.

<sup>29</sup> Croatia is in the first place according to the criterion of trading across borders, while the worst ranking (126<sup>th</sup> place) is achieved in the area of obtaining construction permits, for which 146 days and 22 procedures are needed on average in Croatia.



**Table 20:** Overview of selected indicators of quality of regulatory environment according to the Doing Business 2018 study for 2017

Regulatory area	Indicator			
	Croatia / Rank	Best indicator (country)	Germany	Slovenia
<b>Regulations for enterprise start-up</b>				
Number of procedures	8	1 New Zealand	9	4
Time (days)	22.5	0.5 New Zealand	10.5	7
Cost (% of income per capita)	7.2	0 United Kingdom	1.9	0.0
Minimum amount of equity capital to be paid (% of income per capita)	12.5	0 (113 countries)	32.4	39.6
<b>Paying taxes</b>				
Number of payments per year	35	3 Hong Kong	9	10
Time (hours per year)	206	50 Estonia	218	245
Total tax burden (% of profit)	20.6	18.47 (32 countries)	48.9	31

Source: *Doing Business 2018, Economy Profile Croatia, Economy Profile Slovenia, Economy Profile Germany, The International Bank for Reconstruction and Development /The World Bank*

According to the criterion of regulations for enterprise start-up, Croatia took 87<sup>th</sup> place in the Doing Business 2018 ranking. A negative shift in relation to Doing Business 2017 has been made in increasing the number of days required to register an enterprise – the number of days increased from 7 to 22.5. The number of procedures in relation to the previous period is the same, and the cost of enterprise registration decreased slightly, from 7.3% to 7.2% of the value of income. The lowest amount of capital to be paid decreased in 2017 from 25.5% to 12.5% of income.

In the paying taxes category, according to the results of Doing Business 2018, the number of taxes that have to be paid during a year increased from 31 to 35, but the total tax burden of entrepreneurs decreased from 20.9% to 20.6%. Time to prepare and pay taxes is 206 hours per year, and has not changed compared to the previous period (Table 20).

## 4.2. Regulatory environment

The regulatory framework within which small and medium enterprises in Croatia operate is defined by a series of acts, which regulate different aspects of their operation. The acts that are new or have been changed in 2017 and 2018 are specially marked:

- Act on Improving Entrepreneurial Infrastructure (Official Gazette, NN 93/13, 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, 118/03, 107/07, 146/08, 137/09, 152/11, 111/12, 68/13, 110/15)
- Ownership and Other Proprietary Rights Act (Official Gazette, NN 91/96, 137/99, 22/00, 73/00, 114/01, 79/06, 141/06, 146/08, 38/09, 153/09, 143/12, 152/14, 81/15)
- Act on Investment Promotion (Official Gazette, NN 102/15, 25/18)
- Foreign Exchange Act (Official Gazette, NN 96/03, 140/05, 132/06, 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, 116/08, 76/09, 114/11, 68/13, 30/14)
- Court Register Act (Official Gazette, NN 1/95, 57/96, 45/99, 54/05, 40/07, 91/10, 90/11, 148/13, 93/14, 110/15)
- Act on Services (Official Gazette, NN 80/11)
- Act on Public-Private Partnership (Official Gazette, NN 78/12, 152/14)
- Accounting Act (Official Gazette, NN 109/07, 54/13, 78/15, 134/15, 120/16)
- Competition Act (Official Gazette, NN 79/09, 80/13)
- Public Procurement Act (Official Gazette, NN 90/11, 83/13, 143/13, 13/14, 120/16)
- Environmental Protection Act (Official Gazette, NN 80/13, 78/15, 12/18)
- Physical Planning and Building Act (Official Gazette, NN 76/07, 38/09, 55/11, 90/11, 50/12, 55/12, 80/13, 78/15)
- Labour Act (Official Gazette, NN 93/14, 127/17)
- Consumer Protection Act (Official Gazette, NN 41/14, 110/15)
- Bankruptcy Act (Official Gazette, NN 71/15, 104/17)
- Enforcement Act (Official Gazette, NN 112/12, 93/14, 55/16, 73/17)
- Money Laundering and Terrorism Financing Prevention Act (Official Gazette, NN 108/17)
- Act on the Implementation of the General Data Protection Regulation (Official Gazette, NN 42/18)
- Family Farms Act (Official Gazette, NN 29/18)

Tax system regulation consists of the following acts:

- General Tax Act (Official Gazette, NN 147/08, 18/11, 78/12, 136/12, 73/13, 26/15, 115/16)
- 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)
- 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)
- Income Tax Act (Official Gazette, NN 177/04, 73/08, 80/10, 114/11, 22/12, 144/12, 120/13, 125/13, 148/13, 83/14, 143/14, 136/15, 115/16)
- Value Added Tax (Official Gazette, NN 73/13, 148/13, 153/13, 143/14, 115/16)
- Real Estate Transfer Act (Official Gazette, NN 69/97, 26/00, 153/02, 22/11, 143/14, 115/16)
- Excise Duties Act (Official Gazette, NN 22/13, 32/13, 81/13, 100/15, 120/15, 115/16)

The major tax burdens for enterprises in Croatia are value added tax, income tax, profit tax, and surtax (income of local communities – municipalities and towns) (Table 21).

**Table 21:** Taxes in Croatia

Type of tax	Tax payer	Tax base	Tax rate
<b>VALUE ADDED TAX</b>	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
<b>INCOME TAX</b>	Physical entity that earns taxable income	Total income earned by local tax payers in Croatia and abroad and by foreign tax payers in Croatia	24% on income up to HRK 210,000-00 per annum 36% on income above HRK 210,000.00 per annum
<b>PROFIT TAX</b>	Enterprises and other legal and physical entities that perform activity with the aim of making profit	Profit (difference between income and expenses)	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
<b>SURTAX</b>	Tax on income of tax payers	Income tax	Municipality: up to 10% Town with population less than 30,000: up to 12% Town with population above 30,000: up to 15% City of Zagreb: up to 18%

Source: Tax system of the Republic of Croatia, [www.porezna-uprava.hr](http://www.porezna-uprava.hr), 2018

The principal act of the customs system is:

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

During 2017 and 2018, as well as in previous years, there have been changes in the legislative framework that affect the activity of the small and medium enterprise sector. Three new acts came into force: the Money Laundering and Terrorism Financing Prevention Act, the Act on the Implementation of the General Data Protection Regulation and the Family Farms Act. All the acts that regulate the tax system have been amended. Amendments to the Income Tax Act and Profit Tax Act have introduced new tax brackets.

### 4.3. Distribution of competences for the adoption and implementation of policy decisions

The main actors in the formulation, adoption 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](http://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](http://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](http://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. The **Industry and IT Sector** has been operating within CCE since 2012, within which the **Department for Entrepreneurship and Innovations** operates.

*“The activities and services of the Department are aimed at providing timely and accurate information and assistance and support to every entrepreneur. 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 Hrvatska (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, 116 craftsmen associations and 18 sections and guilds ([www.hok.hr](http://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 centers for entrepreneurship. CEPOR's mission is to influence the public and political environment, emphasizing the key role of entrepreneurship and small and medium enterprises in the development of Croatian economy ([www.cepor.hr](http://www.cepor.hr)).

### **4.4. Obstacles to the development of the small and medium enterprise sector through the prism of international research**

The quality of business environment and its impact on the competitiveness of the national economy are the subject of numerous international studies. The studies in which Croatia has been involved for many years indicate rootedness of obstacles to the development of the small and medium enterprise sector in Croatia, related to: administrative obstacles; insufficiency of the judiciary; lengthy ownership registration procedures; inadequacy of educational content 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 research** monitors the connection between entrepreneurial framework conditions<sup>30</sup> and entrepreneurial activity at individual level. Since the beginning of implementation of the GEM 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 (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**<sup>31</sup>, 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 citizens. *Global Competitiveness Report 2017-2018* positions Croatia in 74<sup>th</sup> place out of 137 countries included in the survey, which represents stagnation compared to the previous year's survey (Table 22). Same as in 2016, Switzerland is at the top of the rankings, followed by the United States and Singapore.

In 2017, Croatia's rating in the area of institution development declined by 13 places, in higher education and training by 11 places, and in labour market efficiency by 7 places. Croatia's results for 2017 show an improvement in the rating of factors of macroeconomic environment (60<sup>th</sup> place) where increase by 24 places was recorded, health and elementary education (44<sup>th</sup> place) where shift by 22 places was recorded, and technological readiness (43<sup>rd</sup> place) where shift by 4 places was recorded.

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

31 Methodology of the World Economic Forum is based on the analysis of perceptive data obtained by researching opinions of businessmen and publicly available statistical indicators on 12 competitiveness factors, which include: institutions, infrastructure, macroeconomic environment, health and elementary education, higher education and training, labour market efficiency, goods market efficiency, technological readiness, business sophistication, innovativeness, market size and financial market.

**Table 22:** Results of the Global Competitiveness Report 2017-2018 – Croatia and reference countries

Country	Rank 2016*	Rank 2017**	Change	
Poland	36	39	↘	-3
Czech Republic	31	31	→	0
Bulgaria	50	49	↗	+1
Slovenia	56	48	↗	+8
Hungary	69	60	↗	+9
Montenegro	82	77	↗	+5
Croatia	74	74	→	0
Romania	62	68	↘	-6
Slovakia	65	59	↗	+6
Bosnia and Herzegovina	107	103	↗	+4
Albania	80	75	↗	+5
Serbia	90	78	↗	+12

Source: *Global Competitiveness Report 2017-2018*, World Economic Forum / National Competitiveness Council, 2018

\* 138 countries participated in the survey

\*\*137 countries participated in the survey

Compared to the previous year's *Report*, Bulgaria has advanced by 1 place in the overall rankings, Slovenia by 8, Hungary by 9, Montenegro by 5, Slovakia by 6, Bosnia and Herzegovina by 4, Albania by 5, and Serbia by 12. According to the results of *Global Competitiveness Report 2017-2018*, the Czech Republic remained in the same position as in 2016, Poland recorded a drop by 3 places, and Romania a drop by 6 places (Table 23).

**Corruption Perceptions Index** – survey carried out by Transparency International ([www.transparency.hr](http://www.transparency.hr)) defines a ranking list of participating countries, according to the assessment of the extent of corruption, that is, measures the degree of perception of corruption in the public sector and among officials. Corruption Perceptions Index evaluates all levels of work of public authorities, and respondents are business people and analysts. The Corruption Perceptions Index in 2017 encompassed 180 countries worldwide, among which Croatia is ranked as 57<sup>th</sup> scoring 49 points<sup>32</sup>. Compared to the previous year, this result represents a drop by 2 places, but the number of points did not change, which is the result of an increase in the number of countries covered by the survey.

32 In the survey conducted by Transparency International, 0 points represents complete corruption, and 100 points national environment without corruption.

Such a ranking places Croatia among the corrupt countries of the European Union. In its June 30, 2018 press release<sup>33</sup>, Transparency International Croatia warns that actions aimed at combating corruption in Croatia have died down, and that in the last 5 years no law or other act on protection of whistle-blowers has been adopted.

The new Public Procurement Act<sup>34</sup>, which transposes Directives 2014/24/EU and 2014/25/EU, entered into force on January 1, 2017. The application of this Act will facilitate the monitoring of public procurement and space for corruption will be reduced.

According to this survey, the least corrupt countries are New Zealand (89 points), Denmark (88 points), and Finland, Norway and Switzerland (85 points). The most corrupt countries are Somalia (9 points) and South Sudan (12 points). The average value of the index in the European Union is 43 points, which indicates a high degree of corruption in the public sector of individual countries. As a reason for this, Transparency International cites the problem of inequality and strengthening of populism in the world.

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33 <http://www.transparency.hr/hr/clanak/ulaskom-hrvatske-u-eu-zavrsila-je-borba-protiv-korupcije-pomaci-se-ne-vidi-i-gradani-ih-ne-osjecaju/695>, downloaded on August 31, 2018

34 <https://transparency.hr/hr/clanak/izvjesce-ek-2017-o-suzbijanju-korupcije/674>, downloaded on October 25, 2018



## 5. Access to financing

Providing easier access to financial resources is one of the main goals of the Strategy for Development of Entrepreneurship in the Republic of Croatia 2013-2020. Nevertheless, five years after its adoption, the sources of financing of entrepreneurial activity in Croatia can still be characterised as traditional and insufficiently adapted to various stages of entrepreneurial venture. Bank loans are the dominant source of financing of entrepreneurial activity, with government incentive programmes and subsidised credit lines. Sources of financing that are more suitable for riskier stages of entrepreneurial venture – start-up, company takeovers, and rapid growth, especially by using business angels, venture capital funds and crowdfunding platforms, are still underdeveloped. 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 phase, enterprise start-up and microcrediting, to growth through entry into the capital market by selling shares<sup>35</sup>. Because of difficulties in accessing financing, according to the GEM research, as many as 15.7% of enterprises in Croatia ceased business activities in 2017.

The availability of non-traditional sources of financing is monitored by the GEM research, through evaluation of perception of their availability on a scale from 1 to 9, where rating 9 indicates that there are enough equity funds, debt financing, government subsidies, private investors, venture capital funds, possibilities of financing through initial public offering (IPO), and enough sources such as crowdfunding. 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 financial resources, as well as 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 2016, the rating of financial support in 2017 increased from 3.79 to 4.02, which is still below the average rating of EU countries of 4.48 and the average rating of all countries involved in the GEM research, which is 4.31 (Table 23). Croatia lags behind the average of EU countries throughout the observed period. This difference is decreasing, but the lack of non-traditional sources of financing for new and growing entrepreneurial ventures is still notable.

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<sup>35</sup> CBA Analyses (May 2018), no. 64, p. 5, Financing Micro, Small and Medium Enterprises: Open Issues

**Table 23:** Perception of availability of non-traditional sources of financing in 2016 and 2017 – GEM research

	Rating 9 indicates:	2016			2017		
		GEM average	EU average	Croatia	GEM average	EU average	Croatia
<b>Financial support</b>	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), enough sources such as crowdfunding	4.22	4.48	<b>3.79</b>	4.31	4.48	<b>4.02</b>

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2017

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

**The Doing Business** study monitors the rating of quality of regulatory environment related to the credit market through three components: credit market, registering property and protecting investors (Table 24).

**Table 24:** Indicators of quality of the regulatory environment relevant for the credit market for 2017 – from the Doing Business 2018 report

Regulatory area	Indicator			
	Croatia	Best indicator (country)	Germany	Slovenia
Credit market				
Strength of legal rights index (0-12)	5	12 (4 countries)	6	3
Depth of credit information index (0-8)	6	8 (34 countries)	8	6
Public registry coverage (% of adults)	0	100 (3 countries)	1.9	100
Private registry coverage (% of adults)	100	100 (23 countries)	100	0
Registering property / Registering title transfer				
Number of procedures	5	1 (4 countries)	6	5
Time (days)	47	1 (3 countries)	52	49.5
Cost (% of property value)	4	0 (5 countries)	6.7	2
Quality of the land administration index (0-30)	22.5	29 (Singapore)	22	23.5
Protecting minority investors				
Strength of minority investor protection index (0-10)	5.7	9.3 (New Zealand)	5	7.3
Extent of disclosure index* (1-10)	8	9 (Kazakhstan)	6.7	6.7

Source: *Doing Business 2018, 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 the credit market in the Doing Business study is based on three criteria: strength of legal rights index, depth of credit information index and public registry coverage. According to these criteria for the regulatory area of the credit market, Doing Business 2018 positioned Croatia in 2017 in 77<sup>th</sup> place out of 190 countries that have participated in the study, which is a drop by 2 places compared to 2016 when Croatia took 75<sup>th</sup> place out of 190 countries. It is important to note that in 2013, according to the same criteria, Croatia was positioned in 34<sup>th</sup> place out of 185 countries, which indicates that there is significant room for improvement of the system that affects the regulation of the credit market in Croatia. The distance of Croatia from the country with the best score in the area (Distance to frontier) for the credit market in 2017 did not change compared to 2016 and amounted to 55 points<sup>36</sup>.

Doing Business study estimates the complexity of registering property, that is, title transfer, as an important element of the regulatory environment related to the credit market, 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 the mentioned criterion, in 2017, Croatia achieved a shift of three places, and is positioned in 59<sup>th</sup> place out of 190 countries, and the score for the distance from the best practice for registering property was 73.23 points in 2017. Compared with Slovenia, Croatia has the same number of procedures (5), and the

<sup>36</sup> 0 indicates the worst result, and 100 the best result.

time required to register property in Croatia decreased from 62 days in 2016 to 47 days needed today. Compared to the previous period (2016), Slovenia has the same scores. One of the positive changes in Croatia is the reduction of the real estate sales tax from 5% to 4%. Amendments to the Real Estate Transfer Act entered into force on January 1, 2017. Reducing the number of formal procedures is not enough to improve the entire property registration process, but it is necessary to ensure adequate capacity and efficiency of the system for the implementation of procedures related to registering property.

The inefficiency of the system leaves room for selectivity in the speed of solving individual requests based on corruptive actions, which, according to the results of Transparency International's research, is very pronounced in Croatia.

Protecting minority investors speaks of the protection of shareholders against misuse of enterprise's property by the management. Croatia occupies 29<sup>th</sup> place out of 190 countries according to Doing Business 2018 study, and has 68.33 points for the distance from the best practice.

**2017 SBA Fact Sheet Croatia**<sup>37</sup> also notes (as well as the GEM research) poor diversification of sources of financing for small and medium enterprises in Croatia and the dominance of bank loans. According to the 2017 SBA Fact Sheet, access to finance for small and medium enterprises has worsened compared to the last year, and is now below the EU average. This drop compared to the last year can be explained by a decrease in performance of some indicators, such as for rejected loan applications<sup>38</sup> and unacceptable loan offers. Despite numerous policies aimed at improving small and medium enterprises' access to finance and the availability of government incentive programmes and subsidised credit lines, SBA Fact Sheet Croatia indicates that access to financial resources is still an aggravating factor in business operations of small and medium enterprises in Croatia, especially for enterprises in the early stages of business, and that expansion of supply of financial sources is needed.

As the key new measures of the Government of the Republic of Croatia and its institutions in the reference period, the 2017 SBA Fact Sheet Croatia lists the following:

- **InnovFin** – innovative entrepreneurs loan programme, implemented by the Croatian Bank for Reconstruction and Development – HBOR, providing guarantees and loans to innovative enterprises.
- **ESIF micro loans**, implemented by HAMAG-BICRO, consists of 2 products: ESIF Micro Investment Loans and ESIF Micro Working Capital Loans, with total value of EUR 12.5 million. This programme provides micro loans to start-ups, craft businesses, micro and small enterprises.
- **ESIF small loans**, also implemented by HAMAG-BICRO, with total value of EUR 32.5 million. This programme provides loans up to EUR 50,000 to small and medium enterprises, primarily for acquiring assets and to a lesser extent for working capital purposes.

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37 Source: 2017 SBA Fact Sheet – Croatia, European Commission

38 The experts who participated in the preparation of the SBA Fact Sheet report estimate that reluctance of banks to approve loans to the small and medium enterprise sector increased from 6.25% to 10.3%.

The importance of access to finance for the development of small and medium enterprises is also recognised by the European Economic and Social Committee, which published an opinion<sup>39</sup> giving recommendations for facilitating small and medium enterprises access to finance. Some of the Committee's recommendations are: design programmes for small and medium enterprises on the basis of careful need assessments, simplification of de minimis support, establish a full diversified portfolio of tailored and innovative support measures to reach the heterogeneous group of small and medium enterprises, provide support for small and medium enterprises which are prepared for issuing bonds and equity instruments on specialised market segments, allocate sufficient resources to the COSME Loan Guarantee Facility, and strengthen innovative non-lending financial channels (private equity, venture capital, business angels and crowdfunding).

## 5.1. Banks

Bank loans are the dominant form of financing entrepreneurial activity in Croatia.

In 2017, the trend of decline in the total disbursement of loans by banks continues. Total bank placements at the end of 2017 amounted to HRK 245.8 billion, which is a decrease of HRK 15.3 billion or 5.87% compared to the amount of disbursed bank loans at the end of 2016, and a decrease of 10.73% or HRK 29.5 billion compared to the end of 2015 when total placement was HRK 275.4 billion (Table 25).

**Table 25:** Disbursed bank loans in 2016 and 2017 (end of period, million HRK)

Loan users	2016			2017		
	NR*	Share %	Change % 2016/2015	NR*	Share %	Change % 2017/2016
General government	50,997	20	-11	39,884	16	-22
Non-financial (enterprises)	83,379	32	-4	81,808	33	-2
Households	113,246	43	-6	114,532	47	1
Other sectors	13,578	5	33	9,641	4	-29
<b>Total</b>	<b>261,199</b>	<b>100</b>	<b>-5</b>	<b>245,865</b>	<b>100</b>	<b>-6</b>

Source: Croatian National Bank, Statistical data – Indicators of credit institution operations, 2015-201740, adapted by the authors

\* NR – non-consolidated revise reports

39 527<sup>th</sup> EESC Plenary session held on July 5 and 6, 2017, date of adoption July 06, 2017

40 <http://www.hnb.hr/statistika/statisticki-podaci/financijski-sektor/druge-monetarne-financijske-institucije/kreditne-institucije/pokazatelji-poslovanja-kreditnih-institucija>, downloaded on August 24, 2018

In 2017, the largest decline in disbursement of loans was recorded in the segment of financing other sectors, by 29% compared to 2016. Disbursement of bank loans to enterprises declined by 2% or HRK 1.5 billion compared to the previous period. Banks continue to allocate most of their credit potential to households, to which 47% of loan funds were allocated. In 2017, this segment experienced growth of 1.14% compared to the previous year.

Since 2012, the Croatian National Bank has been conducting a quarterly Bank lending survey<sup>41</sup>, which collects bankers' opinions. Part of the survey relates to lending to businesses, which are divided into small, medium and large enterprises in the survey. According to the results of the survey for the last quarter of 2017, the share of banks that mitigated loan approval standards was higher than the share of banks that tightened them. As the main reason for not tightening standards for approval of loans to small and medium enterprises, according to bankers' opinion, two responses stand out: bank liquidity and competition from other banks. Factors that affected tightening of standards for approval of loans to small and medium enterprises, in the last quarter of 2017, are those in the risk perception category, related to expectations of general economic trends and prospects of the industry or individual enterprises. Decline in overall demand for loans by enterprises was observed during that period, but demand of small and medium enterprises for loans in the last quarter of 2017 increased. The reason for this increase in demand surely lies in 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 specific (green) activities (development of olive growing, development of viticulture and winemaking), loans for financing solar systems for the production of electricity and heat, loans for beginners, loans for suppliers, 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 subject to the following financing terms:

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41 <http://www.hnb.hr/statistika/statisticki-podaci/financijski-sektor/druge-monetarne-financijske-institucije/kreditne-institucije/rezultati-ankete-o-kreditnoj-aktivnosti-banaka>, downloaded on August 24, 2018

### **Long-term loans**

Amount:	mainly from HRK 37,000.00, while the maximum loan amount is not limited and depends on the specific investment project and client's creditworthiness
Duration:	up to 25 years
Interest:	variable
Insurance:	various combinations of insurance instruments are possible, depending on the project

### **Short-term loans**

Amount:	mainly from HRK 18,500.00 to HRK 150,000.00, depending on client's creditworthiness
Duration:	up to 12 months
Interest:	variable
Insurance:	combination of various types of insurance is possible

Table 26 provides an overview of terms and conditions for approval of long-term and short-term to small and medium enterprises according to the offer of banks in Croatia, which have, for the purpose of preparation of the *Small and Medium Enterprises Report – Croatia 2018*, delivered information about their offer and conditions to CEPOR.

**Table 26:** Loan offer for small and medium enterprises – Zagrebačka banka d.d. and Raiffeisenbank Austria d.d.

Type of loan	Loan purpose	Maximum amount	Interest rate	Repayment period
Zagrebačka banka d.d.				
Short-term loan for business financing	Financing of seasonal jobs, contracts for delivery of goods and services, working capital needs, investments in agriculture and refinancing loans for the same purposes.	Depending on the creditworthiness of the borrower	Variable	Up to 12 months
Short-term general purpose micro loan	General purpose.	Up to HRK 150,000.00		
Loan for the development of tourism activities	Financing the preparation of the tourist season of the current year, and other investments in tourism.	Minimum HRK 18,500.00, and the maximum amount depends on the creditworthiness of the borrower		
Loan for the development of agricultural activities	Financing investments in agriculture: a) financing seasonal jobs in agriculture b) financing contracts for delivery of agricultural products c) financing other types of short-term services in agriculture d) financing other needs for working capital in agriculture based on documentation e) refinancing loans for the same purposes	Depending on the creditworthiness of the borrower		
Loans to craftsmen	a) financing seasonal jobs (seasonal production, seasonal supplies and preparation of the tourist season, etc.) b) financing contracts for delivery of goods and/or services c) financing other needs for working capital in agriculture based on documentation d) refinancing loans approved by other banks for purposes from a) to c)	Depending on the creditworthiness of the borrower		
Short-term financing				



Long-term financing				
Long-term investment loan	Purchase of land, development of infrastructure and construction of facilities for carrying out activities or for the purpose of expanding activities, purchase and construction of business premises, construction of farms, planting perennial crops, purchase, construction, reconstruction, renovation or expansion of facilities, procurement of equipment, machinery, agricultural machinery and vehicles, purchase of the basic herd and other investments in agriculture. Construction / reconstruction / decoration / furnishing of a ship for business purposes, purchase of a new / used ship for business purposes, refinancing long-term loans earmarked for investment in the above-mentioned purposes and reimbursement of investments in fixed assets for the above-mentioned purposes made in the last 12 months.	Depending on the creditworthiness of the borrower	Variable	Up to 10 years
Loan for financing permanent working capital	Financing permanent working capital.			Up to 3 years
Long-term general purpose micro loan	General purpose.	Up to HRK 150,000.00		Up to 7 years
Mortgage loan	General purpose.	From HRK 37,000.00 to HRK 518,000.00		Up to 7 years
Loan for the development of tourism activities	Purchase, construction, renovation or adaptation of tourism facilities, purchase of vessels and equipment for tourist rental, refinancing loans for the same purposes, and reimbursement of investments in fixed assets for the above-mentioned purposes made in the last 12 months.	Najmanje 18.500,00 kn, a najveći iznos ovisi o kreditnoj sposobnosti korisnika kredita		Up to 15 years
Loan for the development of agricultural activities	Purchase of agricultural and construction land, construction and expansion of facilities, purchase and construction of business premises, construction of farms, planting perennial crops, procurement of equipment, machinery and agricultural machinery, procurement of passenger cars for business purposes, purchase of seeds, fertilizers and protective agents, purchase of the basic herd and planting permanent crops and other investments in agriculture. Refinancing long-term loans earmarked for investment in the above-mentioned purposes and reimbursement of investments in fixed assets for the above-mentioned purposes made in the last 12 months	Ovisno o kreditnoj sposobnosti korisnika kredita		Up to 15 years

## Long-term financing

Beginner Programme – loan for entrepreneurs in selected professions	Purchase of land, development of infrastructure and construction of facilities for carrying out activities or for the purpose of expanding activities, purchase, construction, reconstruction, decoration or expansion of residential and commercial buildings, purchase of equipment, vehicles and ICT equipment. Reimbursement of investments in fixed assets for the above-mentioned purposes made in the last 12 months.	From HRK 37,000.00 to HRK 1,850,000.00	Variable	Up to 25 years
Senior Programme – loan for entrepreneurs in selected professions	Purchase of land, development of infrastructure and construction of facilities for carrying out activities or for the purpose of expanding activities, purchase, construction, reconstruction, decoration or expansion of residential and commercial buildings, purchase of equipment, vehicles and ICT equipment. Refinancing long-term loans earmarked for investment in the above-mentioned purposes and reimbursement of investments in fixed assets for the above-mentioned purposes made in the last 12 months.	Minimum HRK 37,000.00, and the maximum amount depends on the creditworthiness of the borrower		Up to 25 years
Lombard loan based on deposits	General purpose.	Up to 95% of the deposit		Up to 7 years
Loan for financing photovoltaic systems for electricity production	Purchase and installation of network-connected photovoltaic systems for electricity production, preparation of project documentation.	Up to HRK 750,000.00		10 years
Loan for financing solar systems for the production of electric and heat energy	Purchase and installation of solar systems for the production of electric and heat energy, investments in improvement of energy efficiency of commercial and residential real estate, purchase or construction of low energy real estate.	Depending on the creditworthiness of the borrower		10 years
HBOR ESIF loans for growth and development	Purchase of land (maximum 10% of the loan amount), purchase, construction and decoration of facilities, procurement of equipment, working capital.	Minimum HRK 740,000.00, maximum HRK 22,200,000.00 (HRK 74,000,000.00 for tourism)		12 years (17 years for tourism)
Lending based on cooperation with EIF – InnovFin	Tangible and intangible assets, working capital, business transfers	Minimum HRK 185,000.00, maximum HRK 18,500,000.00		Up to 10 years

Long-term financing	Lending in cooperation with EIB (PF4EE)	Investments in improving the energy efficiency of existing buildings (including residential buildings, hotels and public buildings), installation of renewable energy sources in existing buildings, investments in energy-efficient heating and cooling systems, lighting, etc.	Maximum HRK 37,000,000.00, ESCO maximum HRK 8,325,000.00	Up to 15 years
	Lending in cooperation with EIB (SME)	Purchase of equipment, costs of development, planning and financing in the construction stage, patents and licenses, permanent working capital.	Minimum HRK 37,000.00, maximum HRK 92,500,000.00	Up to 12 years
	Loans to craftsmen	a) financing permanent working capital b) refinancing loans approved by other banks for financing permanent working capital	Depending on the creditworthiness of the borrower	Up to 3 years
	<b>Raiffeisenbank Austria d.d.</b>			
Short-term financing	Allowed transaction account overdraft	Loan is intended for financing current operations, that is, simplifying daily liquidity management. It is contracted as revolving limit on transaction account, and funds are always available to the client. Overdraft is repaid automatically upon inflow of funds to the account. A special benefit for micro businesses and craftsmen is the possibility of contracting this type of loan for an indefinite period of time.	Determined individually according to transaction account turnover and creditworthiness of the borrower	Interest rate is determined based on the creditworthiness of the borrower and type of overdraft. Interest is calculated only on the amount of overdraft used

Short-term financing					
Revolving loan	Loan is intended for liquidity maintenance and to finance occasional needs for additional working capital. Revolving loan does not have a predefined number of deposits or withdrawals, but framework loan amount is approved, which users use according to their needs. Each use reduces the total available funds and loan repayment restores them to the original approved amount.	Determined individually according to the creditworthiness of the borrower	Interest rate is calculated only on the used portion of the loan, and is paid along with the return of the used principal	Loan is approved to a maximum period of 36 months, while the repayment period for used individual tranches is 30-120 months (depending on the business cycle of the user)	
Loan for working capital	Loan is intended to finance current expenses or purchase of goods, materials and raw materials. Loan for working capital is also suitable for financing seasonal jobs. Clients are allowed to choose the loan currency and the manner of use and repayment according to their needs	For MSME: maximum up to EUR 250,000.00 For WIB: maximum up to EUR 1,000,000.00 The amount is determined individually according to the creditworthiness of the borrower	Determined individually according to the creditworthiness of the borrower	Up to 36 months	
Short-term loans in cooperation with EBRD	Loans for financing working capital for micro, small and medium entrepreneurs (MSME), and for women entrepreneurs (Women in Business – WIB). The line for women entrepreneurs includes additional non-financial benefits (education, business counselling, business training, and mentoring and networking).	Za MSMP: max. do 250.000,00 EUR Za WIB: max. do 1.000.000,00 EUR Iznos se utvrđuje individualno sukladno bonitetu korisnika kredita.	From 3.2% annually, fixed	12-5 years including grace period (no later than November 20, 2024)	

Short-term financing				
Short-term loans in cooperation with HBOR	Loans for financing working capital and current liquidity, according to the following programmes: a) <i>Permanent working capital</i> (loans for investment in permanent working capital for enhancement of business operations) b) <i>Liquidity</i> (to settle obligations towards suppliers, financial institutions, the state, and to settle other short-term obligations) c) <i>Financing production</i> (loans for working capital intended for production, bridging the gap to collection of payment for goods sold, whole cycle from preparation of production to collection of payment for goods sold) d) <i>Preparation of agricultural production</i> (for purchase of raw materials, production and other materials, and for purchase of agricultural products) e) <i>Preparation of exports</i> (preparation of production for export, export of goods, financing the whole cycle from preparation of exports to collection of payment for export transactions) f) <i>Preparation of tourist season</i> (procurement of goods and services for the purpose of preparing the tourist season in order to provide quality service to tourists: procurement of food, beverages, small inventory, routine maintenance costs, costs of salaries and overhead costs)	According to HBOR's terms and the assessment of the borrower's creditworthiness	According to HBOR's terms for individual programmes	According to HBOR's terms for individual programmes
	Purpose of short-term loans is to procure raw materials, production materials, semi-finished products, small inventory, labour costs, overhead costs, repayment of loans with maturity of up to one year used to finance current operations, other current operating expenses. For contracting a loan from this form of cooperation, no prior consent / approval from HBOR.	Up to HRK 200,000.00 (determined individually according to the creditworthiness of the borrower)	4 % annually, fixed	2-5 years
Short-term loans in cooperation with local self-government units and ministries	Purpose of the loan is financing working capital, and cooperations involving financing working capital are concluded with: • <i>Countries</i> : Split-Dalmatia, Bjelovar-Bilogora, Osijek-Baranja • <i>Towns</i> : Kastav, Sisak • <i>Chambers of trades and crafts</i> : Zagreb Chamber of Trades and Crafts	Determined individually according to the creditworthiness of the borrower and according to terms of individual cooperation programmes	Part of interest is subsidised by the local self-government unit	Up to 36 months

Long-term financing				
Investment loan	Purpose of the loan is investing in the development and modernisation of business operations, construction, adaptation or purchase of commercial real estate, procurement of new equipment, vehicles and machinery. The manner of use and repayment, grace period, insurance and other terms are defined in accordance with the needs of the borrower and the requirements of the project being financed.	Determined individually according to the creditworthiness of the borrower	Determined individually according to the creditworthiness of the borrower, purpose, repayment period and insurance	Up to 10 years
Long-term loans in cooperation with HBOR	Loans for financing of fixed assets and permanent working capital (PWC up to 30% of loan amount) according to the following Programmes: Tourism, Economy, New Production, Shipping, Women Entrepreneurs, Small and Medium Entrepreneurship Development, Agriculture and balanced Development, Youth Entrepreneurship, Environmental Protection, Energy Renovation of Buildings, Inventions. Detailed description of purpose and conditions of programmes is available at: <a href="http://www.rba.hr">www.rba.hr</a>	According to HBOR's terms and the assessment of the borrower's creditworthiness	2%-4% annually, that is, according to HBOR's terms for individual programmes	According to HBOR's terms for individual programmes
Loans in cooperation with the Ministry of Economy, Entrepreneurship and Crafts in cooperation with counties and local self-government units under the programme "Measure 1 – With loan to competitiveness"	Purpose of the loan is to invest in purchase, construction, renovation or expansion of business facilities, purchase of new equipment or parts of new equipment, and working capital up to 20% (for service projects) and up to 30% (for manufacturing projects) of the total approved loan amount.	Determined individually according to the creditworthiness of the borrower	Part of interest is subsidised by the Ministry of Economy, Entrepreneurship and Crafts, and part by counties and local self-government units	7-10 years
Long-term loans in cooperation with local self-government units and ministries	Purpose of the loans is to finance investments in fixed assets, and agreements on cooperation that include lending for fixed assets have been concluded with: <ul style="list-style-type: none"> <li>• <i>Counties:</i> Dubrovnik-Neretva County, Split-Dalmatia County, Karlovac County, Sisak-Moslavina County</li> <li>• <i>Towns and municipalities:</i> Rijeka, Bakar, Kastav, Bjelovar, Varaždin, Municipality Gornji Knežinec</li> <li>• <i>Chambers of trades and crafts</i></li> </ul>	Determined individually according to the creditworthiness of the borrower and in accordance with the terms of each individual cooperation programme	Part of interest is subsidised by the local self-government unit	Up to 10 years

Source: Zagrebačka banka d.d., 2018 Raiffeisenbank Austria d.d., 201

## 5.2. Leasing

After bank loans, leasing is one of the most common forms of financing small and medium ventures. 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.

During 2017, 17 registered leasing companies operated in Croatia, and two companies initiated liquidation proceedings. The total assets of leasing companies in 2017 amounted to HRK 18.1 billion, of which HRK 10.9 billion related to receivables for finance leasing, and HRK 4.9 billion to operating leasing<sup>42</sup>.

The importance of financial intermediaries as a source of financing for small and medium enterprises is recognised by the Croatian Bank for Reconstruction and Development (HBOR), which has improved and expanded cooperation to financial intermediaries, primarily leasing companies, thus enabling additional ways of financing for small and medium enterprises. Expansion of cooperation with leasing companies enabled HBOR, just through this distribution channel, to approve 954 finance leasing contracts, worth more than HRK 185 million in 2017.

## 5.3. Microfinance and credit unions

Microfinance services are provided by credit unions, which operate in more than 100 countries worldwide and provide various financial services, primarily credit and deposit facilities. Although in Croatia they have an insignificant share in the capital market of only 0.1% according to the criteria of assets and relative shares of financial intermediaries<sup>43</sup>, 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. 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.

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<sup>42</sup> "Annual Report 2017", HANFA, pp. 86-87

<sup>43</sup> "Annual Report 2015", Croatian National Bank, Zagreb, 2016, p. 29

Comparison of the microfinance model in Croatia with the best international practice indicates the underdevelopment of microfinance in Croatia<sup>44</sup> compared to developed financial markets where a wide spectrum of such institutions operates. Based on the *Credit Unions Act*<sup>45</sup> from 2011, savings and loan cooperatives in Croatia have been replaced by credit unions. The Credit Unions Act has also introduced numerous restrictions<sup>46</sup>, 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. Membership in a credit union is limited by Article 9 of the Credit Unions Act only to 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.

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.

At the end of 2017, 21 credit unions operated in Croatia – two less than in 2016, thus continuing the downward trend in the number of credit unions. Total assets of credit unions at the end of 2017 amounted to HRK 667 million<sup>47</sup>. Compared to 2016, assets of credit unions increased by HRK 5.7 million. In the 2012-2014 period, the total assets of credit unions grew year by year (at the end of 2012 they amounted to HRK 602 million, at the end of 2013 HRK 660 million, and at the end of 2014 HRK 737 million). The growth trend was interrupted in 2015 and the decrease in assets in the amount of HRK 35 million compared to 2014 was recorded, that is, 4.7% less compared to 2014, and total assets of credit unions in 2016 amounted to HRK 661.4 million.

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 2016 and 2017 (Table 27).

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

45 Official Gazette no. 141/06, 25/09, 90/11

46 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 natural persons and craftsmen.

47 "Annual Report 2017" (2018), Croatian National Bank, Zagreb



**Table 27:** Loans disbursed by credit unions – members of the Croatian Association of Credit Unions in 2016 and 2017 (HRK)

No.	Name of credit union	2016			2017		
		Number of loans	Disbursed funds	Average loan amount	Number of loans	Disbursed funds	Average loan amount
1.	KU APOEN, Valpovo	652	10,760,000	16,503	690	11,498,000	16,664
2.	KU DEPONENT, Zagreb	150	10,712,000	71,413	122	5,558,000	45,557
3.	KU DUKAT, Viškovo	559	15,865,000	28,381	631	19,250,000	30,507
4.	KU GAMA, Zagreb	271	13,760,000	50,775	285	14,455,000	50,719
5.	KU JAMSTVO, Županja	1,383	67,059,155	48,488	1,242	69,464,020	55,929
6.	KU KRAJCAR, Županja	298	13,175,519	44,213	269	54,267,752	201,739
7.	KU LIBERTINA, Čakovec	328	15,477,900	47,189	320	14,920,600	46,627
8.	KU MARJAN, Split	1,599	61,344,000	38,364	1,480	56,826,000	38,396
9.	KU NOA, Osijek	245	8,481,580	34,619	270	9,171,069	33,967
10.	KU ABC, Sisak	447	11,323,000	25,331	355	10,481,000	29,524
11.	KU ZAGORSKA, Zabok	296	17,814,339	60,184	332	15,093,159	45,461
12.	KU SINDIKALNA, Zagreb	1,343	17,430,000	12,978	1,337	17,193,000	12,859
13.	KU SJENICA, Čakovec	408	9,977,150	24,454	457	14,112,800	30,881
<b>TOTAL</b>		<b>7,979</b>	<b>273,179,643</b>	<b>34,237</b>	<b>7,790</b>	<b>312,290,400</b>	<b>40,089</b>

Source: Croatian Association of Credit Unions, 2018

In 2017, total disbursed funds through loans of the members of the Association increased by 14.3% compared to 2016, or by HRK 39.1 million. The number of granted loans in 2017 was lower by 189 compared to 2016, which means that credit unions in 2017 approved on average higher average loan amounts compared to the previous period.

## 5.4. Venture capital funds

Venture capital<sup>48</sup> 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. Economic Co-operation Funds (ECF) are open-ended venture capital investment funds with private offering whose establishment is regulated by the **Investment Funds Act**<sup>49</sup>. 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 founded. The area of investment of Funds are companies with headquarters in Croatia, which exclusively or predominantly operate within the territory of Croatia. 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 investment<sup>50</sup>. 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 participates in the implementation of activities of ECFs together with private investors in the amount equal to the amount of investment of private investors.

In 2013, the Alternative Investment Funds Act<sup>51</sup>, 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 2017, there were four alternative venture capital investment fund management companies, which managed five Economic Co-operation Funds (Table 28).

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48 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, downloaded on October 10, 2016

49 Official Gazette 150/05

50 <https://www.hbor.hr/naslovnica/hbor/fondovi-gospodarsku-suradnju-fgs/>, downloaded on September 01, 2018

51 Official Gazette 16/13, 143/14

**Table 28:** Alternative venture capital investment funds with a private offering – Funds for Economic Cooperation

Venture capital funds -ECF	Management company	Planned fund size HRK	Qualified investor (HBOR) HRK	Net assets HRK
Honestas ECF	Honestas Private Equity Partneri d.o.o.	155,000,000	77,500,000	9,359,369
Nexus ECF	Nexus Private Equity Partneri d.o.o.	380,000,000	190,000,000	419,306,289
Nexus ECF II	Nexus Private Equity Partneri d.o.o.	600,000,000	300,000,000	131,377,349
Prosperus ECF	Prosperus Invest d.o.o.	340,000,000	170,000,000	252,023,667
Quaestus Private Equity Kapital II	Quaestus Private Equity d.o.o.	540,000,000	262,500,000	278,561,383
<b>Total</b>				<b>1,090,628,057</b>

Source: HANFA – Monthly Report, December 2017

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<sup>52</sup> revoked Nexus Private Equity Partneri d.o.o.'s authorisation to manage open alternative venture capital investment funds.

Quaestus Private Equity d.o.o. ([www.quaestus.hr](http://www.quaestus.hr)) manages one venture capital fund: Quaestus Private Equity Kapital II, valued at HRK 540 million.

Prosperus-invest d.o.o. ([www.prosperus-invest.hr](http://www.prosperus-invest.hr)) manages one alternative investment fund: Prosperus ECF, valued at HRK 340 million.

Honestas Private Equity Partneri d.o.o. ([www.honestas-pe.hr](http://www.honestas-pe.hr)) manages the Honestas ECF fund, valued at HRK 155 million.

At the end of 2015, the first regional venture capital fund – Enterprise Innovation Fund (ENIF, South Central Ventures) was launched. Investments of this Fund are focused on equity capital of technology companies, which are in the seed stage or in the early stages of growth, in the area of Western Balkans (Croatia, B&H, Macedonia, Kosovo, Montenegro, Albania and Serbia). The fund has around EUR 40 million at its disposal, of which EUR 1.5 million is intended for seed investments of individual value up to EUR 100,000, while the larger portion of the capital will be allocated to investments in companies in the early stages of growth, amounting up to EUR 3 million per company<sup>53</sup>. The first investment of this fund in Croatia was in the Agrivi start-up, with an investment of EUR 1 million<sup>54</sup>.

<sup>52</sup> On January 11, 2018

<sup>53</sup> Initial founders of the fund were European Investment Fund (EIF), European Bank for Reconstruction and Development (EBRD) and European Commission.

<sup>54</sup> <https://sc-ventures.com/portfolio/agrivi/>, downloaded on September 02, 2018

In the second half of 2015, the Republic of Croatia signed a Loan Agreement with the International Bank for Reconstruction and Development (IBRD) for the implementation of the “Innovation and Entrepreneurship Venture Capital Project”, within which a pilot venture capital fund and a seed co-investment fund should be established in Croatia. **Pilot venture capital fund** was not established during 2017.

**Seed Co-investment Fund** is an open fund with initial capital of EUR 2.5 million. Eligible projects are co-financed with amounts between EUR 30,000 and EUR 300,000, with project duration of up to 24 months. The programme is intended to encourage private equity investment in the early stages of development of small and medium enterprises by providing smaller amounts of venture capital financing together with private investors such as business angels, corporate investors, venture capital funds and incubators. Private investors invest a minimum of EUR 30,000, and HAMAG-BICRO approves funding from the Fund (EUR 30,000 – EUR 300,000), with the distinction that private investors negotiate their share in the start-up company as if they have invested the entire investment amount themselves<sup>55</sup>. The first call for applications for co-financing was open from January 13, 2016 to February 1, 2017, and the Fund received 7 eligible applications during that period<sup>56</sup>. In April 2017, HAMAG-BICRO signed agreements on co-financing with Genos Glycoscience d.o.o. in the amount of HRK 2.25 million and with AdScanner in the amount of HRK 2.2 million.

Invest Europe is an association representing European open venture capital and private equity investment funds<sup>57</sup>, which regularly publishes reports. The Central and Eastern Europe Private Equity Statistics 2017 report<sup>58</sup> presents the data on the volume of **equity** in Croatia. The private equity market in Croatia is unstable, as evident from Tables 29 and 30.

**Table 29:** Annual investments in Croatia in million EUR

Year of investment	2014	2015	2016	2017
Amount of investment	42	13	41	3

Source: Invest Europe, Central and Eastern Europe Statistics 2017, p. 15

**Table 30:** Annual investments in Croatia, 2014-2017, number of enterprises

Year of investment	2014	2015	2016	2017
Number of enterprises	6	4	6	3

Source: Invest Europe, Central and Eastern Europe Statistics 2017, p. 16

55 [https://hamagbicro.hr/wp-content/uploads/2017/12/SCF-prezentacija\\_12-04-2016.pdf](https://hamagbicro.hr/wp-content/uploads/2017/12/SCF-prezentacija_12-04-2016.pdf), downloaded on September 03, 2018

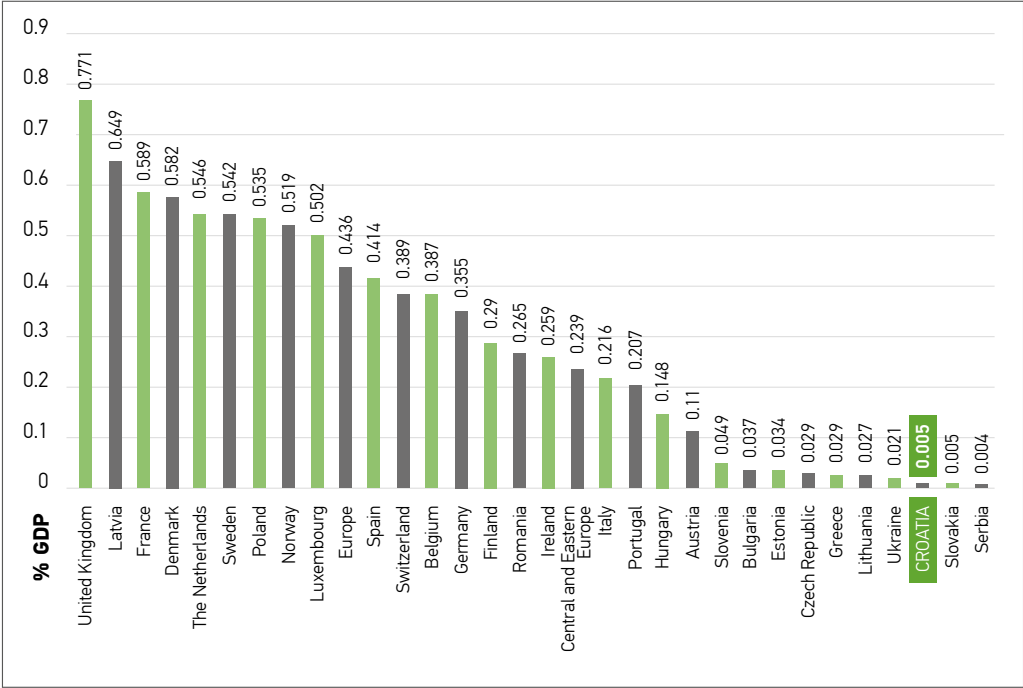
56 Seven applications passed HAMAG-BICRO's administrative verification.

57 <http://www.cvca.hr/zasto-pe-i-venture-capital/rjecnik-termina/>, downloaded on September 09, 2018

58 <https://www.investeurope.eu/media/727455/Invest-Europe-CEE-Activity-Report-2017-05072018.pdf>, downloaded on August 29, 2018

The total annual investment in companies in Croatia through **private equity** in 2014 amounted to EUR 42 million, and only EUR 3 million in 2017. The number of companies in which investments were made during the 2014-2016 period ranges from 3 to 6. Private equity investments participate, as shown in Figure 9, with only 0.005% in Croatian GDP, which points to the fact that the Croatian **private equity** market is still underdeveloped.

**Figure 9:** Private equity investments as a percentage of GDP in Croatia and other European Union countries



Source: Invest Europe, Central and Eastern Europe Statistics 2017, p. 18

During 2017, private equity invested only in start-up companies in Croatia in the amount of EUR 2.6 million, as opposed to 2016, which was much more dynamic for private equity investments (Table 31).

**Table 31:** Amount of private equity investments according to type of investment – in Croatia, Slovenia, Estonia and Romania, in 2016 and 2017, in thousand EUR

Stage of life cycle	2016				2017			
	Croatia	Slovenia	Estonia	Romania	Croatia	Slovenia	Estonia	Romania
Seed			1,100				900	
Start-up	4,132	1,540	3,719	1,523	2,627	354	650	5,605
Later stage venture		2,000	1,380	1,500		1,500	0	
Total venture	4,132	3,540	6,199	3,023	2,627	1,854	1,550	5,605
Growth			48,568	15,121				173,713
Rescue/ Turnaround								
Replacement capital	10,056							
Buyout	27,150	69,946	20,493	129,776		19,419	6,254	316,463
Total	41,338	73,486	75,259	147,919	2,627	21,273	7,804	495,781

Source: Invest Europe, Central and Eastern Europe Statistics 2017, p. 20

Analysis by the Croatian Banking Association (CBA) from 2015 on the availability of financing for small and medium enterprises is still current. The results of the Croatian Banking Association's analysis point out the difficulties faced by small and medium enterprises in accessing capital. The key cause is the existence of the investment gap, or the difference between the average value of investment of around HRK 2 million (which relates to self-financing of enterprises and business angels) and investment of HRK 20 million (from where potential investments of venture capital funds and economic co-operation funds in Croatia start). The conclusion of the CBA's analysis is that the investment gap should be closed, while operations of venture capital funds in Croatia should be strengthened in order to facilitate growth and development of the economy as a whole<sup>59</sup>.

<sup>59</sup> Through its series of publications titled CBA Analysis, Croatian Banking Association deals with the issues of financing of small and medium enterprises. CBA Analysis no. 52 from July 2015 is available at: [http://www.hub.hr/sites/default/files/hub\\_analize\\_52\\_-\\_financiranje\\_msp\\_0.pdf](http://www.hub.hr/sites/default/files/hub_analize_52_-_financiranje_msp_0.pdf), downloaded on October 28, 2016

## 5.5. 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<sup>60</sup>. The most significant crowdfunding platforms for companies are those based on equity. Payer becomes a co-owner of the company they financially support. The percentage of co-ownership usually ranges from 4 to 10%. Some of the crowdfunding platforms are: RocketHub ([www.rockethub.com](http://www.rockethub.com)), Fundable ([www.fundable.com](http://www.fundable.com)), AngelList ([www.angel.co](http://www.angel.co)), Seeders (<https://www.seedrs.com/>), Funderbeam ([www.funderbeam.com](http://www.funderbeam.com)).

In September 2016, Funderbeam SEE<sup>61</sup> was launched in Croatia. This platform for financing micro and small entrepreneurs, which uses Funderbeam's business model<sup>62</sup>, 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 supported by EBRD through the Shareholder Special Fund. Funderbeam is a global crowdfunding platform, with the following features: large amount of free information for investors, no intermediaries or brokers, and joint investment by small investors with business angels and other professional investors is possible<sup>63</sup>. Registering in the investor database is free and simple, and after registration, potential investors can inspect profiles of more than 180,000 companies from around the world. Companies that wish to be financed through this platform need to complete the evaluation questionnaire located at the Funderbeam's website<sup>64</sup>. The minimum investment amount of an individual investor is EUR 100. Thanks to a system based on the innovative Bitcoin technology, investors are enabled to trade shares immediately after the initial investment phase, as if those were companies listed on the stock exchange. Investors pay the 1% transaction fee only if they profit from a transaction.

The goal of Funderbeam SEE is to invest in companies from the region (Croatia, Slovenia and Serbia). The first start-up from Croatia financed through this platform is Include, a company from Solin, which manufactures Steora smart benches.

Table 32 gives an overview of companies that have been funded with alternative sources of financing in Croatia over the years, which shows that various alternative sources of financing are most used by companies whose products are based on knowledge.

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

61 Funderbeam South-East Europe

62 For the purpose of financing an investment, a so-called SPV (Special Purpose Vehicle) based in Estonia is established, which is the sole owner of the company and which appears on behalf of all the investors for the purpose of low expenses and reduced bureaucracy, start-ups talk only with 1 contact, the leading investor who is also the director of the SPV. Regardless of their size, investors have control over their portfolio all the time.

63 <https://www.funderbeam.com/see>, downloaded on August 26, 2018

64 <http://zse.hr/default.aspx?id=74619>, downloaded on August 26, 2018

**Table 32:** Overview of companies that have been funded through alternative sources of financing the most in Croatia over the years

No	Company name	Bio	Funds raised (\$)
1	Rimac automobili	Rimac automobili is a company for the production of premium electric vehicles.	48,453,155
2	Kupi Me	Kupi Me is a part of successful Kupi Me Group established 2010 in Zagreb. It is one of the leading group buying websites in Croatia and Serbia.	3,883,576
3	GoHome	GoHome is a search engine for real estate listings in Croatia, Slovenia, Italy, Germany, Czech Republic, Serbia and Slovakia.	1,327,281
4	Degordian	An independent digital marketing agency.	1,302,353
5	BoatBooker	BoatBooker is the first complete yachting software solution designed for nautical industry, based on actual needs of charter agencies.	1,294,525
6	Sense Consulting*	Sense Consulting is a consulting firm that helps private enterprises and public organizations achieve their business goals.	759,880
7	Oradian	Oradian is a technology company that offers cloud business services for financial institutions.	742,857
8	Aspida d.o.o.**	A new digital media company with 2 unique products: Izzy keyboard – a new digital marketing platform & TVizzy – a new digital broadcaster.	673,481
9	Amodo d.o.o.	Insurtech platform for the insurance industry, which drives growth by developing profitable and engaged customer bases	536,000
10	Include*	Include is a hardware start-up that develops and manufactures smart street furniture.	510,300

\* Trading on Funderbeam.

\*\* Soon trading on Funderbeam.

Source: Croatia Country Report 2017 [funderbe.am/croatia](http://funderbe.am/croatia) – 2017



## PROGRESS

In June 2017, the Zagreb Stock Exchange presented to the public a new trading platform, Progress, intended for small and medium enterprises<sup>65</sup>. The most significant activities of the Progress platform in 2017 are the adoption of the Rules of the Progress Market, and the publication of a public call for the submission of applications from companies interested in obtaining the advisor status at the Progress Market. Since small and medium enterprises do not have sufficient knowledge and skills to independently meet the demands of the capital market, the Zagreb Stock Exchange has introduced the institute of authorised advisors who will lead the company in the first two years and assist with first capital raising. In 2017, a total of 9 Croatian companies obtained the advisor status at the Progress Market, while in 2018, this status was obtained by additional 4 Croatian and 5 Slovenian companies.

An agreement with Hrvatska poštanska banka was signed in April 2018, which will provide access to capital to small enterprises, by issuing securities with the bank's support, which should also provide more favourable loans and other benefits under the agreement.

The start of operation of the Progress platform is expected in the second half of 2018, when the first issuers of securities are expected.

The costs for small and medium enterprises on the Progress Market are classified into 2 categories: fixed cost of the market admission fee in the amount of HRK 11,000.00. The second category of costs relates to operating costs and costs of advisors on the Progress Market. Entrepreneurs enter into contracts with advisors in accordance with commercial terms. When raising capital on the capital market, entrepreneurs do not have additional costs in the form of guarantees, collateral, deposits and the like, and the funds raised through initial public offering are irreversible.

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65 <http://zse.hr/default.aspx?id=77901>, downloaded on August 27, 2018

## 5.6. Business angels

Business angels are successful entrepreneurs and managers who provide the initial capital for financing high-risk entrepreneurial projects. When investing, business angels acquire ownership equity and provide assistance in further development and commercialisation of projects. Business angels are informal individual investors who transfer their experience, knowledge, skills and business contacts to young entrepreneurs and help them develop entrepreneurial projects. The key reasons for the activity of business angels are profit, development of entrepreneurial initiatives, and enthusiasm for participation in the creation of new value<sup>66</sup>. Business angels are mostly individuals, but also possible are syndication deals, i.e., pooling of multiple investors who invest funds together. There are different modalities of business angels' investments, with the so-called equity deal being the most common, where business angels receive a share of ownership in the company as compensation for their investment. Business angels earn profit by selling their share in the company to another investor or through initial public offering of stock of the company they invested in (the so-called IPO).

As a measure to promote this type of investment some countries have introduced tax relief (e.g. some federal states in the USA) or "matching" programmes (e.g. Germany, Spain) through which the state matches each amount invested in the project. The aim of such measures is to increase the attractiveness of this type of investment.

CRANE (CRoatian Business Angels NEtwork) – is the Croatian umbrella association of business angels ([www.crane.hr](http://www.crane.hr)), which brings together private investors interested in investing in innovative companies in early stages of development, in amount ranging from EUR 25,000 to 250,000. The association was founded in 2008, as an initiative of 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.

CRANE is a member of the European Business Angels Network (EBAN), the European umbrella organisation that brings together business angels, investors, start-up accelerators and incubators from more than 60 countries. According to the EBAN Statistics Compendium – European Early Stage Market Statistics 2017, there are 24 business angels in Croatia, whose amount of investment in Croatia in 2017 was about EUR 1.1 million, which is a slight increase of 2.94% compared to the total investment in 2016 (EUR 1 million). During 2017, according to EBAN's report, business angels invested in four companies in Croatia. According to EBAN's data<sup>67</sup>, CRANE members invested more than EUR 200,000 in 6 start-ups in 2015 (Wemy, Ultijack, LikeRI, Unigluko, Snaptap and Trillenium). Exact figures on the number of entrepreneurial ventures and the amount of investment of CRANE's members are a business secret, and business angels mention inadequate quality of projects as the main reason for smaller number of investments. Since the establishment of the Association in 2008 until the end of 2015, according to available information, a total of more than HRK 23 million was invested, which speaks of the still low development of this form of financing business ventures in Croatia. As a rule, investments are directed towards innovative, manufacturing projects, with a strong technological component, which allows multiple return on investment. According to EBAN, there are three key sectors in which European business

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<sup>66</sup> Adapted according to [www.crane.hr](http://www.crane.hr), downloaded on March 20, 2017

<sup>67</sup> <http://www.eban.org/in-2015-over-1-5-million-kuna-of-investments-and-a-great-number-of-new-members>, downloaded on August 30, 2018

angels invested in 2017: 25% of investment relates to FinTech companies, 21% of investment to information and communication technology companies, and 16% of investment to healthcare.

Creation of a stimulating business environment and tax incentives for investments in start-up ventures, such as those present in most EU countries, remain the precondition for a larger number of business angel investments in Croatia.

## **5.7. Government incentive programmes and subsidised credit lines**

The Government of the Republic of Croatia encourages the development of the small and medium enterprise sector by awarding grants and subsidising interest on loans intended for entrepreneurial activity.

### **Grants of the Ministry of Economy, Entrepreneurship and Crafts**

Ministry of Economy, Entrepreneurship and Crafts implemented the following incentive measures in 2017:

#### **“Lifelong learning for crafts” programme**

The programme was implemented in order to encourage the adoption of key 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 natural persons.

Programme Amount: HRK 2,400,000.00, and the source are national funds.

#### **“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: HRK 5,000,000.00, and the source are national funds.

#### **“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.

Programme Amount: HRK 5,000,000.00, of which 85% are funds from the European Social Fund, and 15% from national funds.

### **“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).

Programme Amount: EUR 18,000,000.00, of which 85% are funds from the European Social Fund, and 15% from national funds.

Based on the data of the Ministry of Economy, Entrepreneurship and Crafts, Table 33 shows the number and total and average amount of approved grants.

**Table 33:** Grants approved by the Ministry of Economy, Entrepreneurship and Crafts in 2016 and 2017

	2016			2017		
Activity/ measure	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	1,522	13,698,000.00	9,000.00	2,342	21,078,000.00	9,000.00
Education in crafts – Apprenticeship for craft occupations	34	2,107,030.32	61,971.48	98	5,505,625.25	56,179.85
Education in crafts – Lifelong learning for crafts	713	2,002,393.60	2,808.41	901	2,375,240.00	2,636.23
Education in crafts – Preservation and development of traditional and artistic crafts				121	4,879,358.64	40,325.28
TOTAL	2,269	17,807,423.92	73,779.89	3,462	33,838,223.89	108,141.36

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

### Loan programme to improve lending “WITH LOAN TO SUCCESS 2014” – interest subsidising

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 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, i.e., until December 31, 2018. The programme is implemented through subsidising interest on entrepreneurial loans by the Ministry and counties participating in the programme. In this way, efforts are made to facilitate access to financing for small and medium enterprises and crafts in order to improve business activities, 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 enterprise). 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.

For all of these credit lines, the Ministry participated through payment of funds for interest subsidies from the budget of the Republic of Croatia. During 2016, 439 loans for projects in the amount of HRK 238,051,892 were approved, with the allocation of HRK 2,934,122.09 from the budget for subsidies. In 2017, 297 loans were approved; the amount of approved loans was HRK 156,785,581, with subsidies of the Ministry in the amount of HRK 2,216,344.82.

## **Tax incentives for enterprises according to the Act on Investment Promotion<sup>68</sup>**

Incentive measures for investment projects of enterprises in the Republic of Croatia are regulated by the Act on Investment Promotion (Official Gazette, NN 102/15, 25/18)<sup>69</sup> and refer to investment projects in:

- production-processing activities,
- development-innovation activities,
- business support activities, and
- high value added service activities.

According to Article 7 of the Act on Investment Promotion, incentive measures are divided into:

1. tax incentives for micro entrepreneurs
2. tax incentives for small, medium and large entrepreneurs
3. aid for eligible costs of new jobs linked to the investment project
4. aid for eligible costs of training linked to the investment project
5. aid measures for:
  - a. development-innovation activities
  - b. business support activities, and
  - c. high value added service activities
6. aid for capital costs of the investment project
7. aid for labour-intensive investment project
8. aid for investment projects through the economic activation of inactive assets owned by the Republic of Croatia

Incentive measures may be used by entrepreneurs registered in the Republic of Croatia who make an investment in fixed assets in the minimum amount of:

- EUR 50,000, with creation of at least 3 new jobs for micro enterprises,
- EUR 150,000, with creation of at least 5 new jobs for small, medium and large enterprises,
- EUR 50,000, with the condition of creation of at least 10 new jobs for ICT and software development centres.

Detailed information on tax incentives, employment incentives and informative incentives calculator can be found on the website of the Agency for Investments and Competitiveness (<http://www.aik-invest.hr/>)<sup>70</sup>.

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68 Official Gazette, NN 102/15, 25/18

69 <http://www.aik-invest.hr/poticaji-2/poticaji-za-investicijske-projekte/>, downloaded on August 30, 2018

70 <http://www.aik-invest.hr/poticaji-2/poticaji-za-investicijske-projekte/>, downloaded on August 30, 2018

## 5.8. Croatian Bank for Reconstruction and Development (HBOR)

During 2017, HBOR's main focus was on developing products and services aimed at small and medium enterprises – framework loans with commercial banks and leasing companies, implementation of financial instruments from EU funds (ESIF Loans for Growth and Development), facilitating conditions for projects financed from EU funds (EU private and public sector and rural development), and improving conditions for farmers and public service investments.

A series of measures introduced, the most important of which are those related to improving cooperation with financial intermediaries and lowering interest rates and loan processing fees, resulted in 2,183 approved loans in the amount of HRK 5.15 billion. Small and medium enterprises were granted HRK 2.3 billion for 2,093 projects under all loan programmes, accounting for 96% of the total number of loans granted. During 2017, small and medium enterprises used funds under 32 loan programmes, which are implemented either directly or through commercial banks and leasing companies.

Because of simple and efficient procedures for approving framework loans, the largest number of projects during 2017 was supported through framework loans to leasing companies and commercial banks – 1,665 projects in the amount of almost HRK 900 million. Expansion of cooperation with leasing companies enabled the approval of 954 finance leasing contracts worth more than HRK 185 million through this distribution channel.

Using HBOR's funds, small and medium enterprises invested more than HRK 1.16 billion in new investment projects. For sensitive target groups, such as micro enterprises, start-up entrepreneurs, women entrepreneurs and young entrepreneurs, HRK 57.82 million were approved, which supported 205 projects, while small and medium enterprises used almost HRK 140 million for the implementation of projects co-financed with money from EU funds.

As an export bank and export credit agency of the Republic of Croatia, HBOR follows Croatian exporters in all export phases, through lending programmes, issuance of performance related guarantees and insurance of export receivables. During 2017, Croatian exporters were supported with funds in the total amount of HRK 4.59 billion: under all programmes, exporters were approved a total of 377 loans in the amount of HRK 2.36 billion, representing 46% of total loan activity. Through export insurance policies, export turnover worth HRK 1,73 billion was insured, and 17 export bank guarantees worth almost HRK 500 million were issued at exporters' request.

During 2017, small and medium enterprises used the following measures for facilitating access to financing:

- Direct lending to small and medium enterprises under the Pre-export Finance Programme,
- Reduction of loan application processing fee from 0.8% to 0.5%,
- Reduction of interest rates by 1 percentage point applicable to lending for new investments in agriculture and fisheries, tourism, industry, and in energy efficiency and environmental protection projects,
- Reduction of interest rate within the Jobs for Youth Initiative of the European Investment Bank. The main characteristic of the Initiative is the 0.50 percentage points saving on interest rate for entities that employ or train young people,



- Reduction of interest rate by 0.572 percentage points within the InnovFin programme in cooperation with the European Investment Fund for projects that meet the innovation criteria.

In March 2017, Agreement on financing for the issuance of individual guarantees financed from ESI funds was signed, which represents the framework for continued support to small and medium enterprises through HBOR's loan funds and HAMAG-BICRO's guarantees.

#### *FINANCING OF PROJECTS CO-FINANCED OUT OF THE EU FUNDS*

HBOR provides support to small and medium enterprises that apply to calls for proposals financed from some of the EU funds and through lending programmes EU Private Sector and EU Rural Development.

HBOR lowered the interest rates for EU projects financing programmes. These loan programmes, under very favourable conditions, enable financing of both eligible and ineligible costs, that is, the closure of the financial structure of the entire investment. Lending is carried out directly and through commercial banks. In certain cases, these funds can be used to reduce the loan principal, and in case of direct lending, HBOR allows up to 70% of grant proceeds as borrower's own share in the project. HBOR also offers the possibility of using advance payment to beneficiaries of grant proceeds from EU funds, i.e., for direct borrowers that plan to use an EU advance payment.

#### *FINANCIAL INSTRUMENTS FROM THE EUROPEAN STRUCTURAL AND INVESTMENT FUNDS*

Beside promoting the use of grant proceeds from EU funds, in 2017, HBOR enabled entrepreneurs to use the advantages of financial instruments from the European Structural and Investment Funds.

##### *"ESIF Growth and Expansion Loans"*

In 2017, the Funding Agreement for the Implementation of Financial Instrument "ESIF Growth and Expansion Loans" was signed between HBOR and financial intermediaries Erste & Steiermärkische Bank d.d., Privredna banka Zagreb d.d. and Zagrebačka banka d.d.

Through this financial instrument, small and medium enterprises have at their disposal favourable funds for long-term investment loans, with repayment periods of up to 12 years, i.e. up to 17 years in the tourism sector. Loans under this financial instrument are financed 50% out of the European Structural and Investment Funds (ESIF) at 0% interest rate, and 50% out of the commercial banks' sources at market interest rate to be determined by commercial banks. Such manner of financing means that the final interest rate for entrepreneurs is half of the interest rate that would be charged if no ESIF funds were utilised.

Through cooperation with financial intermediaries and extensive network of their branches, the financial instrument is available in the whole territory of the Republic of Croatia.

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

Activities of the Croatian Agency for SMEs, Innovations and Investments (HAMAG-BICRO)<sup>71</sup> include encouraging the establishment, development, and investment in small enterprises, financing the operations and development of small and medium enterprises through financial instruments (lending and guarantees for approved loans), and providing grants for research, development and application of modern technologies. The goal of HAMAG-BICRO is to provide financial support to innovative and technology oriented small and medium enterprises in Croatia, development and coordination of national policy measures related to innovation, and to provide necessary financial instruments with the ultimate goal to motivate the private and public sector to invest in research and development. Since 2015, HAMAG-BICRO also performs the function Intermediary body level 2 (PT2) within the Operational Programme “Competitiveness and Cohesion” for the financial period 2014–2020.

In 2017, as in previous years, guarantees were one of the most important areas of HAMAG-BICRO's work, with the aim of providing support to entrepreneurs in starting and developing entrepreneurial projects. The most important conditions for issuing guarantees are fully completed financial package of the project, majority private ownership, liquidity of the project throughout the duration of the project, non-existence of debt to the state, economic justification of the investment, and the professional and entrepreneurial abilities of the investor. Exceptionally, a guarantee can be granted to entrepreneurs that operate at a loss, if there is a justified reason for the loss. The process of issuing guarantees by HAMAG-BICRO starts with receiving applications, processing applications, approving positively evaluated applications and issuing guarantees. The guarantee becomes effective at the time of signing the guarantee contract by the entrepreneur and the final bank's decision on loan approval.

HAMAG-BICRO provides support to entrepreneurs through issuing guarantees and letters of intent under programmes: Growing Together, EU Beginner and Farmers. At the end of 2016, new ESIF individual guarantees with the possibility of interest rate subsidy were introduced. A total of 158 guarantees were issued in 2017, of which 110 were national guarantees and 48 were ESIF individual guarantees. Of the 110 national guarantees, the Growing Together and EU Beginner programmes have the same number of issued guarantees (54), and the Farmer programme has only two issued guarantees, because it was launched at the end of 2017. Of the 48 ESIF guarantees, 41 issued guarantees relate to guarantees with interest rate subsidies, and 7 to guarantees without interest rate subsidies. By counties, the most national guarantees were issued in Split-Dalmatia County, City of Zagreb and Primorje-Gorski Kotar County. The most ESIF guarantees were issued in Split-Dalmatia County and Zadar County.

Compared to 2016, the number of guarantees issued in 2017 decreased, but the average amount of guarantees issued in 2017 increased (Table 34). One of the reasons for the decline in the number of issued national guarantees is the introduction of new ESIF individual guarantees with the possibility of interest rate subsidy.

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<sup>71</sup> Croatian Agency for SMEs, Innovations and Investments 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.

**Table 34:** Guarantees granted and issued by HAMAG-BICRO in 2016 and 2017, by programmes

Guarantee programme	Number of granted guarantees by programmes		Number of issued guarantees by programmes		Amount of issued guarantees by programmes (million HRK)	
	2016	2017	2016	2017	2016	2017
National guarantees						
Growing Together	99	49	104	54	110.89	76
EU Beginner	111	68	103	54	134.06	85
Farmers	10	1	10	2	9.12	2,6
Total national guarantees	220	118	217	110	254.07	163.6
ESIF individual guarantees						
ESIF guarantees with interest rate subsidy		55		41		144.4
ESIF guarantees without interest rate subsidy		7		7		29.2
Total ESIF guarantees		62		48		173.6
<b>TOTAL</b>	<b>220</b>	<b>180</b>	<b>217</b>	<b>158</b>	<b>254.07</b>	<b>337.2</b>

Source: HAMAG-BICRO, Annual Report 2016, 2017

## Loans

In the second half of 2016, HAMAG-BICRO<sup>72</sup> introduced the ESIF Micro Loans and ESIF Small Loans programmes for micro, small and medium enterprises. The total amount of funds available in financial programmes (ESIF Small Investment Loans, ESIF Micro Loans and ESIF Micro Loans for Working Capital) is EUR 45 million. The programmes end when all the funds have been used, and no later than December 31, 2020. The goal of the ESIF Micro Loan<sup>73</sup> is to finance small and medium enterprises for activities such as: establishment of craft businesses and companies, modernisation and expansion of existing businesses, self-employment, retention of existing jobs and increase in the number of new jobs. ESIF Micro Investment Loan is intended for entities that are not registered as business entities at the time of submitting the application, but the loan agreement can be signed only with a registered business entity. The lowest amount of micro investment loans ranges from EUR 1,000.00 to EUR 25,000.00. The interest rate range (0.5% – 1.5%) is determined according to the location of investment, and the repayment period is up to 5 years. The loan can be used for the purchase of fixed assets and for working capital, up to 30% of the loan amount.

<sup>72</sup> By signing a financing agreement between the Ministry of Regional Development and EU Funds and HAMAG-BICRO for new financial instruments and the approval of new financial programmes (ESIF loans) by the Government.

<sup>73</sup> <https://hamagbicro.hr/financijski-instrumenti/kako-do-zajma/>, downloaded on August 27, 2018

ESIF Micro Loan for Working Capital: Loan is used for working capital to finance costs such as: preparation of production, raw materials and materials, other production costs, staff costs, new employment, lease of office space, overheads and general expenses. The loan amount ranges from EUR 1,000.00 to EUR 25,000.00, interest rate from 1.5% to 3.5%, and the loan repayment period is up to 3 years.

ESIF Small Investment Loan is also intended for establishment of craft businesses and companies, modernisation and expansion of existing businesses, self-employment, retention of existing jobs and increase in the number of new jobs. The loan amount ranges from EUR 25,000.01 to EUR 50,000.00. The interest rate range (0.5% – 1.5%) is determined according to the location of investment. The repayment period is up to 10 years. The loan can be used for the purchase of fixed assets and for working capital, up to 30% of the loan amount.

A total of 1,315 applications were received in 2017, of which 1,089 applications were processed, and 631 loan applications were approved. Of the 631 approved applications, the majority (440 loans) relates to ESIF Small Investment Loans in the amount of HRK 148 million, 94 approved loans relate to the ESIF Micro Loans for Working Capital programme in the amount of HRK 15 million and 97 loans were approved under the ESIF Micro Investment Loans programme in the amount of HRK 12 million. The total amount of approved loans in 2017 is HRK 175 million (Table 35).

**Table 35:** Number and amount of approved loans in 2017 (in thousand HRK)

Programme	Number of approved applications	Amount of approved applications (in thousand HRK)
Small Investment Loans	440	148,110
Micro Loans for Working Capital	94	14,950
Micro Investment Loans	97	12,009
<b>TOTAL</b>	<b>631</b>	<b>175,068</b>

Source: HAMAG-BICRO, Annual Report 2017

The largest number of ESIF loans in 2017 were approved for investments in the City of Zagreb, Split-Dalmatia County, followed by Zagreb County and Krapina-Zagorje County. The highest number of approved loans, as many as 220 or 34.9%, relates to loans approved to enterprises in the processing industry, 14.7% or 93 loans relate to enterprises in accommodation and food service activities, 56 loans (8.9%) relate to enterprises in the construction industry.

## Grants

### ESI FUNDS 2014-2020

HAMAG-BICRO<sup>74</sup> 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", "Business internationalisation of SMEs through business support organisations", and "With product certification to the market".

Publication of calls for proposals "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" is foreseen for 2018.

***Increase of the development of new products and services which supervene from research and development activities*** – the goal of this grant is to 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. The lowest grant value is HRK 190,000.00, and the highest per single user is HRK 56 million. The call was open from May 2016 until January 2018. The total number of applications received was 155, and the total requested amount of grants was HRK 1.527 billion. The average grant amount was HRK 9.85 million. Most applications were received from the processing industry.

***E-Impulse*** call for proposals is intended for small and medium enterprises for the purpose of strengthening their competitiveness. Initial investments of small and medium enterprises or investments in expansion of existing business units were co-financed. The minimum amount of support was HRK 30,000.00, while the maximum amount was HRK 300,000.00. The call was closed on September 30, 2016. The signing of contracts from this call<sup>75</sup> began in October 2017. 2,099 applications were received, of which 1,099 projects were positively rated. The average amount of support requested was HRK 216,803.65.

***With product certification to market*** is a call for proposals that is permanently open from May 22, 2017 until December 31, 2018, or until utilisation of funds. The total value of the call is HRK 38 million. Grants range from HRK 20,000.00 to HRK 1 million per enterprise. The average amount of support requested was HRK 269,600.00.

### Implementation of projects

In 2017, HAMAG-BICRO carried out the implementation of projects published in 9 calls for proposals funded by ESI funds. By the end of 2017, 1,595 contracts under the jurisdiction of the Sector for Grants – Entrepreneurship were signed, totalling HRK 1.9 billion (Table 36).

<sup>74</sup> Pursuant to the Agreement on performing delegated activities of March 23, 2015, Annex 1 to the Agreement on performing delegated activities of March 11, 2016, Annex 2 to the Agreement on performing delegated activities of December 20, 2016, Annex 3 to the Agreement on performing delegated activities of May 02, 2017.

<sup>75</sup> After checking the applicant's eligibility, registration and administrative verification.

**Table 36:** Awarded grants by calls in 2017

Name of call for proposals	Number of signed contracts	Awarded grants – HRK	Average grant amount – HRK
Investment in production technology of SMEs	27	57,479,977.42	2,128,888
Building production capacities of SMEs and investment in equipment	39	222,023,409.61	5,692,908
Supporting the development of SMEs in tourism by increasing quality and through additional hotel amenities	28	193,720,916.55	6,918,604
Competitiveness and development	160	701,349,322.98	4,383,433
Increasing SME competitiveness and efficiency in areas with development specificities through information and communication technologies (ICT)	228	102,512,676.83	449,617
E-Impulse	985	227,768,060.80	231,237
With product certification to market	33	8,171,212.24	247,612
Development of the network of business support institutions through HAMAG-BICRO	1	7,012,151.61	7,012,152
Innovations of newly-established SMEs	62	66,687,586.78	1,075,606
Increasing the development of new products and services resulting from research and development activities	32	319,335,176.76	9,979,224
<b>TOTAL</b>	<b>1,595</b>	<b>1,906,060,491.58</b>	<b>1,195,022</b>

Source: HAMAG-BICRO, Annual Report, 2017

Encouraging investment in research and development and technology transfer was an important activity of HAMAG-BICRO in 2017. Through **innovation programmes**, HAMAG-BICRO seeks to encourage 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: TEST, PoC – Proof of Innovative Concept Programme, RAZUM, IRCRO, EUREKA/EUROSTARS and TEHCRO (Table 37).

**Table 37:** Projects financed through HAMAG-BICRO innovation programmes in 2016 and 2017

	2016			2017		
	Number of users	Amount if awarded grants (HRK)	Average grant amount (HRK)	Number of users	Amount if awarded grants (HRK)	Average grant amount (HRK)
POC projects in implementation	21	5,863,832	279,230	21	Grant paid in 2016	
RAZUM	7*	10,948,109	1,824,685	7*/**	10,622,849	1,517,550
IRCRO	19	6,053,898	318,626	19***	3,780,417	198,969
EUREKA	4	829,938	207,484	6	2,535,667	422,611
EUROSTARS	1	243,077	243,077	3	1,280,449	426,816
SME INSTRUMENT				5		

Source: HAMAG-BICRO, Annual Report 2016, 2017

\* 1 beneficiary has dropped out

\*\* Projects contracted in 2016

\*\*\* Projects contracted in 2015-2016

**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<sup>76</sup>. In 2017, there were 21 projects in implementation, with the total value of projects of HRK 9,307,591.

**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, RAZUM is implemented within the Sector for Grants – Research, Development and Innovation.

<sup>76</sup> <https://hamagbicro.hr/bespovratne-potpore/programi-podrske-inovacijskom-procesu/poc/>, downloaded on September 01, 2018

Through the RAZUM 2005-2013 Programme<sup>77</sup>, 24 projects totalling HRK 117,423,760 were financed, while 7 projects totalling HRK 24,662,693 were financed through the RAZUM 2015 Programme.

**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. The maximum amount of support for projects under this programme is HRK 900,000. Two projects were completed in 2016, while one project was discontinued. By June 30, 2017, nine projects were completed, and seven projects were completed in December 2017.

**EUREKA/EUROSTARS** is a European initiative for funding market-oriented projects associated with different fields of technology. The programme is intended for small and medium enterprises, which, in cooperation with research and development 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 research and development institutions, and to create the foundations for placement in international markets.

In 2017, HAMAG-BICRO opened two EUREKA/EUROSTARS calls. The first call was opened together with partner countries of the Danube region, while the second call was independent. Two new projects were contracted in 2017 (CAD/CAM Design Centar d.o.o. and Energy Plus d.o.o.), implementation of six ongoing projects was monitored, and two workshops for entrepreneurs were held.

**Eurostars** (sub-programme of EUREKA) is intended to encourage international cooperation of small research and development enterprises with international partners. A project agreement on cooperation was signed with Switzerland within the Eurostars Programme for the 2017-2024 period. Cooperation activities include organisation of participation in international meetings for Croatian entrepreneurs who need partners to apply for Eurostars, development and establishment of a voucher programme for expert services when writing project applications for Eurostars, and the costs of investing in projects with Croatian partners through Eurostars. Swiss contribution to the support budget is CHF 1 million.

**SME INSTRUMENT** programme is a part the HORIZON 2020, designed for highly innovative micro, small and medium enterprises with high growth potential. The programme is structured in 3 phases: in phase 1 (concept and feasibility assessment), EU co-financing in the amount from EUR 50,000 to EUR 2.5 million is possible, in phase 2 (demonstration, replication, R&D), EU co-financing from EUR 500,000 to EUR 2.5 million is possible. The third phase (commercialisation) is the phase of polishing the concept into a market product and does not include co-financing by the EU. The following companies were the beneficiaries of the SME Instrument in 2017: Alveus (phase 1 and phase 2), Amphinicy (phase 1), Rimac Automobili (phase 1), TEMA Automatizacija u industriji d.o.o (phase 1), INCLUDE d.o.o. za proizvodnju električne opreme (phase 1).

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<sup>77</sup> <https://hamagbicro.hr/bespovratne-potpore/programi-podrske-inovacijskom-procesu/razum/>, downloaded on September 01, 2018



## 6. Education for entrepreneurship

Europe needs more entrepreneurs, is the position of the European Commission<sup>78</sup> set out in the *Entrepreneurship 2020 Action Plan*. But, the preferences of Europeans do not go in that direction: only 37% prefer self-employment, while in the US and China more than 50% want to be self-employed. In addition, the share of potentially self-employed in Europe is in decline, while the US and China have an upward trend according to the same criterion<sup>79</sup>. The reason for this situation to a large extent is in the existing educational systems that do not contribute to building entrepreneurial competences of young people. Starting from the view that investing in entrepreneurial education is an investment with potentially the highest yield for the EU, a series of strategically important resolutions at the level of the European Parliament and the European Commission have created a framework for designing education for entrepreneurial competences at the level of EU member states. A growing number of EU member states is introducing entrepreneurial knowledge and skills into the mandatory part of the curriculum at all levels of education (primary, secondary, tertiary, vocational education and adult education)<sup>80</sup>. 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 training<sup>81</sup> was adopted, which specifically emphasizes the need for a broader approach to entrepreneurship. It is believed that the gap between education and training on the one hand, and labour market needs on the other hand, is one of the main causes of job vacancies in the EU. This situation can be solved by empowering the youth with key competences. Entrepreneurship and proactivity have been recognised as one of the eight key life competences which represent a combination of knowledge, skills and attitudes that are necessary for personal fulfilment and development, the role of active citizen in society, social inclusion and employability<sup>82</sup>. The key competences are defined at EU level, with the recommendation that member states use them as the basic guidelines for the development of strategies and infrastructure that enable lifelong learning of individuals.

In 2010, the National Strategy for Entrepreneurial Learning 2010-2014 was adopted in Croatia, which defined the reasons for learning for entrepreneurship, proposal of inclusion of programmes for learning for entrepreneurship in the educational system, as well as the expected results of entrepreneurship education development. Two objectives of the Strategy<sup>83</sup> were set: 1) sensitize

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78 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, 2018

79 Ibid.

80 Ibid.

81 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 10, 2018

82 Other lifelong competences are: communication in the mother tongue, communication in foreign languages, mathematical competence and basic competences in science and technology, digital competence, ability to learn, social and civic competences, and cultural awareness and expression. Source: European Commission/EACEA/Eurydice, 2012. *Developing Key Competences at School in Europe: Challenges and Opportunities for Policy*. Eurydice Report. Luxembourg: The Publications Office of the European Union.

83 Some of the most important measures of the Action Plan for Implementation of the Strategy for the period from 2010 to 2014 are: development of positive attitude and sensitizing the public about entrepreneurship, increasing the interest for training for entrepreneurship, introduction of entrepreneurial learning and training to all development policies and

the public about entrepreneurship and develop a positive attitude towards lifelong learning for entrepreneurship; 2) 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 implemented measures from 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”<sup>84</sup>, published in 2016 by Eurydice – Education, Audiovisual and Culture Executive Agency of the European Commission.

The National Framework Curriculum for Pre-school Education, General Compulsory and Secondary Education drafted by the Ministry of Science, Education and Sports, and adopted in 2010, defines entrepreneurial education through specific objectives by fulfilling which students will be trained to set, evaluate and fulfil personal goals, learn to plan their work and implement business plans, acquire basic knowledge about the economy and running a business, and become aware of the importance and possibility for self-employment<sup>85</sup>. Preparation of school curricula that include entrepreneurial education is not yet completed<sup>86</sup>.

Teachers have an important role in the implementation of entrepreneurial education in school curriculum. In the 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 focusing on entrepreneurial education<sup>87</sup>.

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.

**Strategic Plan<sup>88</sup> of the Ministry of Economy, Entrepreneurship and Crafts for the 2017-2019 Period** emphasizes improving entrepreneurial skills as one of the key areas for increasing

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programs, introduction of entrepreneurship as one of the key competences in all education curricula, increasing the capacities of educational institutions for the introduction of education for entrepreneurship, increasing the competences of educators, teachers and trainers for education for entrepreneurship, and strengthening cooperation and networking between educational institutions, scientific-research and business entities on entrepreneurship programmes. Source: [http://www.hzz.hr/UserDocsImages/Strategija\\_ucenja\\_zapoduzetnistvo\\_2010-2014.pdf](http://www.hzz.hr/UserDocsImages/Strategija_ucenja_zapoduzetnistvo_2010-2014.pdf), downloaded on October 30, 2018

84 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, 2018

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

86 Within the pilot programme of entrepreneurship education implemented by the South East European Centre for Entrepreneurial Learning (SEECLE), some schools have developed and incorporated into their school curricula experimental educational activities that imply the start of implementation of entrepreneurship education, but, application on a wider scale is lacking.

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

88 Source: Ministry of Economy, Entrepreneurship and Crafts: Strategic Plan of the Ministry of Economy, Entrepreneurship and Crafts for the 2017-2019 Period. [https://www.mingo.hr/public/documents/MINGPO\\_STRATESKI\\_PLAN\\_2017\\_2019.pdf](https://www.mingo.hr/public/documents/MINGPO_STRATESKI_PLAN_2017_2019.pdf), downloaded on September 2, 2018

competitiveness of the small and medium enterprise sector. The indicators of realisation are: increasing the number of grants for school cooperatives, student training firms, student incubators, and programmes for promotion of entrepreneurship and crafts; increasing the number of incentives for economic entities that accept students for practical training; increasing the number of students with scholarships that are being educated in deficit craft occupations, and increasing the number of people who have passed the master craftsman, that is, vocational qualification exam.

### **Strategy<sup>89</sup> for Development of Entrepreneurship in the Republic of Croatia 2013-2020**

emphasizes improvement of entrepreneurial skills as one of the five strategic goals, and this goal principally relates to strengthening management of small enterprises, increasing the number of highly qualified employees, and supporting employee lifelong learning. In the Republic of Croatia, according to the data from the Strategy, there are almost four times fewer employees involved in lifelong learning programmes than the EU average. The share of workforce in training and the share of scientists employed in entrepreneurship, among other things, were selected as indicators for monitoring the achievement of the goal of improving entrepreneurial skills.

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 38, 39 and 40).

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89 Source: Official Gazette: Strategy for Development of Entrepreneurship in the Republic of Croatia 2013-2020. [https://narodne-novine.nn.hr/clanci/sluzbeni/2013\\_11\\_136\\_2926.html](https://narodne-novine.nn.hr/clanci/sluzbeni/2013_11_136_2926.html), downloaded on September 2, 2018

**Table 38:** List of universities in Croatia with entrepreneurship programmes at undergraduate, graduate and/or postgraduate levels of study in academic year 2017/2018

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	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, 2018, web pages of universities in Croatia, 2018

## **Economic Clinic of the Faculty of Economics and Business in Zagreb**

*Economic Clinic of the Faculty of Economics & Business of the University of Zagreb was launched in February 2015 and has three main activities: counselling citizens, entrepreneurs and non-profit organisations; organisation and implementation of projects for children, youth, the unemployed and the elderly, and internal and external workshops with the aim of raising the level of financial literacy and entrepreneurial climate. These activities are implemented by students of the Faculty of Economics & Business Zagreb in cooperation and under the mentorship of experts. The Economic Clinic has 69 members assigned to functional, counselling and project teams. Functional teams are EU team, marketing and PR, finance, and human resources. Project teams are in charge of projects that are currently being implemented, which the members of the Clinic have chosen themselves. There are 9 counselling teams at the Economic Clinic, which are working on new cases daily. Since the establishment in 2015 until the end of 2017, the Clinic participated in resolving more than 200 cases related to different topics, from enforcements, accounting problems, to development of business plans and marketing campaigns. In 2017, 8,280 volunteer hours were realised. Success of students who are active in the Clinic is manifested, among other things, in 14 Rector's Awards and 23 Dean's Awards in 2017.*

*Projects with current topics aimed at different target groups include: Entrepreneurial Sprint, Personal Finance, Family Farm (OPG) Academy, Entrepreneur of the Future, Meet Up and Financial Literacy of Primary School Students. Based on the design thinking method, Entrepreneurial Sprint encourages creation of innovative entrepreneurial ideas and contributes to the speed of their realisation with mentoring in marketing, sales, finance and entrepreneurship. Project Financial Literacy of Primary School Students presents the basic functioning of the financial system to second and third grade primary school students through game and story appropriate for their age, and encourages them to participate in discussion at four workshops: Needs and Wishes, Money, Currencies and Cards, Banks, Loans and Savings, and Smart Consumer. By 2018, over 220 workshops were held in 12 primary schools with more than 3,500 students attending. Project Entrepreneur of the Future introduces high school students to entrepreneurship new technologies through interactive lectures and company visits. By bringing them closer to the business world, high school students are encouraged to develop their own ideas and to take into account unconventional occupations as their own choice. Family Farm (OPG) is intended for people of all ages and encourages them to develop and implement their own ideas in the field of agriculture. Through lectures and workshops, participants receive basic knowledge specific for family farms in the fields of business start-up. Marketing, finance, management and applying for EU funds. Project Personal Finance is aimed at citizens of all ages who want to know more about investing their money, relationship towards consumption, optimal methods of savings, and behaviour in challenging financial situations. By gathering experts from the public and private sector, project Meet Up enables networking and learning about current economic topics.*

**Table 39:** List of polytechnics in Croatia with entrepreneurship programmes at undergraduate and/or graduate levels of study in academic year 2017/2018

Polytechnic	Public / Private	Study
VERN Polytechnic	Private	Undergraduate Professional Study Economics of Entrepreneurship (Zagreb) *** 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, 2018, web pages of polytechnics in Croatia, 2018

**Table 40:** List of colleges in Croatia with entrepreneurship programmes at undergraduate and/or graduate levels of study in academic year 2017/2018

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, 2018, web pages of colleges in Croatia, 2018

Online studies in entrepreneurship – accredited distance learning systems, have been introduced in the academic year 2015/2016. Students can obtain such education in the field of entrepreneurship at two educational institutions in Croatia – at the Faculty of Economics Rijeka (Graduate Study Entrepreneurship) and at the University College Nikola Šubić Zrinski (Professional Study Economics of Entrepreneurship and Specialist Study Management of Small and Medium Enterprises).

GEM research 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 41). In 2017, quality of education for entrepreneurial activity at primary and secondary level was rated with grade 2.39, which is a slight decrease compared to the previous year (2.47). At the tertiary level, the quality of education was rated with grade (3.69), which is also slightly lower compared to the previous year (3.83).

**Table 41:** perception of quality of education for entrepreneurial activity in 2016 and 2017 (ratings ranging from 1 to 9)

	2016			2017		
	GEM average	EU average	Croatia	GEM average	EU average	Croatia
Education and training (primary and secondary level of education)	3.11	3.19	2.47	3.2	3.34	2.39
Education and training (tertiary level of education)	4.62	4.56	3.83	4.75	4.67	3.69

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2018

Low grades of perception of quality of education for entrepreneurial activity in Croatia at all three levels of education indicate that neither the recommendations of the European Commission, nor the objectives defined in national strategic documents: National Strategy for Entrepreneurial Learning 2010-2014, Strategic Plan of the Ministry of Economy, Entrepreneurship and Crafts for the 2017-2019 Period and Strategy for Development of Entrepreneurship in the Republic of Croatia 2013-2020 have not found their application in the Croatian educational system.

GEM research also enables the monitoring of perception of entrepreneurship as a business career choice. In 2017, according to the results of GEM research, 62.2% of adults had a positive attitude towards entrepreneurial career in Croatia, which is stagnation compared to the previous year, but still somewhat more pronounced positive attitude compared to the average of EU countries and all countries involved in GEM research. However, attitudes towards the status of entrepreneurs in society, and the media attention given to entrepreneurship, warn of the lack of social values that contribute to the creation of entrepreneurial culture. According to the perception of social status of entrepreneurs and the media attention to successful business ventures, GEM research positions Croatia at the rear of EU countries. Thus, only 47.7% of respondents in the GEM research in 2017 in Croatia believe that successful entrepreneurs have a high status in society, while an average of 67% respondents in EU countries have the same opinion (Table 42).

**Table 42:** Perception of social attitudes towards entrepreneurship in 2016 and 2017 (% of adult population)

	2016			2017		
	GEM average	Croatia	EU average	GEM average	Croatia	EU average
<b>Being entrepreneur is a good career choice</b>	62.5	<b>62.2</b>	57.4	61.6	<b>62.2</b>	58.6
<b>Successful entrepreneurs have a high status in society</b>	68.5	<b>45.6</b>	66.5	68.5	<b>47.7</b>	67
<b>Media attention to entrepreneurship</b>	61.3	<b>47.2</b>	54.3	60.9	<b>48.1</b>	55.6

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2018

The results of GEM research point to a discrepancy between individual attitudes and perceptions about entrepreneurship. A positive attitude about entrepreneurial career indicates readiness of individuals to take initiative and launch entrepreneurial ventures, but perception of low level of social status of successful entrepreneurs will be demotivating for some people who think about launching an entrepreneurial venture. Also contributing to this is the perception of low media attention to positive examples of entrepreneurial activity, which indicate a lack of support for entrepreneurship at the level of the entire society.

There is a significant number of institutions 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.



# 7. 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. GEM research measures the quality of entrepreneurial infrastructure by assessing the perception of the quality of commercial and professional infrastructure for support of the development of the small and medium enterprise sector. According to the results of the GEM research, in 2017 there was an increase in the rating of perception of quality of commercial and professional infrastructure for supporting the small and medium enterprise sector in Croatia from 4.23 in 2016 to 4.66 in 2017, where 9 is the maximum rating (Table 43). Despite the increase in the rating of perception of quality, Croatia is still below the EU average. In 2017, the Netherlands had the highest rating of the quality of commercial and professional infrastructure of all the countries that participate in the GEM research<sup>90</sup>, with rating 6.21.

**Table 43:** Perception of quality of commercial and professional infrastructure for support of the development of the small and medium enterprise sector in 2016 and 2017

	Rating 9 indicates:	2016			2017		
		GEM average	EU average	Croatia	GEM average	EU average	Croatia
Commercial and professional infrastructure	There are consultancy, professional legal and accounting services; companies can afford them; they are of high quality	4.93	5.19	4.23	4.89	5.19	4.66

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2018

The increase in the perception of quality of commercial and professional infrastructure indicates a shift towards better alignment of services provided by business support institutions with the needs of small and medium enterprises. However, deviation from the EU average suggests there is room for further improvement.

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

<sup>90</sup> Singer et al. (2018), What makes Croatia a (non)entrepreneurial country? GEM Croatia 2017, CEPOR, p. 79

## 7.1. Entrepreneurial infrastructure

According to the Act on Improving Entrepreneurial Infrastructure, entrepreneurial infrastructure represents “...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 of the Republic of Croatia, faster growth of entrepreneurship and increasing investments and employment within the area where entrepreneurial infrastructure is planned or built”. **Business support institutions** include development agencies, entrepreneurial centers, business incubators, science and technology parks, competence centers and free zones.

The Act on Improving Entrepreneurial Infrastructure stipulates the establishment of the Unified Register of Entrepreneurial Infrastructure (JRPI) – integrated electronic database of subjects of entrepreneurial infrastructure. In October 2018, there were 380 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 bodies<sup>91</sup>. The register is maintained by the line ministry<sup>92</sup>.

### Entrepreneurial zones

**Entrepreneurial zones** are infrastructurally equipped areas defined by spatial plans, designed for carrying out certain types of economic activities. Operating in an entrepreneurial zone enables entrepreneurs to rationalise their operating costs, based on shared use of space and other entrepreneurial zone resources with other entrepreneurs. In 2018, there were 207 entrepreneurial zones registered in the Unified Register of Entrepreneurial Infrastructure.

### Development agencies

The Act on Improving Entrepreneurial Infrastructure defines development agencies as registered legal entities that are involved in the operational implementation of measures for the development of the economy and entrepreneurship at the local (regional) and national levels, and encouraging and attracting investments. They are responsible for encouraging and attracting investments, initiating and implementing projects to encourage economic development and entrepreneurship in cooperation with economic entities, local and regional entrepreneurial institutions, and higher education institutions and knowledge centers.

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 62 development agencies registered in the Unified Register of Entrepreneurial Infrastructure in 2018.

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

92 <http://reg.mingo.hr/pi/public/>

## **Regional Development Agency of Koprivnica-Križevci County – an example of good practice** ([www.pora.com.hr](http://www.pora.com.hr))

PORA Regional Development Agency of Koprivnica-Križevci County is the legal successor of the Center for Entrepreneurship of Koprivnica-Križevci County. PORA is the regional coordinator and is focused on the promotion and implementation of development activities in Koprivnica-Križevci County. For the purpose of developing entrepreneurship in the County, PORA provides information services and organises training for entrepreneurs, encourages entrepreneurs to apply innovations and high technologies, as well as to network with other businesses, promotes business zones, provides support to potential and existing investors, informs about open EU tenders, offers education about the methodology of preparation and implementation of EU projects, and develops and implements development projects. Some of the projects on which PORA was the coordinator or partner are: “Poduzetnik za pet”, “Improving Business Competitiveness through E-Business”, “Promotion and Provision of Advisory Services to SMEs – SMEPASS”, “Partnership for Everyone”, and the following projects are being implemented: “ATM for SMEs – Access to Microfinance for Small and Medium-sized enterprises” and Interreg V-A Hungary-Croatia Cooperation Programme 2014-2020.

### **Entrepreneurial centers**

The Act on Improving Entrepreneurial Infrastructure defines entrepreneurial centers 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). Their role is to provide professional and advisory services to entrepreneurs when launching and developing entrepreneurial ventures, and in cooperation with local and regional administration, they participate in implementation of development projects aimed at supporting the development of the small and medium enterprise sector. Centers operate as parts of county or city administrations, as independent enterprises or as associations, and are financed mainly from local budgets and European Union projects. There were 35 entrepreneurial centers registered in the Unified Register of Entrepreneurial Infrastructure in 2018.

## **Centre for Entrepreneurship Osijek – an example of good practice** ([www.czposijek.hr](http://www.czposijek.hr))

Centre for Entrepreneurship Osijek is a non-profit association founded in 1997. The founders of the Centre are professors from J. J. Strossmayer University of Osijek, entrepreneurs from Osijek-Baranja County, and representatives of local authorities. The main activities of the Centre are divided into two departments: Entrepreneurship Support Department and Department for EU Projects and International Cooperation.

Some of the Centre's goals are promoting entrepreneurship, encouraging and developing social entrepreneurship, supporting growth and development of beginner entrepreneurs, supporting unemployed people in self-employment, encouraging lifelong learning and training, and promoting entrepreneurial thinking and action in the civil sector. The Centre seeks to realise its goals and business mission focused on entrepreneurship through a range of projects, some of which are: “Creative Academy”, “APP4INNO”.

## Business incubators and accelerators

Business incubators provide technical and educational assistance to entrepreneurs in early stages of development of entrepreneurial ventures and enable their rapid development and sustainability after leaving the incubator. The Act on Improving Entrepreneurial Infrastructure defines two types of business incubators: *entrepreneurial incubators* and *incubators for new technologies*. Entrepreneurial incubators provide support to beginner entrepreneurs through a range of business services and resources, including business spaces under favourable conditions, typically until the third or no later than the fifth year of operation. Incubators for new technologies are specialised business entities with a thematic focus and orientation to areas of new (high) technologies that support launching and growth of innovative entrepreneurial projects through incubation programmes, providing resources and services needed for growth and development. Entrepreneurial incubators have an important role in the system of support for the development of new small enterprises, which should become financially sustainable and independent after leaving the incubator.

Business accelerators are specialised business entities that provide support services to entrepreneurs in the post-incubation stage, or the stage of development and business expansion in the domestic and foreign markets. In 2018, there were 50 business incubators and 5 business accelerators registered in the Unified Register of Entrepreneurial Infrastructure.

### **Business Incubator Klis d.o.o. – an example of good practice**

([www.pi-klis.hr](http://www.pi-klis.hr))

Business Incubator Klis d.o.o. was founded by the Municipality of Klis with the funds of the Ministry of Entrepreneurship and Crafts within the Entrepreneurial Impulse programme in 2013. The goal of the business incubator is to strengthen the economic development of the municipality and regional competitiveness by increasing the employment rate, developing a dynamic entrepreneurial climate, and promoting entrepreneurship. Incubator provides entrepreneurs with work space, administrative services, telecommunication and information service, assistance with business planning and advisory services, promotion and other marketing services, organisation of educational seminars, networking of enterprises and organisations that encourage entrepreneurship development in the municipality, financial counselling and support in the realisation of loan programmes. Entrepreneurs engaged in manufacturing or manufacturing-related service activities have an advantage to enter the incubator. In 2018, 9 enterprises operated in the Incubator. The Incubator seeks to achieve its goals and mission through a number of projects, some of which are: "Improving the Tourist Offer – Branding the Municipality of Klis" and "Educational Workshops for Private Lessors".

## **ACT Groups' Accelerator for Social Entrepreneurs**

(<http://akcelerator.dp.hr>)

ACT Group includes and connects organisations and individuals who promote and develop eco-social economy in Croatia and the region. Their activities also include implementing programmes that encourage beginner entrepreneurs, micro enterprises and social entrepreneurs. In 2017, ACT Group launched the *Accelerator for Social Entrepreneurs* in cooperation with the European Fund for Southeast Europe (EFSE) and the Fund's Development Facility (EFSE DF), which encourages the development impact of the Fund's investments, and with Erste Bank and their Erste Stiftung foundation. During ten months of intensive work, 15 social entrepreneurs have passed both the pre-acceleration phase (in which they dealt with prototyping, testing and validation of solutions and had the opportunity for additional connecting and networking) and the acceleration phase of the programme (enterprise development and growth, market development, marketing, business management), and the programme provided them with financial support of EUR 1,000 for further development of their projects. A new tender will be opened in January 2019, for which a *Recoverable Grant Facility* will be prepared, which will provide funding to enterprises ranging from EUR 10,000 to EUR 25,000.

## **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, in accordance with the provisions of the Act on Scientific Activity and Higher Education

Technology parks help with networking experts and entrepreneurs who want to achieve their economic goals based on new technologies. They place emphasis on development and scientific-research activities, and they are established primarily in the vicinity of higher education institutions and research centers or significant economic-technological systems. The following technology parks operate in Croatia: Technology Park Varaždin, Technology Park Zagreb, Technology Development Centre – Development Agency of Brod-Posavina County, Technology Innovation Centre Medimurje, Step Ri Science and Technology Park of the University of Rijeka, Technology Park BISC Nova Gradiška, Technology Park Vinkovci and Tera Tehnopolis – Technology Development Centre in Osijek.

## **Technology Park Varaždin d.o.o. – an example of good practice**

*(www.tp.vz.hr)*

Technology Park Varaždin d.o.o., founded by the City of Varaždin, Faculty of Organization and Informatics of the University of Zagreb and University North, is an example of good practice of technology parks in Croatia. Establishment of an incubation center for innovative technology start-up enterprises, development of existing innovative technology enterprises, networking of enterprises, educational institutions and development agencies are just some of the activities of this technology park. Technology Park Varaždin also offers services of preparation and implementation of national and EU projects, creation of business plans, investment studies, provides consultancy services essential for the commercialisation of products and services, and tenants in incubation annually get 12 hours of consultancy services free of charge. In 2009, Technology Park Varaždin was declared the best technology park in Croatia.

## **Competence centers**

Competence centers implement research projects of development or production character and develop competences in specific areas. They are focused on development and applied research and their commercialisation and support in designing intellectual property within specific subject areas and branches of competence. Competence centers are designed to provide support to strengthening the capacities of the business sector, mainly small and medium enterprises, which lack their own research and development capacities, in order to carry out research and development projects. 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 that performs economic activities. U In 2018, there were 8 competence centers registered in the Unified Register of Entrepreneurial Infrastructure.

## **Competence Center – an example of good practice**

*(www.cekom.hr)*

Competence Centre Ltd. for research and development conducts research projects of development or production character. The Centre develops competences by providing support and strengthening intellectual property in the field of bioeconomy, and provides research and development services to other business entities. The goals of the Centre are aimed at increasing employment, application of modern technologies, transfer of knowledge and technologies through cooperation with scientific-research institutions, and strengthening cooperation between forestry and wood industry. Centre is a project partner in the ROSEWOOD EU project launched in early 2018, which promotes sustainable use of wood raw materials.

**Free zones** are a part of the territory of the Republic of Croatia where business activities are performed under special conditions. In 2018, there were 11 free zones in Croatia (7 land and 4 port free zones), which provide competitive cost of utilities and various tax and customs benefits to their investors.

## 7.2. Advisory institutions relevant for the small and medium enterprise sector

### **Croatian Chamber of Economy (CCE) – Entrepreneurship and Innovation Department, [www.hgk.hr](http://www.hgk.hr)**

Croatian Chamber of Economy is an independent professional and business organisation of all legal persons that perform economic activity, which have headquarters in Croatia. It offers to its members access to information, databases, education, legal advice, information about sources of financing, advises them when applying for EU funds, and co-finances appearances at fairs. There are 21 county chambers and a large number of sectors and departments within the CCE. Entrepreneurship and Innovation Department has been operating within the Industry and IT Sector of the Croatian Chamber of Economy since 2012.

In total, 587 training sessions (courses, workshops, lectures, conferences, seminars, etc.) with a total of 22,743 participants were held in 2017, and 90 business delegations in Croatia and 40 business delegations abroad were organised during the same period.

Below are the activities that the CEE has undertaken during 2017, in order to support entrepreneurship development.

Innovation missions are a unique platform for Croatian innovation enterprises that enables B2B (business-to-business) meetings in foreign markets according to defined requirements with the aim of commercialising innovations. In 2017, 15 innovation missions and 154 B2B meetings were held.

Erasmus for Young Entrepreneurs enables the development of skills necessary to start and/or successfully run a small business. Erasmus for Young Entrepreneurs is a cross-border exchange programme that offers beginner entrepreneurs the opportunity to learn from experienced entrepreneurs who run small companies in other EU countries. Beginner entrepreneurs exchange knowledge and business ideas with an experienced entrepreneur with whom they stay and collaborate for a period of 1 to 6 months (the stay is partly financed by the European Commission). In the 2016-2018 period (Cycle 8), EUR 57,974 was provided for the implementation, and EUR 103,000 was provided for the 2017-2021 period (Cycle 9). The average duration of exchanges is 4 months, and the average amount of monthly stipend is EUR 900. In 2017, 19 exchanges of Croatian entrepreneurs with experienced entrepreneurs from the EU and 14 exchanges of new entrepreneurs from the EU with experienced Croatian entrepreneurs were realised.

### **Online Catalogue of Croatian Products**

Through the Catalogue, Chamber intends to familiarise purchasers of goods and services, especially investors and project designers, with quality and price-competitive products produced in Croatia. The purpose of the Catalogue is to increase the share of Croatian products in the public procurement system, and especially to increase the share of small and medium enterprises

while respecting the principles of free movement of goods and services. It is believed that the Catalogue will help business and facilitate access to necessary information for both purchasers and suppliers. By the end of 2017, 2,866 products were entered in the catalogue.

## **Entrepreneur Exporter**

*Entrepreneur Exporter* represents individualised tailor-made support to exporters – members of the CEE in opening up new markets and finding new foreign partners, which includes: proposing potential foreign partners, information and analytical overviews of economic and political situation in individual foreign markets, information on foreign public procurement tenders, information on export and import documentation, foreign tax system, organising B2B talks with potential foreign partners, networking of Croatian companies in the target market, education about opportunities for financing from EU funds, business operations in particular foreign markets, changes in foreign trade operations.

## **Projects for women**

CCE is one of the participants in the implementation of the national Strategy of Women Entrepreneurship Development 2014-2020 and the National Policy for Gender Equality. The CCE initiated the establishment of business incubators for women in which, in addition to free space, equipment and educational activities, there is a mentoring programme for women entrepreneurs during the first year of their operations.

## **Croatian Bathroom**

*Croatian Bathroom* is a project launched at the initiative of the Croatian Chamber of Economy, with the participation of 5 reputable Croatian companies – manufacturers of bathroom equipment and furniture. The aim of the project is to provide support to strengthening the competitiveness of Croatian companies by connecting and cooperating with Croatian manufacturers, and by engaging designers who are members of the Community for Industrial Design at the Croatian Chamber of Economy.

## **“Let’s Buy Croatian”**

The “Let’s Buy Croatian” project started in 1997 as an idea to recognise, label and distinguish high-quality Croatian products, and since then they are awarded the “Croatian Quality” and “Croatian Creation” marks. Over time, this project has taken on the scale of a national action with great economic and social significance. In 2017, there were 5 “Buy Croatian” fairs, with almost 700 participants.

## **Croatian Chamber of Trades and Crafts (CCTC), [www.hok.hr](http://www.hok.hr)**

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

In 2017, the CCTC organised and financially supported the participation of its members at foreign trade fairs in Munich, Mostar, Gračanica, Novi Sad and Zenica. At the 50<sup>th</sup> International Trade and Business Fair in Celje, CCTC had the role of main organiser of presentation of the Republic of



Croatia, which was the first ever partner country of the fair. A total of 746 craftsmen exhibitors participated in the aforementioned fairs, of which 122 participated in international fairs and 624 in regional fairs<sup>93</sup>.

CCTC provides advisory support to its members by giving business, tax, customs, accounting, finance, law and technology advice. During 2017, the total number of expert advice provided was 4,220, and the largest number of questions was related to starting a craft business. The number of advice provided rose by 11% compared to 2016, when the number of advice was 3,800. There is a noticeable increase in the number of inquiries related to business conditions in the EU, pertaining in particular to compliance with regulations when providing cross-border services and opening a craft business abroad.

### **Croatian Employers' Association (CEA) – Small and Medium Sized Enterprises' Association, [www.hup.hr/hup-udruga-malih-i-srednjih-poduzetnika.aspx](http://www.hup.hr/hup-udruga-malih-i-srednjih-poduzetnika.aspx)**

Croatian Employers' Association is a voluntary, non-profit and independent employers' association that promotes ideas of entrepreneurial spirit, rights and freedoms, and protects the interests of its members. It offers to its members lobbying services, free legal aid, informs them about current events in the Croatian economy, organises conferences and seminars, and promotes business connecting 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, round tables, forums, consultations.

### **Croatian Employers' Association – CEA Score 2017**

CEA has developed the CEA Score<sup>94</sup> – a system of 73 indicators of economic and social development that measure 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.

<sup>93</sup> Croatian Chamber of Trades and Crafts: Annual Work Report for 2017. Available at: <http://www.hok.hr/>, downloaded on August 17, 2018

<sup>94</sup> CEA Score 2017. Available online at: [www.arhivanalitika.hr](http://www.arhivanalitika.hr), downloaded on August 17, 2018

The result of CEA Score for 2017 is 36 points and shows a slight increase compared to 2016, when it was 34. There are three critical reform areas in which Croatia lags the most compared to comparable countries: burden on the economy with a score of 20 out of possible 100, labour market with a score of 24 and education, health and pension system with a score of only 26. CEA Score shows that Croatia has the largest number of tax payment procedures of all the observed EU10 countries and that the tax burden has grown significantly since 2013. The ratio of taxes, contributions and similar levies to GDP has increased from average 34% before 2014 to the current 36-37%, which even the mini tax reform of 2017 failed to change. The field of judiciary has a score of 33 out of possible 100 points, which is a decline compared to 2016. A drop by two points is recorded by public administration (score 45). Of the positive changes, CEA Score of investment and business barriers, which increased from 20 to 35, and fiscal consolidation, which increased from 32 to 36 in 2017, stand out.

CEA has defined recommendations through three development reforms: (1) reduction of tax burden on labour for at least 2 percentage points of GDP in the first phase, with reforms that will bring rationalisation of the expenditure side of the budget in order to preserve fiscal discipline; (2) simpler and easier hiring and firing of workers, especially in small businesses that contribute the most to employment; (3) urgent modernisation of education through partial liberalisation and comprehensive reform.

## **SMEs and Entrepreneurship Policy Center – CEPOR, [www.cepor.hr](http://www.cepor.hr)**

CEPOR is an independent policy center (think-tank) whose goal is to influence the public-political environment emphasizing 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 global GEM – Global Entrepreneurship Monitor research since 2002, whose results for Croatia for 2016 are published in the publication “What makes Croatia a (non)entrepreneurial Country? GEM Croatia 2016” and publicly presented at round tables organised by CEPOR, Croatian Banking Association and Croatian Employers’ Association in Zagreb, Rijeka, Split and Osijek (in 2017). The 2017 research results are published in the publication “What makes Croatia a (non)entrepreneurial Country? GEM Croatia 2017” and publicly presented at round tables organised by CEPOR, Croatian Banking Association and Croatian Employers’ Association in Zagreb and Varaždin (in 2018).
- Preparation of the Small and Medium Enterprises Report – Croatia, since 2011.

For many years, CEPOR emphasizes the role of family businesses in the Croatian economy and actively promotes the issue of business transfer of small and medium enterprises. CEPOR is a member of TRANSEO – European Association for SME Transfer.

In 2017, CEPOR organised a series of educational workshops for entrepreneurs, representatives of business support institutions and banks on the topic of business transfer. At the Annual Family Business and Business Transfer Forum in Zagreb, which gathered more than 140 participants, CEPOR promoted its publication *“Challenges of business transfer in small and medium enterprises”*. In March 2018, with the sponsorship of the Ministry of Economy, Entrepreneurship and Crafts and the support of the European Fund for Southeast Europe – Development Facility (EFSE – DF), organised 6 regional Family Business and Business Transfer Forums in Čakovec, Rijeka, Pula, Zadar, Split and Virovitica, which were attended by more than 250 entrepreneurs.

### **European Bank for Reconstruction and Development (EBRD), [www.ebrd.com](http://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. The EBRD was founded thirty-nine countries, the European Investment Bank and the European Union. Today, the EBRD has 67 members, of which 36 countries are beneficiaries of its funds

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. The EBRD has so far financed 201 projects in Croatia<sup>95</sup>. The EBRD’s Blue Ribbon programme is aimed at small and medium enterprises with the highest 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. The EBRD also encourages women entrepreneurship through the Women in Business programme.

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

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. The services of the European Enterprise Network are aimed at small and medium enterprises, but are also available to business institutions, research centers 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. During 2017, either independently or in cooperation with other institutions, the EEN provided support to small and medium enterprises through more than 60 business meetings, “business-to-business” talks, conferences and info days<sup>96</sup>.

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<sup>95</sup> <https://www.ebrd.com/where-we-are/croatia-data.html>, downloaded on November 03, 2018

<sup>96</sup> Enterprise Europe Network (online). Available at: <http://www.een.hr/>, downloaded on August 21, 2018

## Coworking

Coworking, which represents an organisation whose activity is based on the networking of individuals who perform different activities in a shared workspace, is increasingly present in Croatia. Coworkers work independently, but they can also cooperate with each other. Because of the lower costs associated with joint use of space, resources and equipment, coworking facilitates their professional self-sustainability, starting their own business or improving an existing business. Most often, they are independent professionals (freelancers), freelance artists, small entrepreneurs 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)<sup>97</sup>.

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 seeks to influence community building by holding events, through micro-networking and pooling social, professional and material resources. According to Coworking Croatia, there are currently 13 coworking spaces in Croatia, 6 in Zagreb (HUB385, Impact Hub, BIZkoshnica, ZIP, WorkUp and CoreHub Zagreb), 4 in Split (Atmosfera Coworking, WIP, Cocreative and Saltwater), 1 in Osijek (Coworking Osijek), 1 in Rovinj (Coworking Rovinj) and 1 in Zadar (Coin Zadar)<sup>98</sup>.

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97 Project COWORKMed (online). Available at: <https://coworkmed.interreg-med.eu>, downloaded on August 20, 2018

98 Coworking Croatia (online). Available at: <http://coworking.hr/coworking/>, downloaded on August 20, 2018

## **EDEA project – development of entrepreneurial skills of young people**

EDEA – Elements for Developing Entrepreneurial Attitudes is a project financed from the Erasmus + European Programme, and is intended for young entrepreneurs aged 19 to 30 years. It was launched in August 2017 and its planned duration is until 2019. The leader of the project is Oxalis Cesam – a cooperative of entrepreneurs from France, and the partners are Warehouse Coworking Factory – coworking space and Labirinto cooperativa sociale – a social cooperative from Italy, and Institute for Creative Education and BIZkoshnica Coworking from Croatia. The goals of the project are to:

- provide education and training programmes for the development of entrepreneurial skills of young entrepreneurs, and education about entrepreneurial attitude and values;
- provide a common platform of tools and knowledge, which the youth community will use after the project is completed;
- share experiences and good practices of some very significant models of (social) enterprises in each partner country;
- encourage young people, especially those from rural areas, to entrepreneurial activity, development of their competences and show them the importance of networking;
- improve linguistic and socio-political knowledge of young people about partner countries.

Within the project, 4 youth exchanges in duration of 5 days will take place, two in France, one in Croatia and one in Italy. From each partner country, 20 young people participate in the project, of which 6 young participants from each country takes part in each youth exchange.

## Conclusion

**Small and Medium Enterprises Report – Croatia 2018** gives insight into the state and performance of the small and medium enterprise sector in Croatia. Based on the results of international research in which Croatia has been involved for many years (Global Entrepreneurship Monitor, Doing Business, Global Competitiveness Report, Corruption Perceptions Index), the key obstacles in the environment in which small and medium enterprises in Croatia operate are also highlighted. 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

Small and medium enterprises are an important part of the Croatian economy. In 2017, the share of small and medium enterprises in the total number companies is 99.7%, while their share in total income is 59.5%. Compared with the previous year, in 2017, an increase of 4.9% in the number of micro and small enterprises and an increase of 3.9% in the number of medium enterprises was recorded. In the total exports of Croatian enterprises in 2017, the value of exports of micro enterprises increased by 15%, of small enterprises by 16.5%, and of large enterprises by 3.6% compared to 2016, and an increase in productivity of small and medium enterprises in Croatia was also observed.

Entrepreneurial activity in Croatia measured by the TEA index in 2017 amounts to 8.9%, which is the best result in the last five years. Compared to 2015, the index increased by 1.2 percentage points, while compared to 2016, it increased by 0.5 percentage points. According to this indicator, Croatia is keeping up with the average of EU countries (8.3% in 2017), but significantly lags behind the average of countries with efficiency-driven economies, to whose group it belongs based on its developmental phase (18.5% in 2017).

Motivational index (TEA index because of perceived opportunity / TEA index out of necessity) of Croatia in 2017 is 1.8, meaning that there are 1.8 times more entrepreneurs who engage in entrepreneurial activity because of perceived opportunity, and not out of necessity. Throughout the observed period, Croatia has a lower motivational index than the EU average.

According to the GEM research, the most common causes of cessation of business activity in Croatia during 2017 were related to issues of business profitability (34.15%), followed by personal or family reasons (25.39%), and problems with access to sources of financing (15.17%). Additional information that 4.69% of entrepreneurs decided to cease business activities due to retirement, and 25.39% of entrepreneurs because of personal or family reasons, indicates 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, a significant increase of entrepreneurial activity measured by the TEA index was recorded in the Dalmatia region, from 7.7% in 2016 to 11.2%, which is also the highest value of the index among all Croatian regions in 2017. Two regions (Lika and Banovina and Slavonia and Baranja) have motivational index below 1, which means that in those parts of Croatia people more often start entrepreneurial ventures out of necessity than because of perceived opportunity.

## **Women entrepreneurship**

In 2017, the share of women in the structure of business owners remained almost unchanged compared to 2016, amounting to 21.9%. The situation is somewhat more favourable with crafts, because 33.8% of crafts are owned by women. Women entrepreneurs participated with 4.4% in total income and with 8.2% in total employment. Under-representation of women in entrepreneurship is not only a characteristic of Croatia; the situation is similar in other EU countries to a greater or lesser extent, indicating the necessity to invest additional efforts at the policy level in promoting and encouraging entrepreneurship as a career choice among female population.

According to GEM results, in 2017, the share of men in business venture start-up activities is 11.5%, while the share of women is 6.4%, which indicates 1.8 times higher activity of men in business venture start-up in relation to women.

Large differences in entrepreneurial activity of women and men indicate insufficient effectiveness of programmes and measures for the development and strengthening of women entrepreneurship in Croatia.

Absence of a greater effect of the Strategy on closing the gap in entrepreneurial activity of women and men points to rootedness of obstacles to the development of women entrepreneurship in Croatia, and the necessity of conducting efficiency evaluation of the Strategy of Women Entrepreneurship Development in accordance with defined performance indicators in order to, on the basis of results, redefine the spectrum of policy instruments and programmes so as to achieve greater progress in the development of women entrepreneurship.

## **Institutional and legislative framework**

Quality of the entrepreneurship ecosystem depends on the consistency of policies, programmes, the effectiveness of the regulatory environment and efficiency in the distribution of competences among institutional actors, responsible for implementing policies, programmes and legislative solutions at national level.

Numerous international studies monitor the quality of institutional and legislative framework for business activity. According to the GEM research, Government policies (Policies supporting entrepreneurial activity, Policies towards regulatory framework) related to the small and medium enterprise sector are the most 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. In 2017, the ratings of Government policies were further reduced, in particular Policies towards regulatory framework (rating 2.14, measured on a scale from 1 to 9).

According to the Global Competitiveness Report, Croatia is positioned in 74<sup>th</sup> place out of 137 countries. In 2017, there was a decline in the area of institution development by 13 places, in higher education and training by 11 places and in labour market efficiency by 7 places. The Corruption Perceptions Index in 2017 encompassed 180 countries worldwide, among which Croatia is ranked as 57<sup>th</sup>, scoring 49 points (100 points represent a state without corruption).

## **Access to financing**

The sources of financing of entrepreneurial activity in Croatia can still be characterised as traditional and insufficiently adapted to various stages of entrepreneurial venture. Bank loans are the dominant source of financing of entrepreneurial activity, with government incentive programmes and subsidised credit lines. After bank loans, leasing is one of the most common forms of financing of small and medium enterprises. Sources of financing that are more suitable for riskier stages of entrepreneurial venture – start-up, company takeovers, and rapid growth, especially by using business angels, venture capital funds and crowdfunding platforms, are still underdeveloped.

Since the establishment of the CRANE association (business angels) in 2008 until the end of 2015, according to available information, a total of more than HRK 23 million was invested, which speaks of the still low development of this form of financing business ventures in Croatia. Creation of a stimulating business environment and tax incentives for investments in start-up ventures, such as those present in most EU countries, remain the precondition for a larger number of business angel investments in Croatia.

Private equity investments participate with only 0.005% in Croatian GDP, which points to the fact that the Croatian private equity market is still underdeveloped.

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 financial resources, as well as inefficiency of measures taken by governments in recent years to improve the quality of entrepreneurial environment in terms of access to financial resources.

Microfinance services are provided by credit unions. Although in Croatia they have an insignificant share in the capital market of 0.1% according to the criteria of assets and relative shares of financial intermediaries, 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.

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.

In 2010, the National Strategy for Entrepreneurial Learning 2010-2014 was adopted in Croatia, which defined the reasons for learning for entrepreneurship, proposal of inclusion of programmes for learning for entrepreneurship in the educational system, as well as the expected results of entrepreneurship education development. Evaluation of the implemented measures from 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.

Low grades of perception of quality of education for entrepreneurial activity in Croatia at all three levels of education indicate that neither the recommendations of the European Commission, nor the objectives defined in national strategic documents: National Strategy for Entrepreneurial Learning 2010-2014, Strategic Plan of the Ministry of Economy, Entrepreneurship and Crafts for the 2017-2019 Period and Strategy for Development of Entrepreneurship in the Republic of Croatia 2013-2020 have not found their application 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, entrepreneurial infrastructure represents *"...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"*. Business support institutions include development agencies, entrepreneurial centers, business incubators, science and technology parks, competence centers and free zones.

According to the results of the GEM research, in 2017 there was an increase in the rating of perception of quality of commercial and professional infrastructure for supporting the small and medium enterprise sector in Croatia from 4.23 in 2016 to 4.66 in 2017, where 9 is the maximum rating. Despite the increase in the rating of perception of quality, Croatia is still below the EU average.

Due to relevance, presented below are the recommendations identified on the basis of the GEM research results in Croatia<sup>99</sup>, which are relevant 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:*

- Insisting on a reform of the educational system that will provide adequate education for acquiring entrepreneurial competence,
- Ensure acquisition of entrepreneurial competences by using other sources of informal learning,

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<sup>99</sup> Source: Singer, S. et al. (2018), What makes Croatia a (non)entrepreneurial country? GEM Croatia 2017, CEPOR, pp. 103-105

- Dissatisfaction with quality of life should be converted into an entrepreneurial challenge by considering self-employment, with the 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,
- Initiation of policies / programmes to encourage balancing of entrepreneurial activity with regard to gender, age, sectors and “regions”,
- Strengthening the innovation capacity of the economy through encouraging cooperation between research institutions and the economy, and internationalisation of research initiatives,
- Increasing the quality of public administration,
- Strengthening the state venture capital fund for financing innovative and growing small and medium businesses and providing tax relief for those who act as business angels,
- Development and implementation of a system for monitoring and evaluating the effects of Government policies and programmes, ensuring public availability of such information,
- Development and transparency of the framework for statistical monitoring of activities of small and medium enterprises,
- Increasing the quality and range of services for entrepreneurs offered by professional infrastructure,
- Active role of the media and educational institutions in breaking social and cultural norms, and the non-supportive value system in relation to the valuation of entrepreneurial activity.

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Alongside its investment activities, EFSE multiplies its impact through the EFSE Development Facility (EFSE DF), which provides technical assistance, financial education, and other services to entrepreneurs and institutions. The EFSE DF focuses on capacity building and training for the financial sector; advancing financial technology for financial inclusion; and supporting the success of entrepreneurs through the targeted initiatives of its Entrepreneurship Academy.

The EFSE is the first public-private partnership of its kind and the first privately managed fund in development finance to leverage private funding for micro and small enterprise finance in the target region. It was initiated by KfW Development Bank (KfW) on 15 December 2005 from four multi-donor programs under its management. Capital is provided by donor agencies, international financial institutions, and private institutional investors. Among these are the German Federal Ministry for Economic Cooperation and Development (BMZ), the European Commission (EC), the Government of Albania, Small and Medium Business Credit Support CJSC (SMBCS), a subsidiary of the Central Bank of Armenia, the Development Bank of Austria (OeEB), the Swiss Agency for Development and Cooperation (SDC), the Danish International Development Agency (Danida), KfW as lead investor, the International Finance Corporation (IFC), the Netherlands Finance Company (FMO), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), Hauck & Aufhäuser, and Deutsche Bank.

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