

ISSN 1848-3526

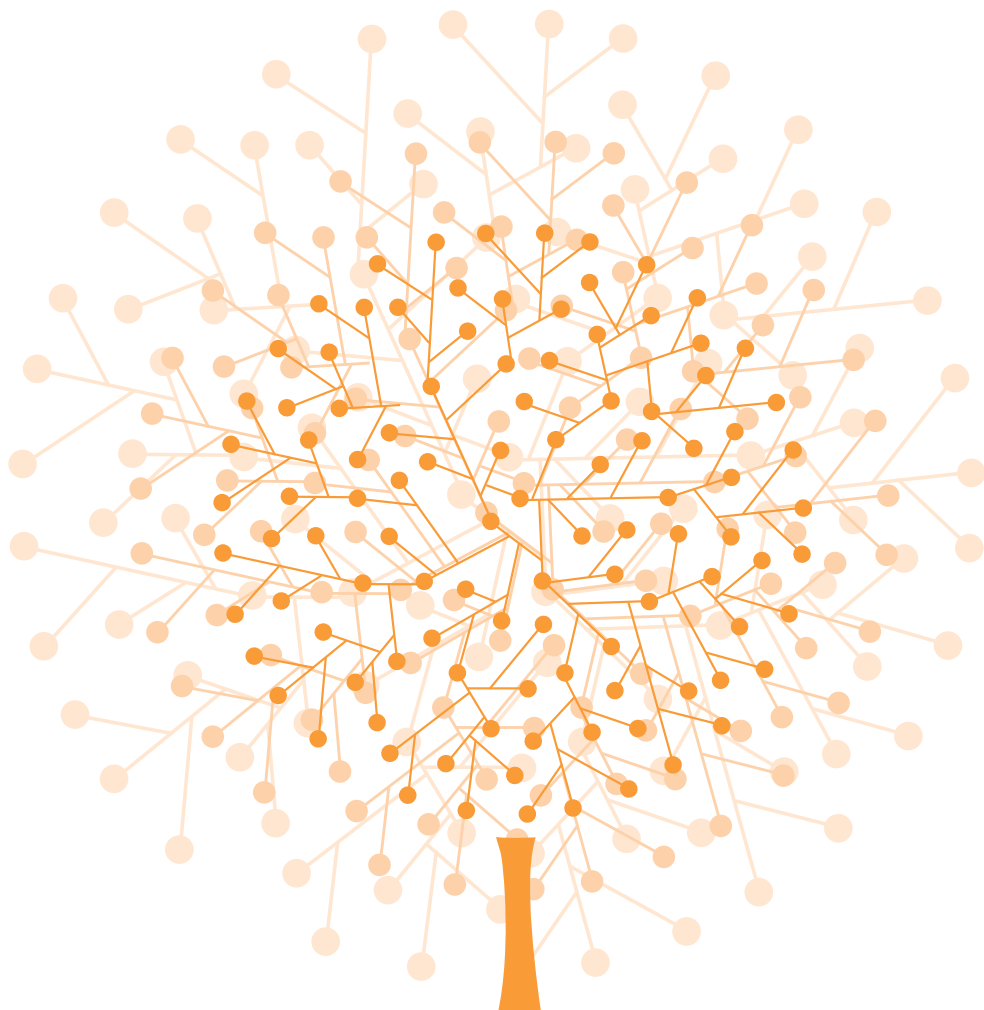


**CEPOR**

Centar za politiku razvoja malih  
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# Small and Medium Enterprises Report – Croatia 2015

*including the results of  
GEM – Global Entrepreneurship Monitor research  
for Croatia for 2014*







**CEPOR** | SMEs and  
Entrepreneurship  
Policy Centre

**ISSN 1848-3526**

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Scientific research basis for the publication was prepared by the members of CEPOR's research team.

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**Publication is published with support:**

European Fund for Southeast Europe (EFSE)

Croatian Bank for Reconstruction and Development (HBOR)

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**Layout and print:**

Gradska tiskara Osijek d.d., Osijek

Zagreb, April 2016

**ISSN 1848-3526**

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## Introduction

Micro, small and medium enterprises are an important generator of new employment and creation of added value of each national economy. In 2014, 104,116 micro, small and medium enterprises (99.7% of the total number of registered enterprises) operated in Croatia, which achieved a share of 53% of total revenues, 68.4% of employment and 48.5% of Croatian exports<sup>1</sup>. The results of international research (Global Entrepreneurship Monitor, Doing Business, Global Competitiveness Report, Corruption Perceptions Index) also in 2014 as the key development problems of the small and medium enterprise sector in Croatia point out insufficient level of new business venture start-up activity, small share of growing enterprises, administrative obstacles to the implementation of entrepreneurial activity, insufficient development of the financial market, and lack of education focused on the development of entrepreneurial knowledge and skills.

The annual **Small and Medium Enterprises Report – Croatia 2015** provides an overview of the situation of the small and medium enterprise sector through the following aspects: dynamism, sector's significance for the economy and regional development, access to financing, availability of educational programs and professional services, gender balance in entrepreneurial activity, and possibilities for financing development through European Structural and Investment (ESI) Funds. The report presents data and analyses of the situation in the small and medium enterprise sector based on the financial statements from 2014 and their comparison with indicators from previous years. Reference years used as the basis for comparison in relation to 2014 were selected depending on the availability of data and intensity of changes during the observed periods. In addition to the financial performance indicators of the sector, the Report presents activities carried out in 2014 and 2015 by institutions<sup>2</sup> in charge of strengthening the quality of the environment in which small and medium enterprises in Croatia operate.

The publication is published by **CEPOR<sup>3</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 contribute to the development of entrepreneurial culture and stimulating institutional and regulatory framework for entrepreneurial activity in Croatia in order to achieve strong economic and social development.

The data presented and analysed in the Report were collected from relevant stakeholders of the entrepreneurship ecosystem in Croatia – Ministry of Entrepreneurship and Crafts, Croatian Chamber of Economy, Croatian Bank for Reconstruction and Development, Croatian Agency for SMEs, Innovations and Investments, FINA and others, and from reports of international research projects – Global Entrepreneurship Monitor, which is conducted by the Global Entrepreneurship Research Association (GERA) consortium, Doing Business, which is conducted by the World Bank, Global Competitiveness Report, which is conducted by the World Economic Forum, Corruption

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1 Calculated on the basis of data from FINA, Croatian Chamber of Economy and Croatian Exporters.

2 Information on the activities carried out by individual institutions were collected on the basis of CEPOR's invitation for the purpose of gathering information for the preparation of the Report, and on the basis of information published on institutions' websites.

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

Perceptions Index, which is conducted by the Transparency International, etc. Sources of data on the performance of the small and medium enterprise sector in Croatia in the context of the European Union are EUROSTAT and the publications of the European Commission – SBA Fact Sheet and Annual report on European SMEs.

The Report on Small and Medium Enterprises in Croatia – 2015 consists of eight chapters. The first chapter provides an overview of the macroeconomic environment in Croatia. The second part talks about the situation and importance of the small and medium enterprise sector in Croatia in 2014, in comparison with previous years. In the third chapter, an overview of the environment of the small and medium enterprise sector is given – institutional and legislative framework and obstacles to the development of small and medium enterprises through the prism of international research. The fourth part focuses on the specifics of women entrepreneurship. The fifth chapter talks about the possibilities of financing the development of the small and medium enterprise sector in Croatia. The sixth chapter presents the representation of entrepreneurial 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. The eighth chapter deals with the possibilities of financing small and medium enterprises from the ESI Funds and European Union programs in the 2014 – 2020 financial framework.

The purpose of the annual reports on small and medium enterprises in Croatia, which are published by CEPOR, is to inform the public and institutions on whose activities shaping of the entrepreneurship ecosystem depends on the issues of the small and medium enterprise sector. In this way CEPOR contributes to building a consistent information base for the adoption of policies, programs and measures to improve the conditions for entrepreneurial activity in Croatia.

# 1. Macroeconomic environment in Croatia

Economic activity in Croatia has largely stagnated during 2014 and remained at a low level from the end of 2013, which resulted in a decline of real GDP by 0.4%. Growth of exports has positively influenced the economic trends. The share of exports in GDP in 2014 was 46.5%, which represents an increase of 3.4 percentage points compared to 2013, when the share was 43.1%. In contrast to the growth of exports, the contraction of domestic demand continued due to a more intensive decline in investments, deleveraging of households, and unfavourable expectations about future economic developments. The conditions of reduced inflation have led to further deterioration of principal financial indicators, and the public debt increased to 85.1% of GDP. Gross external debt at the end of 2014 was EUR 46.7 billion, and rose to 108.4% of GDP (Table 1).

The labour market in Croatia in 2014 was characterised by stagnation in the number of employees, and the employment rate was 43.3%. The rate of registered unemployment has slightly decreased in 2014 to 19.7% from 20.3% in 2013, which is largely a result of increased removal of the unemployed persons from the register of the Croatian Employment Service (HZZ) during 2014 because of failure to comply with the provisions of active seeking of employment prescribed by professional employment plan. Internationally comparable survey unemployment rate remained at the same level of 17.3%<sup>4</sup>.

**Table 1:** Croatia – basic macroeconomic indicators in the period from 2010 to 2014

	2010	2011	2012	2013	2014
<b>Real growth of GDP (%)*</b>	-1.7	-0.3	-2.2	-1.1	-0.4
<b>Unemployment rate (%)***</b>	11.6	13.7	15.9	17.3	17.3
<b>Employment rate (%)***</b>	46.5	44.8	43.2	42.1	43.3
<b>Inflation rate (%)**</b>	1.1	2.3	3.4	2.2	-0.2
<b>Gross external debt, in million EUR**</b>	46,908.4	46,397.2	45,297.2	45,958.4	46,663.8
<b>General government debt, as a percentage of GDP (%)***</b>	57.0	63.7	69.2	80.8	85.1
<b>Exports of goods and services (% of GDP)***</b>	37.8	40.5	41.7	43.1	46.5

Sources: \*EUROSTAT, 2015; \*\*"Economic Trends 5/6, 2015", Croatian Chamber of Economy, 2015, \*\*\*"Bulletin No. 217", Croatian National Bank, 2015

The average annual consumer price inflation rate in Croatia in 2014 was -0.2%. The negative inflation rate is a result of a decrease in prices of primary raw materials on the world market and the spillover to domestic prices, and to a lesser extent, weaker domestic demand. A slight growth of nominal wages was recorded during 2014, as well as a slight growth of real wages due to negative inflation rate. Thus, the average monthly gross wage increased in real terms by 0.4% in relation to 2013 and amounted to HRK 7,953 in 2014. The average monthly net wage also slightly increased in real terms by 0.5% and amounted to HRK 5,533<sup>5</sup>.

<sup>4</sup> "Annual Report 2014", Croatian National Bank, Zagreb, 2015, p. 1.

<sup>5</sup> "Explanation of macroeconomic indicators in 2014", Croatian Parliament, Zagreb, 2015, p. 467.

A slight increase of GDP by 1.3% was recorded in the European Union in 2014, while in the eurozone the growth was even lower (0.9%). Real growth in economic activity was achieved by almost all the countries of the European Union, except Italy, Croatia, Finland and Cyprus<sup>6</sup>. The highest growth rates were achieved by the countries of Central and Eastern Europe and the Baltic countries. Exports of goods and services contributed the most to the economic growth of the European Union, while personal consumption had a somewhat lesser impact. The unemployment rate has dropped slightly to 10.2% in 2014, from 10.9% recorded in 2013 (Table 2).

**Table 2:** Real growth rate of GDP, unemployment and the share of exports in total exports of the EU in selected European Union Member States in 2013 and 2014

Country	2013			2014		
	Real growth rate of GDP (%)	Unemployment rate (%)	Share of exports in total exports of the EU (%)	Real growth rate of GDP (%)	Unemployment rate (%)	Share of exports in total exports of the EU (%)
<b>European Union – 28 countries</b>	0	10.9	100	1.3	10.2	100
<b>Croatia</b>	-0.9	17.3	0.2	-0.4	17.3	0.2
<b>Germany</b>	0.1	5.2	27.1	1.6	5	28
<b>Spain</b>	-1.2	26.1	5.1	1.4	24.5	5.2
<b>Hungary</b>	1.5	10.2	1	3.6	7.7	1
<b>Austria</b>	0.2	5.4	2.3	0.3	5.6	2.4
<b>Romania</b>	3.4	7.1	0.9	2.8	6.8	0.9
<b>Slovenia</b>	-1.0	10.1	0.4	2.6	9.7	0.4
<b>Finland</b>	-1.3	8.2	1.4	-0.1	8.7	1.4

Source: EUROSTAT, 2015

Small and medium enterprises in the European Union have finally exited the economic and financial crisis in 2014, although there are big differences between Member States. Added value created by small and medium enterprises in the European Union has increased by 3.3% in relation to 2013, and a growth of employment by 1.2% was recorded, which is a positive development in relation to the decline of 0.5%, which was recorded in 2013<sup>7</sup>.

6 "Eurostat Yearbook 2015", <http://bit.ly/1JE6zT7>, downloaded on February 2, 2016

7 "Annual Report on European SMEs 2014/2015 – SMEs Start Hiring Again", European Commission, 2015, p. 3.

The Croatian Employers' Association has published a document entitled CEA's White Paper in June 2015, which provides an overview of the most important problems of each of 30 CEA's sectoral associations, as well as concrete proposals to remove obstacles to the successful operation of enterprises within specific industries represented in CEA's associations.

CEA's Small and Medium Sized Enterprises' Association has defined the following proposals for the purpose of improvement of the entrepreneurial environment in Croatia:

**1. Improve access to finance.** The two most common ways of financing the development of small and medium enterprises in Croatia are bank lending or financing from EU funds. Financing through EU funds is very timely consuming and administratively demanding for entrepreneurs, and requires assistance in the preparation of projects. Despite the existence of numerous support institutions, which could help them with applications for grants from EU funds, entrepreneurs most often do not know how and where to get adequate help in the preparation of EU projects. In addition, it is necessary to provide a larger number of micro-credit schemes in order to better respond to the specific needs of micro entrepreneurs for smaller, faster and cheaper funding.

**2. Improve the business environment – better adoption of regulations.** Entrepreneurs advocate the restructuring of public administration so as to create efficient and competent administration and reduce the administrative burden of small and medium enterprises. They propose the introduction of measures for a more stable business environment, that is, introduction of stability of laws and their implementation, instead of the current practice of frequent and ad hoc changes of laws and implementing regulations. They call for the implementation of the European Union's „Think Small First“ principle, which presupposes respecting the fact that the applicability of laws (provisions and decisions) is reviewed primarily on the smallest enterprises and only then a decision on their application is made.

**3. Improve access to markets – internationalisation.** Entrepreneurs need measures that will facilitate their access to both the EU single market and the markets outside the EU. In this regard, it is necessary to strengthen the role of state economic diplomacy and institutions that support entrepreneurs in export activities, all with the aim to facilitate entry into foreign markets and use opportunities arising from membership in the EU as much as possible.

**4. Promotion of entrepreneurship.** This request includes taking measures to encourage entrepreneurial and innovation potential for growth – promoting entrepreneurship among the youth, and continuous supports for potential or existing entrepreneurs whether they are in the growth phase, experiencing difficulties or in the phase of transfer of business to new generations.

**5. Improve entrepreneurial skills and skills of employees.** This request includes the introduction of entrepreneurship in the curricula of secondary schools, the introduction of a dual system of education in vocational education, and the improvement of the image of craft and technical jobs in small and medium enterprises.

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<sup>8</sup> [www.hup.hr/EasyEdit/UserFiles/Bijela%20knjiga%202015.docx](http://www.hup.hr/EasyEdit/UserFiles/Bijela%20knjiga%202015.docx), downloaded on October 20, 2015

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

The European Union continuously points out the key role that small and medium enterprises play in ensuring the competitiveness of the economy, and through various policies aimed at this sector creates a more favourable business environment for them. Croatia should also even more direct its focus on the sector of small and medium enterprises, which can ensure economic growth and new employment in a more favourable business environment.

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

Criteria for classification of entities in the small and medium enterprise sector in Croatia are defined by the Accounting Act<sup>9</sup> and the Small Business Development promotion Act<sup>10</sup>.

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

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

- Total assets HRK 32,500,000.00
- Revenue HRK 65,000,000.00
- Average number of employees during business year: 50.

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

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

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

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

For the purpose of this Act, small businesses are comprised of entities which:

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

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<sup>9</sup> Official Gazette NN 109/07, 54/13. The new Accounting Act, which brings changes in the classification of entrepreneurs, came into force on January 1, 2016. Since the Small and Medium Enterprises Report 2015 is based on data from 2014 and 2015, the changes introduced by the new Accounting Act will be included in the Small and Medium Enterprises Report 2016.

<sup>10</sup> Official Gazette NN 29/02, 63/07, 53/12, 56/13

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

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

The Accounting Act and Small Business Development Promotion Act<sup>11</sup> still do not have harmonised revenue size and total assets criteria for classification of small and medium enterprises in Croatia (Table 3), although this issue has been identified for quite some time. The Accounting Act is not harmonised with the categorisation of small business entities that is applied by the European Union.

**Table 3:** Criteria of classification of small business entities

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

Sources: Small Business Development Promotion Act (NN 29/02; 63/07; 53/12; 56/13); [http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/index\\_en.htm](http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/index_en.htm)

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

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

In 2014 there was an increase in the total number of business entities in Croatia in relation to 2013, by 3.2%. However, Croatian economy still has the same structure, in which 99.7% of business entities come from the small and medium enterprise sector, while only 0.3% are large enterprises. As in the previous year, in 2014 there was an increase in the number of small enterprises (3.3%), a decline in the number of medium enterprises (3.7%), and an increase in the number of large enterprises by 1.1% (Table 4).

11 Amendments to the Small Business Development Promotion Act from May 2012 have harmonized the categorization of size of entrepreneurs in this Act with the criteria applied by the European Union (in accordance with the European Commission Recommendation 2003/361/EC from May 6, 2003) thus enabling higher quality analysis and comparison of the small and medium enterprise sector in Croatia and EU countries, as well as better use of support mechanisms intended for small and medium enterprises through EU programs.

**Table 4:** Enterprise structure with regard to size from 2010 to 2014

	2010		2011		2012		2013		2014	
	Number of entities	%	Number of entities	%	Number of entities	%	Number of entities	%	Number of entities	%
Small and medium enterprise sector	96,383	99.5	90,831	99.6	96,906	99.6	100,841	99.7	104,116	99.7
Small enterprises	95,004		89,539		95,597		99,573		102,895	
Medium enterprises	1,379		1,292		1,309		1,268		1,221	
Large enterprises	375	0.5	359	0.4	348	0.4	350	0.3	354	0.3
<b>Total</b>	<b>96,758</b>	<b>100</b>	<b>91,190</b>	<b>100</b>	<b>97,254</b>	<b>100</b>	<b>101,191</b>	<b>100</b>	<b>104,470</b>	<b>100</b>

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

"Analysis of financial results of entrepreneurs in Croatia in 2014", FINA, 2015, p. 21 and 22

Also in the years in which Croatia has a negative GDP growth rate, employment only occurs in small enterprises. Thus in 2014 compared to 2013, an increase in employment was recorded only in the small enterprise segment (1 percentage point), while small and large enterprises recorded a slight drop in employment – by 0.6 percentage points in medium enterprises and by 0.4 percentage points in large enterprises (Table 5).

**Table 5:** Enterprise size and total income, employment and exports in 2013 and 2014

Economic criterion for sector evaluation	Enterprise size					
	Small		Medium		Large	
	2013	2014	2013	2014	2013	2014
Number of employees **	414,507	422,238	150,605	145,246	265,816	262,632
Employment (share)	49.9%	50.9%	18.1%	17.5%	32.0%	31.6%
Total income (million HRK)*	206,905	215,807	112,309	112,320	293,227	290,663
Total income (share)	33.8%	34.9%	18.3%	18.1%	47.9%	47%
Exports*** (000 HRK)	21,696,060	26,711,299	25,131,925	24,766,299	50,338,417	54,612,013
Exports (share)	22.3%	25.2%	25.9%	23.3%	51.8%	51.5%

Source: \* "Economic Trends 5/6, 2015", Croatian Chamber of Economy, 2015, p. 78;

\*\* "Analysis of financial results of entrepreneurs in Croatia in 2014", FINA, 2015, p. 21 and 22;

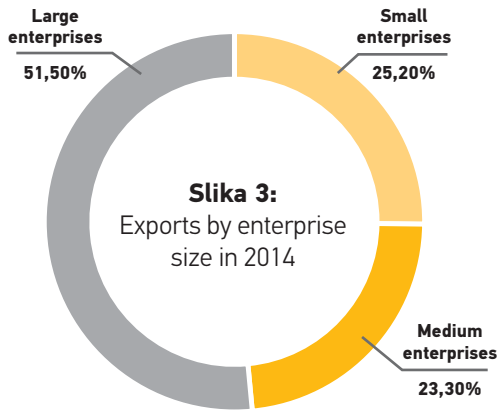
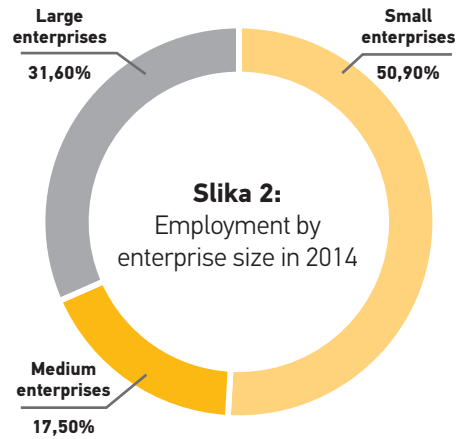
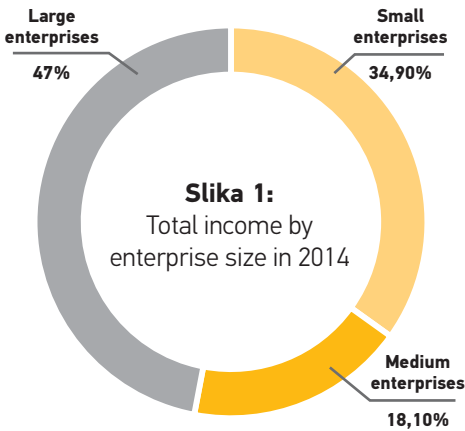
\*\*\* Croatian Exporters, 2015

The participation of small and medium enterprises in total revenues in 2014 was 53%, which represents an increase of 0.9 percentage points compared to the share of income that small and medium enterprises have achieved in 2013 – due to the growth in total revenues generated by small enterprises.

In 2014, the share of small enterprises in total exports increased by 2.9 percentage points. In the same period, the share of medium enterprises in export activities declined by 2.6 percentage points, while the share of large enterprises experienced a slight drop of 0.3 percentage points.



Figures 1, 2 and 3 show structure of employment, total income and exports by enterprise size in 2014.



### **SBA Fact Sheet for Croatia, 2015<sup>12</sup>** Internationalisation

The SBA Fact Sheet for 2015 indicates consistency of obstacles to strengthening the internationalisation of operations of Croatian small and medium enterprises.

The export costs are higher on average by 22% than the EU average and amount to HRK 9,345, while the average amount of export costs in the EU is HRK 7,294. The time required for realisation of exports is still longer than in most EU countries. The number of documents required for realisation of exports is still higher than in any EU country (6 documents, while the European average is 4 documents). The time to implement an export contract has decreased from 18 to 16 days, but is still longer than the European average of 12 days.

Weak institutional framework for advancing trade also represents an obstacle to the improvement of conditions in this area.

12 2015 SBA Fact Sheet Croatia, <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review>, downloaded on November 11, 2015

Employment in the small and medium enterprise sector can also be analysed by comparing the average number of employees in small and medium enterprises (Tables 6 and 7). In 2014 compared to 2013 there was stagnation in the average number of employees in medium enterprises (an average of 119 employees), and stagnation in the average number of employees in small enterprises (an average of 4 employees).

Small and medium enterprise sector recorded continuous slight decline in the average number of employees in the period from 2010 to 2014, with simultaneous increase in total income, which indicates rationalisation of operations, and the trend of increasing the productivity and competitiveness of small and medium enterprises in Croatia.

**Table 6:** Average number of employees and productivity in small enterprises from 2010 to 2014

Year	Number of small enterprises	Number of employees in small enterprises	Average – number of employees in small enterprises	Total income (in million HRK)	Total income per employee (in HRK)
2010	95,004	415,320	4.4	199,299	479,868
2011	89,539	386,692	4.3	191,232	494,533
2012	95,597	406,834	4.2	199,774	491,045
2013	99,573	414,507	4.2	206,905	499,159
2014	102,895	422,238	4.1	215,807	511,103

Sources: "Economic Trends 5/6, 2015", Croatian Chamber of Economy, 2015, p. 78;  
 "Analysis of financial results of entrepreneurs in Croatia in 2014", FINA, 2015, p. 21 and 22

**Table 7:** Average number of employees and productivity in medium enterprises from 2010 to 2014

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)
2010	1,379	157,147	114.0	109,531	696,997
2011	1,292	159,616	123.5	111,896	701,032
2012	1,309	149,787	114.4	111,966	747,501
2013	1,268	150,605	118.8	112,309	745,719
2014	1,221	145,246	118.9	112,320	773,309

Sources: "Economic Trends 5/6, 2015", Croatian Chamber of Economy, 2015, p. 78;  
 "Analysis of financial results of entrepreneurs in Croatia in 2014", FINA, 2015, p. 21 and 22

## **Situation in the small and medium enterprise sector in EU in 2014<sup>13</sup>**

*In 2014, 22.3 million small and medium enterprises operated in European Union Member States (EU28), which represents 99.8% of all enterprises in the European Union<sup>14</sup>. Small and medium enterprises have generated EUR 3.700 billion in value added (58% of total value added) and employed almost 90 million people (67% of total employment). Compared to 2013, the level of generated value added in 2014 increased by 3.3%, and employment by 1.2%. These indicators point to improving conditions in the macroeconomic and business environment for small and medium enterprises, as a consequence of the exit of European enterprises from the economic and financial crisis.*

*The operations of small and medium enterprises in 2014 varied considerably between Member States. Thus small and medium enterprises in the Czech Republic, Cyprus, Greece, Italy, Sweden and Croatia showed a decline in value added, while the Netherlands, Ireland, Germany, Lithuania, Slovenia, Poland, Malta, Romania and the UK achieved growth of value added higher than the EU average of 3.3%.*

*Almost all European small and medium enterprises (93%) are micro enterprises, 6% are small enterprises, while medium enterprises comprise just 1% of the total number of small and medium enterprises. The sectors in which SMEs create the most value added and employ the most people are wholesale and retail trade, followed by manufacturing, construction, business services and accommodation and food services.*

### **Contribution of the small and medium enterprise sector to employment**

*In the period between 2008 and 2013, small and medium enterprises have participated with 73% in the decline of employment of 2.2 million employees, that is, about 1.6 million jobs have been lost in small and medium enterprises in that period. However, small and medium enterprises participated with 71% in the increase of employment of 1.5 million employees in 2014, that is, employed just over a million of employees.*

*Analysis of correlation between employment growth in small and medium enterprises and the growth of GDP in EU28 Member States in the period from 2008 to 2014 has shown that growth of real GDP of 1% leads to an increase in employment in small and medium enterprises of 0.9%. Thus, in order to open an additional 1% of jobs in small and medium enterprises in the EU, it is necessary to ensure the growth of real GDP of 1.1%.*

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13 "Annual Report on European SMEs 2014/2015 – SMEs start hiring again", European Commission, 2015, <http://ec.europa.eu/DocsRoom/documents/13942/attachments/1/translations/en/renditions/native>, downloaded on December 18, 2015

14 Data refer to small and medium enterprises in the non-financial business sector, which includes all economic sectors in the European Union Member States, except for financial services, government services, education, health, arts and culture, agriculture, forestry and fishery.

## **Problems faced by small and medium enterprises**

*Small and medium enterprises in the European Union state finding buyers as the biggest problem they are faced with, followed by availability of skilled staff and experienced managers, regulatory framework and access to finance. Comparison with last year's findings of the survey among small and medium enterprises about the problems they are faced with suggests an increase in the relative importance of the problem of regulation and availability of quality staff, while the relative importance of finding customers is declining.*

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

## **Small and medium enterprises performance forecast for 2015 and 2016**

*Thanks to improved conditions in the macroeconomic and business environment in which small and medium enterprises operate, forecasts of their performance in the next two years are optimistic and positive. Predictions are that the value added generated by European small and medium enterprises will increase by 3.3% in 2015 and by 3.7% in 2016, that employment in small and medium enterprises will grow by 0.8% and 0.9% in 2015 and 2016, respectively, while the number of small and medium enterprises will grow by 0.5% in 2015 and by 0.7% in 2016.*

## **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>15</sup>. GEM research monitors the level of activity in starting business ventures measured by the TEA index<sup>16</sup>. Entrepreneurial activity measured by the TEA index has been gradually increasing in Croatia until the recession years, when it started to decline, and the recovery started in 2012. Compared to 2013, a decline in activity of starting entrepreneurial ventures was recorded in 2014 (from 8.3% in 2012 and 2013 to 8% in 2014), which positions Croatia in the group of countries with low level of activity in starting business ventures compared to the average value of the TEA index of 14% in the group of countries involved in GEM research whose economies are based on efficiency (Table 8).

**Table 8:** Entrepreneurial activity in Croatia, measured by the TEA index

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
TEA index (%), Croatia	5.5	7.3	8.3	8.3	8.0
TEA index (%), average <sup>17</sup>	11.7	14.0	12.4	14.4	14.0

Source: GEM Croatia 2002 - 2011, GEM Croatia 2012 - 2015, CEPOR – SMEs and Entrepreneurship Policy Center

15 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.

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

17 Average of countries whose economies are based on efficiency, involved in the GEM research in that year.

Starting business ventures in Croatia, in the current situation of high unemployment, is one of the ways of solving the unemployment problem. Grant for self-employment of the Croatian Employment Service “Your initiative – your workplace”<sup>18</sup> is one of the measures of active employment policy, and it is intended for people on the unemployment register who have an entrepreneurial idea<sup>19</sup>. Grant in the amount of HRK 25,000 is focused primarily on the costs of starting and running a business entity, and has been developed with the purpose of supporting the initial stages of development of entrepreneurial ideas.

According to the Croatian Employment Service, 4,589 persons have left the unemployment register on the grounds of self-employment in 2014, of which 1,556 persons have registered an enterprise or other legal entity, or acquired a 25% stake in an enterprise or other legal entity, 2,839 persons have registered a craft, an independent profession, or agricultural or forestry activity, and 194 persons have registered a craft or an independent profession in one of the EU countries. Table 9 gives an overview of users of grants for self-employment of the Croatian Employment Service, in the period from 2011 to 2014.

**Table 9:** Users of grants for self-employment of the Croatian Employment Service (HZZ) from 2011 to 2014

Year	Number of self-employed persons – new users of HZZ's grants for self-employment	Number of self-employed persons – who have stopped using HZZ's grants for self-employment	Total number of users of HZZ's grants for self-employment in the year	Share of active users of HZZ's grants for self-employment in the number of unemployed, %
2011	772	369	1,026	0.2
2012	938	774	1,605	0.2
2013	4,906	937	5,737	0.9
2014	2,277	4,589	7,077	0.8

Source: Croatian Employment Service, 2015

In addition to newly established business ventures, growing enterprises are of great importance for solving the problem of unemployment, which are an elitist minority in all national economies.

The GEM research recognises growing enterprises by a series of activities focused on strengthening the competitiveness, that is, development of the innovative capacity of the enterprise (development of new products, technological modernisation, internationalisation).

According to the results of the GEM research in Croatia, in 2014 compared to 2013 there was a slight increase in the number of small and medium enterprises whose products are new to everyone, a decrease in the number of enterprises whose products are new to some, and an increase in the number of enterprises whose products are new to no one (Table 10).

18 “Your initiative – your workplace” – grant for self-employment, <http://www.hzz.hr/default.aspx?id=11746>, downloaded on November 25, 2015

19 According to the Act on Job Placement and Unemployment Insurance, 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 10:** Growing enterprises in Croatia, according to the new product development criterion from 2010 to 2014

Criterion for categorization of growing enterprises	2010	2011	2012	2013	2014
Enterprises that have new products that are new to everyone (%)	9.5	12.6	9.0	8.1	8.2
Enterprises that have products that are new to some (%)	15.3	25.2	21.1	21.9	19.1
Enterprises that have products that are new to no one (%)	75.3	62.2	69.9	70.1	72.7

Source: GEM Croatia 2002 - 2011, GEM Croatia 2012 - 2015, CEPOR – SMEs and Entrepreneurship Policy Center

The vast majority of growing enterprises in Croatia, as many as 72.7%, have products that are new to no one, while there are only 8.2% of enterprises whose products are new to everyone, indicating a low level of innovative capacity and competitiveness (Figure 4).



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

The Global Innovation Index<sup>20</sup> international survey provides data on the level of innovation of 141 countries of the world, and in 2015 this survey positioned Croatia in the 40<sup>th</sup> place, which represents an improvement of two places compared to 2014 (Table 11). Indicators of innovation and investment in research and development do not relate only to small and medium enterprises, but to all enterprises, but they provide important insight into these two dimensions of development of competitiveness of Croatian enterprises, including small and medium enterprises. Switzerland is at the top of the list, same as the previous year. Neighbouring and other countries of Central Europe, EU members are in front of Croatia (Germany in 12<sup>th</sup> place, Austria in 18<sup>th</sup>, Slovenia in 24<sup>th</sup>, Czech Republic in 28<sup>th</sup>, Italy in 31<sup>st</sup>, Hungary in 35<sup>th</sup> place). Countries of Southeast Europe are situated behind Croatia in the rankings (Montenegro in 41<sup>st</sup> place, Greece in 45<sup>th</sup>, Macedonia in 56<sup>th</sup>, and Serbia in 67<sup>th</sup> place), but it is important to point out that these countries have achieved growth compared to the last year's rank.

20 The Global Innovation Index (GII) is a global survey in which 141 countries are involved, which measures the level of innovation of a country. The level of innovation of an economy is determined according to five components that enable innovative activities: institutions, human capital and research, infrastructure, market sophistication and business sophistication, while the two components that determine the actual level of innovation are knowledge and technology, and creative results. More information: <https://www.globalinnovationindex.org/content/page/GII-Home>, downloaded on October 5, 2015

**Table 11:** Results of the Global Innovation Index for 2014 and 2015 – Croatia and reference countries

Country	Rank 2015	Rank 2014	Change	
Switzerland	1	1	→	0
Finland	6	4	↘	-2
Netherlands	4	5	↗	+1
Germany	12	13	↗	+1
Austria	18	20	↗	+2
Czech Republic	24	26	↗	+2
Spain	27	27	→	0
Slovenia	28	28	→	0
Italy	31	31	→	0
Hungary	35	35	→	0
Slovakia	36	37	↗	+1
<b>Croatia</b>	<b>40</b>	<b>42</b>	↗	<b>+2</b>
Poland	46	45	↘	-1
Greece	45	50	↗	+5
Romania	54	55	↗	+1
Montenegro	41	59	↗	+18
Macedonia	56	60	↗	+4
Serbia	63	67	↗	+4

Source: *Global Innovation Index, 2015*

Investment in research and development is one of the key components for increasing innovation and competitiveness of the economy. In 2014, Croatian gross domestic expenditure for research and development decreased by 3.5% compared to 2013, while in 2013 it was increased by 8.3% compared to 2012. Of total expenditures for research activities at the national level, also in 2014, the largest investment came from the business sector (48.3%), but in a reduced amount compared to the previous year, by 7% (Table 12).

**Table 12:** Gross domestic expenditure on research and development – Croatia, 2011 – 2014 (in thousand HRK)

	2011	%	2012	%	2013	%	2014	%
Business sector	1,118,722	44.7	1,137,971	45.9	1,346,810	50.1	1,251,944	48.3
Government sector	685,170	27.4	682,141	27.5	686,275*	25.5	676,146*	26
Non-profit sector	3,768	0.1	3,471	0.1				
Higher education	694,616	27.8	658,574	26.5	654,919	24.4	666,514	25.7
<b>Total</b>	<b>2,502,276</b>	<b>100</b>	<b>2,482,157</b>	<b>100</b>	<b>2,688,004</b>	<b>100</b>	<b>2,594,604</b>	<b>100</b>

Source: "Statistical Information 2015", Croatian Bureau of Statistics, 2015, *Research and Development in 2014, First Release No. 8.2.1., 2015, Croatian Bureau of Statistics*

\* Data for government and non-profit sector is published in consolidated form since 2013.

## **50 technology companies with the fastest growth in Central Europe<sup>21</sup>**

Since 2000, Consultancy firm Deloitte has been carrying out a study which identifies 50 technology companies with the fastest growth in Central Europe (Deloitte CE Technology Fast 50<sup>22</sup>). The goal of the research that is being conducted for 16 years is to identify and promote fast-growing and innovative technology companies in Central Europe.

Eight Croatian companies have entered the ranking of 50 technology companies with the fastest growth in Central Europe, which is two times more than the last year's four. The highest ranked Croatian technology companies on this list are **Serengeti** in 9<sup>th</sup> place with growth rate of 843% and **Nanobit** in 11<sup>th</sup> place with growth rate of 754%. Beside them, other Croatian companies in the ranking are **Integralcija od-do** (18<sup>th</sup>), **Sedmi odjel** (24<sup>th</sup>), **Infinum** (30<sup>th</sup>), **InfoCumulus** (42<sup>nd</sup>), **Acceleratio** (46<sup>th</sup>) and **Degordian** (47<sup>th</sup>). The first in the 2015 ranking was the Czech company **Simplity, s.r.o.**, which has achieved revenue growth of 1971% in the last five years. The largest number of companies on the list comes from Poland (12), Romania (10) and Croatia (8).

### **Report on research and development activities for 2015<sup>23</sup>**

The aim of the Deloitte's study "Central European Corporate R&D Report 2015", in which 411 enterprises from Central Europe took part, was to examine the familiarity of users with national aids, as well as with new aids and grants that are available to them from the ESI Funds in the 2014 – 2020 financial perspective. The research findings still indicate a low intensity of investment in research and development in Croatia of 0.75% of GDP, while the EU average is 2.03%. Of the 48 surveyed enterprises in Croatia, 33% of them are not familiar with the possibilities of using grants for research and development. Among the 21% of enterprises that are familiar with and are using monetary grants, the majority are applying for aids from the ESI Funds, HAMAG-BICRO's aids, and aid granted at EU level, such as Horizon 2020 and EUROSTARS programs.

## **Financial performance of small and medium enterprises**

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

21 <http://www2.deloitte.com/hr/hr/pages/press/articles/osam-tvrtki-iz-hrvatske-na-listi-50-tehnolokih-tvrtki-s-najbrim-.html>, downloaded on November 25, 2015

22 The main criteria for selection of technology companies with the fastest growth are: annual operating revenues of at least 50,000 euros in each year between 2010 and 2014; headquarters in one of the countries of Central Europe; company must be involved in development or production of proprietary technology or must spend significant capital assets on research and development; and the company must be majority locally owned.

23 <http://www2.deloitte.com/hr/hr/pages/about-deloitte/articles/ce-corporate-rnd-2015.html>, downloaded on November 25, 2015



**Table 13:** Financial efficiency of enterprises in 2013 and 2014

Enterprises	2013		2014	
	Million HRK	%	Million HRK	%
<b>Small</b>				
Profit	13,057	43	14,139	40.5
Loss	12,891	48	11,978	47.6
Consolidated result	166		2,161	
<b>Medium</b>				
Profit	4,970	16.4	5,369	15.4
Loss	5,049	18.8	8,347	33.2
Consolidated result	-80		-2,978	
<b>Large</b>				
Profit	12,365	40.7	15,397	44.1
Loss	8,921	33.2	4,825	19.2
Consolidated result	3,443		10,571	
<b>Total</b>				
Profit	30,392	100	34,904	100
Loss	26,862	100	25,150	100
Consolidated result (Profit – Loss)	3,529		9,754	

Sources: "Economic Trends 5/6, 2015", Croatian Chamber of Economy, 2015, p. 78;

"Analysis of financial results of entrepreneurs in Croatia in 2015", FINA, 2015, p. 21 and 22

In 2014, small and medium enterprises achieved significantly better financial results compared to 2013 – net profit increased from HRK 166 million to HRK 2,161 million in 2014. Net profit of small enterprises in 2014 was a result of an increase in profit by 8.3%, while at the same time loss was reduced by 7.1%, indicating significant streamlining of operations of small enterprises in 2014.

In contrast to small enterprises, medium enterprises achieved a worse financial result in 2014 than in 2013. In 2014, medium enterprises increased the reported net loss from HRK 80 million net loss in 2013 to HRK 2,978 million net loss in 2014. In 2014, profit generated by medium enterprises increased by 8% compared to 2013, but at the same time their loss increased by 65.34%, which ultimately had the greatest impact on negative performance of medium enterprises.

Similarly to small enterprises, large companies achieved an increase in net profit in 2014, based on an increase in generated profit by 14.9% and a decrease in loss by 6.4%

If the data in Table 13 is linked to the number of employees in small, medium and large enterprises, it is evident that in 2014 50.9% of employees in small enterprises participated with 40.5% in total net consolidated profit of the Croatian economy, while 31.6% of employees in large enterprises participated with 44.1% in total net consolidated profit of the economy, indicating significant room for improvement of business efficiency and competitiveness of small enterprises in Croatia.

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

The basis for monitoring the dynamics of the small and medium enterprise sector is the data on the establishment of new and closing of existing enterprises. The total number of newly established enterprises in 2014 in Croatia was 15,441, which represents a decline of 11.6% compared to 2013 (Table 14).

**Table 14:** Number of established enterprises in 2013 and 2014

	<b>2013</b>	<b>2014</b>	<b>Difference in the number of newly established enterprises</b>
<b>Trading companies</b>	14,177	12,852	-9.3%
<b>Other</b>	3,286	2,589	-21.2%
<b>Total</b>	<b>17,463</b>	<b>15,441</b>	<b>-11.6%</b>

Source: *Number and structure of business entities in December 2014, First Release No. 11.1.1/4., 2015, Croatian Bureau of Statistics*

The analysis of the dynamics of the small and medium enterprise sector provides useful information about the changes that are taking place in the sector, with information on closure of enterprises being of special importance. Data on changes in the number of enterprises<sup>24</sup> in the period from 2002 to 2013 indicate that the survival rate of enterprises was 69.02%. According to the data of enterprises that have filed financial statements with FINA, the survival rate was the highest in small enterprises – 70.2% (17,413 small enterprises have been closed in the period from 2002 to 2013), the survival rate of medium enterprises was the lowest, and it amounted to 42.91% (1,268 medium enterprises have been closed in the same period), and the survival rate of large enterprises was 51.19% (350 large enterprises have been closed).

The GEM research monitors the reasons for cessation of business activity (Table 15). According to the results for 2014, the most common cause for cessation of business activity in Croatia is the lack of profitability of the business (33.6%), same as in the EU, and access to finance is in the second place with 23.55%, while in the EU the problem of financing ventures is the cause for cessation of business activity in a significantly smaller number of cases (11.5%). Croatia has a significantly lower proportion of entrepreneurs who had an opportunity to sell the enterprise (0.83%) than the EU (3.32%), indicating a limited number of options for exiting the business for entrepreneurs in Croatia, due to the underdevelopment of supporting infrastructure for purchase and sale of small and medium enterprises in Croatia.

<sup>24</sup> Source: The Croatian SME Observatory Report 2013, Fina, 2013

**Table 15:** Reasons for cessation of business activity – comparison between the European Union and Croatia, 2014 – % of cessation

Reasons for cessation of business activity	EU	Croatia
Opportunity for sale	3.32	0.83
The company is not profitable	33.24	33.6
Problems with access to finance	11.5	23.55
Other job or business opportunity	11.62	12.95
The exit was planned	5.18	1.44
Retirement	6.08	2.51
Personal reasons	23.83	17.87
Incident situations	5.22	7.26

Source: *Global Entrepreneurship Monitor, CEPOR – SMEs and Entrepreneurship Policy Center, 2014*

According to the GEM data for Croatia, in relation to EU countries, in a significant number of cases, cessation of business activity occurred due to non-implementation of business transfer: in 12.95% of cases cessation of business activity of enterprises in Croatia occurred because the owner of the enterprise decided to focus on another business opportunity, without having sold the enterprise or ensured its further existence in some other way; in 25.13% of cases cessation of business activity and closing of the business was influenced by personal reasons and incident situations, which means that the owner of the enterprise did not have a worked-out plan of functioning of the enterprise in the event of unexpected circumstances; in 2.51% of cases owner's withdrawal to retirement resulted in the closure of the enterprise, which could have also been avoided with timely planning of business transfer and finding the best solution for the survival of the enterprise after the retirement of the owner.

**Business Transfer Barometer Croatia 2015**  
**Survey by the CEPOR – SMEs and Entrepreneurship Policy Center**

*In the first half of 2015, CEPOR has conducted a survey on the topic of the future of small and medium enterprises in Croatia after the withdrawal of the founder – owner, that is, the first generation of entrepreneurs from the business due to retirement. The objectives of the Business Transfer Barometer survey in Croatia were to determine: the number of enterprises in Croatia, which, with regard to the age of the majority owner (55 years and older) and their attitude towards business transfer represent a risk group; the way in which they plan to conduct business transfer, and the need for support in that process.*

*The Business Transfer Barometer survey in Croatia has identified 16,590 Croatian enterprises whose owners should start planning the business transfer process, with about 179,000 employees in those enterprises. The survey results indicate that 32% or 5,300 enterprises represent a risk group because there is no understanding of the changes that will occur in the enterprise related to business transfer, nor is there adequate preparation. In this way, more than 57,000 jobs are jeopardised.*

In accordance with the survey findings, CEPOR has created the following recommendations for the development of a support system for small and medium enterprises in the process of business transfer:

**Recommendation 1:** *Launching campaigns aimed at raising awareness of owners of small and medium-sized enterprises with 55 or more years of age about the complexity of the business transfer process and the importance of timely preparation for that process;*

**Recommendation 2:** *Co-financing of training and advisory services in the process of business transfer for owners of small and medium-sized enterprises with 55 or more years of age, with pointing out possible alternative business transfer options: transfer of business to family members, sale of the enterprise to employees, sale to external persons or businesses;*

**Recommendation 3:** *Enhancing the quality and availability of counseling support for the business transfer process of small and medium-sized enterprises, through train-the-trainers workshops and transfer of best European practices;*

**Recommendation 4:** *Adopting the definition and implementation of statistical monitoring of family businesses in Croatia, and developing and co-financing of support programs aimed at strengthening the capacity of family businesses for successful generational transfer;*

**Recommendation 5:** *Promotion of business takeover as a possible model for starting entrepreneurial activity of individuals, and creation of financial instruments that facilitate purchase (takeover) of enterprises;*

**Recommendation 6:** *Co-financing the development of a national virtual market for connecting buyers and sellers of small and medium-sized enterprises through public-private partnership, based on the best European practices in the development and functioning of such online platforms.*

*The overall results of the Business Transfer Barometer Croatia survey are available on the website of CEPRA – Center for Family Business and Business Transfer ([www.cepor.hr/cepra](http://www.cepor.hr/cepra)), which operates within CEPOR since 2014.*

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

The GEM research monitors the regional differences<sup>25</sup> in business venture start-up activity. According to research results, increase in business venture start-up activity in 2014 compared to 2013 occurred only in the region of Northern Croatia (from 3.8 in 2013 to 8.8 in 2014), while in all the other regions business venture start-up activity was lower than in the previous year. (Table

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

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

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

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

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

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

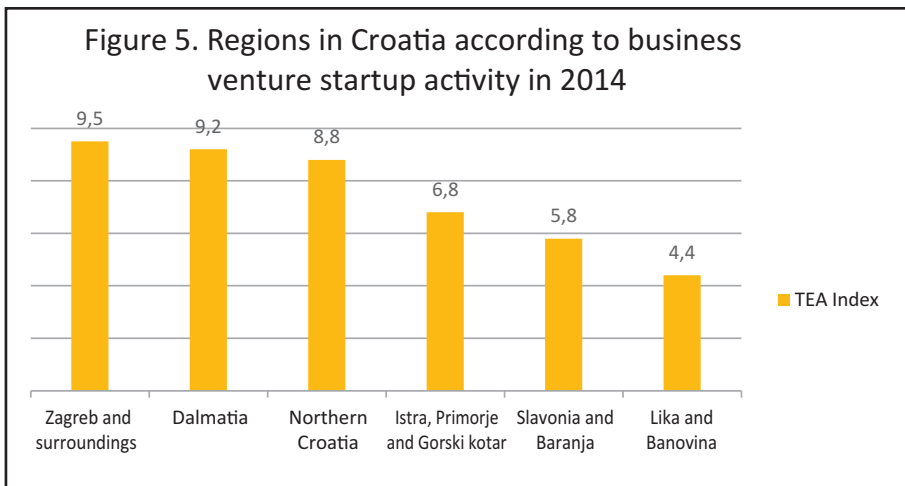
**Slavonia and Baranja** – Brod-Posavina County, Osijek-Baranja County, Požega-Slavonia County and Vukovar-Srijem County

16). In 2013, compared to 2012, increase in business venture start-up activity was recorded in two regions – Zagreb and surroundings and Lika and Banovina. Analysing the ranking of regions according to business venture start-up activity in 2014 – Zagreb and surroundings and Dalmatia are at the top (they have swapped places compared to the previous year, but still hold the top positions). Lika and Banovina, and Slavonia and Baranja are once again positioned at the bottom of the ranking list (Figure 5).

**Table 16:** Regional differences in business venture start-up activity from 2010 to 2014

Region	2010		2011		2012		2013		2014	
	TEA	Rank	TEA	Rank	TEA	Rank	TEA	Rank	TEA	Rank
Istria, Primorje and Gorski Kotar	6.0	2	8.7	2	12.2	2	9.6	3	6.8	4
Zagreb and surroundings	7.1	<b>1</b>	9.1	<b>1</b>	9.2	3	10.0	2	9.5	<b>1</b>
Dalmatia	5.2	3	8.6	3	12.6	<b>1</b>	10.7	<b>1</b>	9.2	2
Northern Croatia	4.6	4	5.2	5	5.2	4	3.8	6	8.8	3
Lika and Banovina	6.0	2	7.2	4	3.5	5	7.5	4	4.4	6
Slavonia and Baranja	3.9	5	4.7	6	5.2	4	6.8	5	5.8	5

Source: GEM Croatia 2002 – 2011, GEM Croatia 2012 – 2015, CEPOR – SMEs and Entrepreneurship Policy Center



GEM research monitors the differences in respondents' attitudes on entrepreneurship and intentions to start a business venture among regions (Table 17). The research results in 2014 show that the largest number of respondents (more than 25%) who have expressed intention to start a business venture in the next three years come from Istria, Primorje and Gorski Kotar and Dalmatia. Opportunity to start a business venture in the next 6 months is recognized the most in the region of Istria, Primorje and Gorski Kotar (but with a decrease of 24% compared to 2013) and in Dalmatia, with a growth of 23%. In 2014, the share of respondents who believe that majority of people think entrepreneurship is a good career has increased in almost all regions (except in Northern Croatia), and that share is higher than 55% in all regions.

**Table 17:** Comparison of regional differences in attitudes towards entrepreneurship in 2013 and 2014, as a percentage (%) of surveyed population – GEM

	Intention to start a business venture in the next 3 years		See an opportunity to start a business venture in the next 6 months		Have the knowledge, skills and experience needed for business venture start-up		Majority of people see entrepreneurship as a good career choice		Media have a positive influence on entrepreneurial culture development	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Istria, Primorje and Gorski Kotar	24.9	30.7	31.1	23.7	52.9	49.9	67.2	68	41.0	39.4
Zagreb and surroundings	28.3	21.7	18.6	21.4	49.7	49	55.7	58.3	41.7	39.6
Dalmatia	26.3	26.1	19.1	23.5	50.4	47.8	60.0	62.8	37.9	38.1
Northern Croatia	17.4	17.3	14.0	13.9	36.4	41.9	65.2	62.1	43.8	43.9
Lika and Banovina	23.7	19.6	12.1	13.8	41.2	42.5	64.8	67.2	45.5	52.2
Slavonia and Baranja	21.7	23	11.5	11.5	49.2	41.9	62.1	67.8	43.8	36.3

Source: GEM Croatia 2012 – 2015, CEPOR – SMEs and Entrepreneurship Policy Center

Comparing the results of GEM research on regional differences in attitudes towards entrepreneurship in 2013 and 2014, it can be seen that in 2014 the number of respondents who intend to start a business venture in the next 3 years slightly increased in regions Istria, Primorje and Gorski Kotar and Slavonia and Baranja. The number of respondents who intend to start a business venture in the next 3 years in Dalmatia and Northern Croatia stagnated, while it declined in regions Zagreb and surroundings and Lika and Banovina. Furthermore, the number of respondents who think that they have the knowledge, skills and experience needed for business venture start-up declined or stagnated in all regions except in Northern Croatia and Lika and Banovina. GEM research has shown that the number of respondents who believe that the media have a positive impact on the development of entrepreneurial culture increased in Lika and Banovina, while the number of respondents with the same view declined or stagnated in other regions.

## 2.5. Crafts in Croatia<sup>26</sup>

According to the data of the Croatian Bureau of Statistics at the end of 2014 there were 78,070 active crafts in Croatia, which represents 35.5% registered business entities. Compared to 80,407 active crafts at the end of 2013, a decrease in the number of crafts by 3% is evident. At the end of 2014, crafts in Croatia employed a total of 176,973 people (including owners/partners in the craft and their employees), which represents 13.58% of the total number of employees in legal persons in Croatia. Compared to December 2013, there was a decline in employment in crafts by 2.56% (Table 18).

<sup>26</sup> Source: Trades and Crafts in Numbers 2015, Croatian Chamber of Trades and Crafts, Tomić, S. (ed.), May 2015

**Table 18:** Number of active crafts and employees in crafts in Croatia, state in December 2010 – 2014

	2010	2011	2012	2013	2014
<b>Number of active crafts</b>	88,340	86,424	83,714	80,407	78,070
<i>Share in active trading companies</i>	43.7%	44.2%	41.8%	38.3%	35.5%
<b>Number of employees in crafts</b>	185,970	197,680	188,871	181,503	176,973
<i>Share of employees in crafts in the total number of employees</i>	13.5%	14.5%	14.1%	13.7%	13.6%

Source: *Trades and Crafts in Numbers 2015, Croatian Chamber of Trades and Crafts, Tomić, S. (ed.), May 2015*

According to geographical distribution, there are most active crafts in the City of Zagreb (12,623 or 16.2%), followed by Split-Dalmatia County (9,777 or 12.5%), Primorje-Gorski Kotar County (7,956 or 10.2%), Istria County (7,420 or 9.5%) and Zagreb County (5,100 or 6.5%), while the least number is present in Požega-Slavonia (928 or 1.2%), Bjelovar-Bilogora (1,107 or 1.4%) and Lika-Senj County (1,127 or 1.4%). There was a decrease in the number of crafts in all the counties in 2014 compared to the previous year.

Out of 78,070 active crafts, 97.4% of them were in operation, while the remaining 2.6% were in the state of temporary suspension or without a start. There were 91.2% active crafts that operate throughout the year and 8.8% seasonal crafts. At the end of 2014, there were 2,037, or 2.6% privileged crafts, which are those that can be performed only on the basis of the privilege certificate issued by the relevant ministry, depending on the type of craft, while the majority of crafts – 76,033 or 97.4% of them belonged to the category of non-privileged crafts. According to the guild structure, 35.8% of active crafts in Croatia belonged to service crafts, and 16.7% were in the hospitality and tourism activity. 14.5% of crafts were involved in trade, while 10.8% of active crafts were manufacturing crafts. The guild of carriers of persons and goods had a share of 9.4% in the total number of active crafts, the guild that gathers hairdressers, beauticians, crafts for body care and fitness had 7.1%, and the fishing, aquaculture and agriculture guild had 5.7%.

In 2014, through the Entrepreneurial Impulse of the Ministry of Entrepreneurship and Crafts, within the measure D2 Education for crafts, 1,197 grants in the total amount of HRK 5,673,000.91 were awarded. Activities under this measure were focused on lifelong learning for craftsmen (grants in amount of HRK 3,099,319.77), scholarships for pupils in craft occupations (grants in amount of HRK 1,753,239) and apprenticeship for craft occupations (grants in amount of HRK 820,442.14).

5,105 pupils were enrolled in craft occupation programs in the 2014/2015 school year, although enrolment of 5,757 pupils was planned. At the same time, it is 44.3% less newly enrolled pupils compared to the previous 2013/2014 school year, when 7,365 pupils were enrolled in craft occupation programs. The most attractive craft occupations were: hairdresser, car mechanic, cook, heating and air condition installation technician, electrician and waiter, while pupils showed the least interest in occupations such as ship mechanic, gunsmith, goldsmith, tinsmith, plasterer and stonemason.

## 2.6. Cooperatives in Croatia<sup>27</sup>

According to the Cooperatives Act, a cooperative is a voluntary association of members in which each member participates directly and which by doing business together pursuant to the principle of mutual assistance, enhance and protect their economic and other professional interest, for the purpose of making their own and joint profit of members in compliance with the law and rules of the cooperative. 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 2014, there were 1,247 registered cooperatives in Croatia, with a total of 20,192 cooperative members and 2,716 employees, and total annual income of HRK 1.59 billion. Since 2011, the total income of cooperatives, as well as the number of cooperatives, cooperative members and employees in cooperatives is continuously decreasing (Table 19).

**Table 19:** Cooperatives, cooperative members, employees and income of cooperatives in Croatia, 2011 – 2014

	2011	2012	2013	2014
<b>Number of cooperatives</b>	2,060	1,069	1,169	1,247
<b>Number of cooperative members</b>	28,866	18,767	19,485	20,192
<b>Average number of cooperative members in a cooperative</b>	14.0	17.5	16.7	16.2
<b>Number of employees</b>	4,246	2,680	2,734	2,716
<b>Average number of employees in a cooperative</b>	2	2.5	2.3	2.2
<b>Income (billion HRK)</b>	2.19	1.90	1.69	1.59

Source: Croatian Centre for Cooperative Entrepreneurship, 2015

Analysing the activities they are involved with, the majority of cooperatives (41%) with the largest number of cooperative members and employees are agricultural cooperatives, 17% of cooperatives are in the processing industry, and 15% of cooperatives are engaged in providing various services.

According to the Croatian Centre for Cooperative Entrepreneurship (HCZP), currently there is a large number of cooperatives in the Croatian cooperative system that have no economic activity and cooperative members are not involved in the work of the cooperative. Cooperatives without employees account for 58% of the total number of cooperatives, and in 2013 they have generated 11% of the total income of all cooperatives. Cooperatives with one or more employees account for 42% of the total number of cooperatives, and in 2013 they have generated 89% of the total income of all cooperatives, which is 8.4 times more than the income of cooperatives without

<sup>27</sup> "Analysis of cooperatives in Croatia until December 31, 2014", Croatian Centre for Cooperative Entrepreneurship, March 2015



employees. Only about 10% of cooperatives in the Croatian cooperative system, or around two hundred of them, generates about 90% of the total income of all the cooperatives, while the remaining 900 cooperatives do not achieve appropriate business results. According to HCZP, the reasons for this lie in the fact that cooperatives as a form of entrepreneurship are being taken lightly, and cooperatives are established without serious business plans and a clear goal why they are entered, or because of uneducated staff.

There is a noticeable difference in the average number of cooperative members (from 7 to 95) in the spatial distribution of cooperatives on the territory of Croatia, indicating a different approach to cooperatives in different regions. In Dubrovnik-Neretva County, for example, the average is 39 cooperative members per cooperative, as a consequence of the existence of very old cooperatives (some are older than 100 years) and the traditional approach where cooperatives historically were very often the only form through which farmers were able to market their products. Average number of 60 cooperative members per cooperative is recorded in the Istria County, where the majority of cooperatives was established after 2000, which is an example of the proper approach to cooperatives, which advocates a greater number of cooperative members in order to better exploit the advantages of the cooperative movement.

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 of the cooperative system in general.

### **Student cooperative Fabric8 co-op<sup>28</sup>**

*The first student cooperative in Croatia, Fabric8 co-op, is a cooperative of students of the Faculty of Textile Technology from Zagreb, founded in 2015 with the aim of encouraging entrepreneurial, social, cultural and artistic activities of current and former students of the faculty. Student cooperative enables its members to jointly appear and sell their products on the domestic and the European market, and cooperative's business operations are run by a professional manager.*

*In 2015, cooperative was successful in applying to a call for proposals of the City of Zagreb for the award of grants for the development of social entrepreneurship through social cooperatives, securing a grant in the amount of HRK 342,704.*

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<sup>28</sup> Student cooperative Fabric8 co-op, [http://fabric8-coop.hr/?page\\_id=226](http://fabric8-coop.hr/?page_id=226), downloaded on February 1, 2016

### 3. Women entrepreneurship

Women entrepreneurship has an important role in the development of the small and medium enterprise sector in Croatia. According to FINA, the share of woman entrepreneurs in the ownership structure of enterprises in Croatia in 2014 amounted to 20.3%<sup>29</sup> where women were majority owners in 19,972 enterprises, while they were co-owners with men or legal entities in 12,144 enterprises. Analysing the ownership structure of enterprises in Croatia in the period from 2010 to 2014 by gender, a slight increase in the proportion of women business owners from 17.3% in 2010 to 20.3% in 2014 is evident.

Observed by Croatian counties, the share of women – enterprise owners ranges between 15.5% and 23.1%. The largest share of women enterprise owners in 2014 was recorded in Bjelovar-Bilogora County (23.1%), where they participate in total revenue with 4.5%, in the total number of employees with 8%, and have generated profit in the amount of HRK 9.7 million. The City of Zagreb is in the second place by the share of women enterprise owners (21.5%), where women entrepreneurs participate with 2.6% in total revenue, in the number of employees with 5.8%, and have generated profit in the amount of HRK 376.9 million in 2014.

According to the participation of women in ownership structure of enterprises by activity, in 2014 women entrepreneurs were prevalent in activity S – Other service activities with 51.7%, followed by activity Q – Human health and social work activities (35.8%), P – Education (33.2%), then activity M – Professional, scientific and technical activities (29.3%), and activity I – Accommodation and food services activities (22.7%).

GEM research monitors the difference in business venture start-up activity between women and men. In 2014, business venture start-up activity of women was 2.4 times lower than the activity of men (TEA index for women was 4.8, and 11.3 for men), while in 2013 men were 2.2 times more active (TEA index for women was 5.1, and 11.5 for men; Table 20).

**Table 20:** Difference in business venture start-up activity by women and men in Croatia from 2010 to 2014, measured by the TEA index

	2010		2011		2012		2013		2014	
	Average of GEM countries involved in the research	Croatia	Average of GEM countries involved in the research	Croatia	Average of GEM countries involved in the research	Croatia	Average of GEM countries involved in the research	Croatia	Average of GEM countries involved in the research	Croatia
<b>TEA Women</b>	9.7	<b>3.9</b>	8.7	<b>4.7</b>	10.6	<b>4.9</b>	11.0	<b>5.1</b>	11.3	<b>4.8</b>
<b>TEA Men</b>	13.7	<b>7.2</b>	10.0	<b>10.0</b>	15.4	<b>11.8</b>	15.4	<b>11.5</b>	14.9	<b>11.3</b>
<b>TEA Men / TEA Women</b>	1.4	<b>1.8</b>	1.2	<b>2.1</b>	1.5	<b>2.4</b>	1.4	<b>2.2</b>	1.3	<b>2.4</b>

Source: GEM Croatia 2002 – 2011, GEM Croatia 2012 – 2015, CEPOR – SMEs and Entrepreneurship Policy Center

<sup>29</sup> "Analysis of the participation of women entrepreneurs in the ownership structure of companies", FINA, 2015

In all observed years (from 2010 to 2014), the gap in business venture start-up activity between women and men in Croatia was significantly higher than in all countries covered by the GEM research. In 2014, in all countries covered by the GEM research men were 1.32 times more active than women in starting entrepreneurial ventures, with a tendency to close the gap over the years, while in Croatia in 2014 business venture start-up activity of men was 2.38 higher compared to that of women, without signs of closing the gap.

### **Representation of women and men in managerial positions in Croatia**

*In 2014, the Ombudswoman for Gender Equality conducted a quantitative study on the representation of women and men in managerial positions in business entities in the Republic of Croatia<sup>30</sup>. The goal of the study, conducted on a sample of 500 companies with the largest revenues in Croatia, was to determine the proportion of women and men at the managerial level, consisting of the governing body (management board and board of directors) and the supervisory board, and at the same time to determine the level of awareness and commitment to gender equality policy in the surveyed companies.*

*Research results confirmed the thesis that women are extremely underrepresented in governing bodies of companies in Croatia. Women account for 25.4%, and men for 74.6% of all management board members in governing bodies (management board or board of directors) of companies that participated in the study. Women are represented with 22.7%, and men with 77.3% in supervisory boards of companies that participated in the study.*

*Women are represented with just 9.4% in the position of president of the management board of the surveyed companies, and they are only slightly more present in the position of president of the supervisory board, with a share of 15.4%. Increased representation of women in leading positions in enterprises is observed in positions of deputy president of the board of directors (23.5%), and deputy chairman of the supervisory board (19.6%).*

*The results of the study showed significant differences in terms of education and age of women and men in managerial positions of the surveyed companies. Thus, women in the position of president of multi-member management boards in 90% of cases have university education, and in 10% of cases have the highest levels of university education, while men in the same positions in 66.7% of cases have a university degree, in 24.5% of cases have the highest degrees of education, but as many as 7.8% have only secondary education, and 1% have completed only primary education. The age of women presidents of management boards is between 30 and 54 years, while men come to positions of presidents of management boards at an average age of 35 years, but stay in the position much longer – even after 65 years of age.*

Because of these differences in entrepreneurial activity of women in Croatia, there is a significant need to provide support to women in the start-up and development of entrepreneurial activities. According to the results of the GEM research of perceptions<sup>31</sup>, support to women in starting a business venture in Croatia in 2013 was given the rating 2.95, which represents an increase compared to the previous year, when the rating was 2.68. However, the rating of support for women entrepreneurs in Croatia is still lower in relation to the average of countries that participate in the GEM research, which was 3.26 in 2013.

30 "2014 Annual Report", Ombudswoman for Gender Equality, Zagreb, March 2015, p. 38

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

Although the share of women entrepreneurs in Croatia recorded a slight increase in the period from 2010 to 2014, the still present gap in activity of women and men in starting entrepreneurial ventures indicates the consistency of obstacles and insufficient efficiency of programs and measures for the development and strengthening women entrepreneurship in Croatia, and the need for a wider range of policy instruments and programs that will enable the development of woman entrepreneurship.

Structural, economic and the so-called “soft”<sup>32</sup> obstacles have been identified as the key problems of development of women entrepreneurship in Croatia. The major structural obstacles are stereotypes about women in science and technology, traditional views on the role of women in society, and the lack of support for women with two jobs (family and profession). The economic obstacles are related to difficult access to finance and low level of networking of women, while the major “soft” obstacles include lack of advice, mentorship, access to networks of female/ male entrepreneurs, training, education and qualification programs for technologically intensive ventures, and lack of self-confidence to take risks.

**Strategy of Women Entrepreneurship Development in the Republic of Croatia 2014 – 2020**<sup>33</sup> focuses on removing these obstacles with the aim of increasing the entrepreneurial activity of women. The expected result of the application of this strategic document is to reduce the gap between entrepreneurial start-up activities of women and men to the value of the TEA index in the EU, which was 1.9 in 2014. Achieving this goal is foreseen through the implementation of 4 strategic goals and 12 measures, shown in Table 21.

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

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

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

32 Strategy of Women Entrepreneurship Development in the Republic of Croatia 2014 – 2020, Ministry of Entrepreneurship and Crafts, 2014, p. 5

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

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

In 2014, the following programs, projects and initiatives aimed at encouraging the development of women entrepreneurship in Croatia were carried out:

### Ministry of Entrepreneurship and Crafts – Entrepreneurial Impulse 2014

Through the “Entrepreneurial Impulse” program for the promotion of entrepreneurship and crafts, implemented by the Ministry of Entrepreneurship and Crafts, Croatian entrepreneurs were awarded 1,471 grants in the total amount of HRK 92.7 million in 2014. Within the Entrepreneurial Impulse 2014, women entrepreneurs were awarded 509 grants, or 33.2% of all awarded grants. The total value of grants awarded to women entrepreneurs in 2014 was HRK 19.7 million, which is 21.3% of the total value of grants awarded to all entrepreneurs during that period (Table 22).

**Table 22:** Grants awarded to women entrepreneurs through Entrepreneurial Impulse, 2010 – 2014

	Total number of awarded grants	Number of grants awarded to women entrepreneurs	Share of women %	Total amount of awarded grants HRK	Amount of grants awarded to women entrepreneurs HRK	Share of women %
2010	5,036	1,973	39.2	249,427,818.08	39,431,856.02	15.8
2011	5,537	2,549	46.0	199,723,565.72	42,992,785.22	21.5
2012	2,437	851	34.9	165,510,589.97	40,818,913.71	24.6
2013	1,765	694	39.3	136,595,800.06	22,517,730.87	16.5
2014	1,471	509	33.2	92,703,357.93	19,721,743.00	21.3
<b>Total</b>	<b>16,246</b>	<b>6,576</b>	<b>40.5</b>	<b>843,961,131.76</b>	<b>165,483,028.82</b>	<b>19.6</b>

Source: *Strategy of Women Entrepreneurship Development in the Republic of Croatia 2014 – 2020, Government of the Republic of Croatia, Ministry of Entrepreneurship and Crafts, Zagreb, 2014, p. 15, Ministry of Entrepreneurship and Crafts, 2015*

In the period from 2010 to 2014, 6,576 grants in the total amount of HRK 165.5 million were awarded for the purpose of encouraging women entrepreneurship. The average value of grants awarded to women entrepreneurs over the past five-year period was HRK 25,165, while the average value of grants awarded to male applicants within the Entrepreneurial Impulse was HRK 70,163.

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

In 2011 HBOR started with implementation of a program for crediting women entrepreneurs, in accordance with the Action Plan for Implementation of the Strategy of Women Entrepreneurship Development in the Republic of Croatia 2010-2013, with the aim of encouraging founding and development of business activities of small and medium enterprises majority-owned by women. Although 2103 should have been the last year of implementation of this program, it was still not terminated during 2014, and at the end of 2015 it was announced that the loan program will continue until December 31, 2016, due to great interest of beneficiaries for loans with 2% interest rate.

In 2014, 81 loans were approved to women entrepreneurs in the total amount of HRK 33.3 million, and throughout the entire period of program implementation, from 2011 to 2014, a total of 304 loans for entrepreneurial ventures of women were approved, with the total value of nearly HRK 140 million (Table 23).

**Table 23:** Loans approved under the HBOR's program "Women Entrepreneurs", 2011 – 2014

	<b>Total number of approved loans</b>	<b>Amount of approval, HRK</b>	<b>Average approved loan amount, HRK</b>
2011.	32	15,269,215.94	477,162.99
2012.	86	40,694,803.11	473,195.39
2013.	105	50,348,419.52	479,508.76
2014.	81	33,350,272.95	411,731.76
<b>Total</b>	<b>304</b>	<b>139,662,711.52</b>	<b>459,416.81</b>

*Source: Strategy of Women Entrepreneurship Development in the Republic of Croatia 2014 – 2020, Government of the Republic of Croatia, Ministry of Entrepreneurship and Crafts, Zagreb, 2014, p. 16; Croatian Bank for Reconstruction and Development, 2015*

South East European Centre for Entrepreneurial Learning (SEECEL) and Gender Task Force (GTF) – "Women Entrepreneurship – A Job Creation Engine for South Eastern Europe" project

The objective of the "Women Entrepreneurship – A Job Creation Engine for South Eastern Europe" project is the promotion of women entrepreneurship in South Eastern Europe through the cooperation of public and private sector, promotion of the best policy practices in women entrepreneurship, and capacity building of national and regional women entrepreneurs' networks and associations. Nine countries<sup>34</sup> were involved in the implementation of the project in the period from 2012 to 2015, and the project leader is the South East European Centre for Entrepreneurial Learning – SEECEL together with the Initiative for Sustainable Growth – Gender Task Force (GTF).

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

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

The project activities are divided into two main phases. Through Phase 1, which lasted until December 2013, the second generation of indicators for women entrepreneurship was developed,

<sup>34</sup> Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia, Kosovo, Montenegro, Serbia, Moldova and Turkey, <http://www.seecel.hr/UserDocImages/zene-poduzetnice-12557>, downloaded on October 1, 2015

a system for analysing the needs for training by women entrepreneurs was developed, and the so-called Community of Practice (CoP) was developed, which serves as a non-formal learning tool and a platform for exchange of knowledge. In this phase of the project, **Study of the needs for education and training of women entrepreneurs**<sup>35</sup> was conducted in all nine countries participating in the project, and in Croatia this research was conducted by the Croatian Chamber of Economy. The results of the research showed that the main reason for education and training of women entrepreneurs is to increase the quality of services and products and the sustainability of the business, while the main source of financing for education and training is the enterprise itself.

The second phase of implementation of the project started in January of 2014, and it was focused on development of training modules, as well as on definition of the criteria for the examples of good practice. Based on the WETNAS, training modules on the topics of customer centricity, enhancing financial literacy, and increasing competences in leadership and motivation were developed. As an informal learning tool for women entrepreneurs and those who plan to start their own business, short films with stories about companies that are either owned or managed by women, from each of the countries involved in the project were recorded.

#### Croatian Chamber of Economy Split County Chamber – Business incubator for women entrepreneurs-beginners

As announced in 2014, CCE Split County Chamber published the public invitation<sup>36</sup> to join the “Business incubator for women entrepreneurs-beginners” in July 2015. The County Chamber Split offers four furnished offices, with additional benefits such as free use of the meeting room, internet, advisory and organisational assistance to women entrepreneurs-beginners. Women entrepreneurs-beginners can use the incubator’s infrastructure for up to 3 years, without payment of rent during the first year.

In addition to the newly created incubator, during 2014 and 2015 Split County Chamber continued its work on encouraging the development and greater exploitation of the potential of women entrepreneurship, in which it cooperates with the Croatian Association of Businesswomen Krug. For 15 years, CCE Split County Chamber has been organising the Round Table for Women Entrepreneurship within the Forum of Adriatic and Ionian Chambers of Commerce, and participates in the organisation of the Congress of Women Entrepreneurs of the Adriatic-Ionian Area, which was held in 2015 for the ninth time.

#### European Bank for Reconstruction and Development (EBRD), Advice for Small Business – Women in Business Programme

Since 2011, EBRD Small Business Support Team has been implementing the Croatia Women in Business Programme ([www.ebrd.com/womeninbusiness](http://www.ebrd.com/womeninbusiness)). The programme is aimed at majority Croatian-owned private enterprises, meet the criteria of the EU definition of small and medium enterprises, have the potential for growth and have a women at the top level of the management structure (it is not required that the company is owned by a woman). The programme consists of a financial and a non-financial component. The financial part relates to specialised loans for

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35 Study of the needs for education and training of women entrepreneurs, Croatian Chamber of Economy, 2013, [https://www.hgk.hr/wp-content/blogs.dir/1/files\\_mf/zene\\_poduzetnice.pdf](https://www.hgk.hr/wp-content/blogs.dir/1/files_mf/zene_poduzetnice.pdf), downloaded on October 1, 2015

36 CCE Split County Chamber, <https://www.hgk.hr/zk/split/poduzetnicki-inkubator-hgk-zupanijske-komore-split-zapoduzetnice-pocetnice>, downloaded on July 20, 2015

women entrepreneurs that are offered through Raiffeisen Bank and Privredna banka Zagreb, while the non-financial part encompasses several instruments aimed at strengthening women in entrepreneurship, which are subsidised or free of charge for final beneficiaries, and they are: business consulting (consultancy services), education (courses aimed at strengthening entrepreneurial skills), business coaching (business training) and mentoring.

### CESI – Center for Education, Counseling and Research

Within its Social Justice and Equal Opportunities Program, the non-profit CESI association ([www.cesi.hr](http://www.cesi.hr)), among other things, works on the design and implementation of projects aimed at improving the position of women in the labour market and reducing unemployment among women. During 2014, CESI has participated as a partner in the project BADGE – Empowering Female Entrepreneurship, financed by the European Commission. The aim of the project was to empower women facing multiple difficulties in the world of labour, and who are interested in starting their own business. Within the project, CESI conducted educational workshops for women entrepreneurs-beginners so they would gain valuable soft skills and competences required to start their own business.

Another project on the topic of women entrepreneurship in which CESI was a partner in 2014 is the “European Opportunities for Rural Women” project, which was implemented in the area of Zagreb, Krapina-Zagorje and Koprivnica-Križevci County. The aim of the project was to inform women from rural areas about the opportunities brought by the membership in the European Union, and it included education of women about the possibilities of financing projects from EU funds.

### Women in Adria

Network of business women “Women in Adria” was launched in 2012 with the aim of networking and exchange of 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, 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 2014, a series of networking events for women entrepreneurs was organised in Zagreb with the purpose of exchanging ideas and experiences, as well as the first annual conference “How to start and run a business from home”.



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

### 4.1. Legislative and institutional framework

The efficiency of the legislative and institutional framework related to the small and medium enterprise sector can be analysed at several levels:

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

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

Following are the main actors in formulation, adoption and implementation of the policy framework for activity of the small and medium enterprise sector.

**Ministry of Entrepreneurship and Crafts** ([poduzetnistvo.gov.hr](http://poduzetnistvo.gov.hr)) is responsible for the creation of policies aimed at the development of small and medium enterprises and creation of a favourable environment for entrepreneurship.

**Croatian Bank for Reconstruction and Development – HBOR** ([www.hbor.hr](http://www.hbor.hr)) is the development and export state bank whose main task is to encourage the development of the economy through providing loans, insuring exports from political and commercial risks, issuing guarantees and business consulting.

**Croatian Agency for SMEs, Innovations and Investments – HAMAG-BICRO** ([www.hamagbicro.hr](http://www.hamagbicro.hr)) was created in 2014 by merging the Croatian Agency for SMEs and Investments (HAMAG INVEST) and the Business Innovation Center of Croatia (BICRO) with the aim to create a unique system that will provide support to entrepreneurs through all the stages of business development. The agency is involved in activities related to encouraging the establishment and development of small and medium enterprises. Its activities fall under the jurisdiction of the Ministry of Entrepreneurship and Crafts.

**Croatian Employers' Association – CEA** ([www.hup.hr](http://www.hup.hr)) – is a voluntary, non-profit and independent organisation of employers that protects and promotes the rights of its members. Associations' activities are in the fields of labour-social legislation, industrial relations, protection of private property, promotion of development and regulation of market conditions, strengthening competitiveness and favourable entrepreneurial climate.

**Croatian Chamber of Economy – CCE** ([www.hgk.hr](http://www.hgk.hr)) – is a non-profit, non-governmental association of all active legal entities (membership in CCE is obligatory), which consists of 98.06% of small enterprises, 1.52% medium and 0.42% large enterprises. In the second half of 2014 CCE has been reorganised into 20 county chambers and ten departments, one of which is the **Industry and Technology Department**, within which the **Centre for Entrepreneurship, Innovations and Technological Development** operates.

**Croatian Chamber of Trades and Crafts** – CCTC ([www.hok.hr](http://www.hok.hr)) – 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 it operates through 20 district chambers, 116 craftsmen associations and 18 sections and guilds.

**European Bank for Reconstruction and Development** ([www.ebrd.com](http://www.ebrd.com)) – is an organisation which, through its “Small Business Support team”, provides support to small and medium enterprises aimed at achieving growth, improvement of export potential and new employment opportunities.

**SMEs and Entrepreneurship Policy Center** – CEPOR ([www.cepor.hr](http://www.cepor.hr)) – is an independent policy center that deals with the issues of small and medium enterprises in Croatia, whose aim is to influence the public-political environment emphasizing the role of entrepreneurship and small and medium enterprises in the development of Croatian economy. CEPOR is focused on creating stimulating institutional and regulatory framework for entrepreneurial activity. Since 2014, **Center for Family Businesses and Business Transfer** – CEPRA operates within CEPOR, whose goal is to provide support to family and other small and medium enterprises in the field of business transfer and other specific challenges related to the management of family businesses.

#### 4.1.2. National and regional policies and programs

In 2014, the following national and regional policies and programs that regulate and stimulate the development of the small and medium enterprise sector were current in Croatia:

- **Strategy for Development of Entrepreneurship in the Republic of Croatia 2013–2020**, from 2013, whose aim is to increase the competitiveness of small businesses in Croatia by improving economic performance, improving access to finance, promoting entrepreneurship, improving entrepreneurial skills and improving the business environment;
- **National Strategy for Entrepreneurial Learning 2010–2014**, from 2010, whose aim is to sensitize the public about entrepreneurship and develop a positive attitude towards lifelong learning, and to introduce learning and training for entrepreneurship as a key competence to all forms, types and levels of formal, non-formal and informal education and learning;
- **Strategy of Women Entrepreneurship Development in the Republic of Croatia 2014–2020**, from 2014, whose aim is to improve the coherence and interconnectedness of public policies, to improve systemic support for women entrepreneurship through the entire institutional structure, and to promote women entrepreneurship;
- **Action Plan for Implementation of the Strategy of Women Entrepreneurship Development in the Republic of Croatia 2014–2020**, from 2014;
- **Cluster Development Strategy in the Republic of Croatia 2011–2020**, from 2011, whose aim is to improve the management of Croatian cluster policy, strengthen clusters and cluster associations, to promote innovation and transfer of new technologies, conquer new markets and internationalisation of clusters, and strengthen the knowledge and skills for cluster development;
- **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;

- **2014–2015 Export Support Action Plan**, from 2014, which was developed by the Government's Commission for Internationalisation of Croatia's Economy, whose purpose is to consolidate and display in one place all activities and measures that must be taken by the appropriate state bodies and institutions to ensure systematic and sustained support for Croatian exporters and to facilitate the placement of Croatian goods and services to foreign markets;
- **Strategic Plan of the Ministry of Entrepreneurship and Crafts for the period 2015–2017**, from 2014, whose general aim is to increase the competitiveness of small businesses in Croatia by improving economic performance, access to finance, entrepreneurial skills and business environment, and promoting entrepreneurship, which are also the strategic goals of the Strategy for Development of Entrepreneurship in the Republic of Croatia 2013–2020;
- **Program to Encourage Entrepreneurship and Crafts – Entrepreneurial Impulse 2015**, from 2015.

Programs and policies relevant to the small and medium enterprise sector in Croatia need to be harmonised with the **Small Business Act of Europe**<sup>37</sup> with which the European Union provided guidelines for the recognition of the central role of small and medium enterprises in the economy of the European Union. The implementation of guidelines defined in the *Small Business Act of Europe* is monitored by the SBA Fact Sheet.

**SBA Fact Sheet 2015**<sup>38</sup> for Croatia – is an annual report of the EU that analyses changes in trends in the environment and regulatory framework in Croatia, related to the small and medium enterprise sector. As priorities at the policy level, the 2015 report states further reduction of administrative burden, enhanced cooperation of public bodies regarding the issues affecting small and medium enterprises, and improving institutional framework for export. In all the areas analysed by the SBA Fact Sheet, Croatia performs below the EU average, except in the area of *Environment*, where the second best result was achieved compared to other EU countries. This is a consequence of greater opportunities for the use of state aids in the field of environmental protection and energy efficiency by small and medium enterprises in Croatia. Performance in the areas of *Internationalisation*, *Access to finance* and *Entrepreneurship* is below the average, and in the area of *Responsive administration* significantly below the average of other EU countries, while the result achieved in the area of *Skills and innovations* is at the average of the member countries.

**GEM research**, among other things, monitors changes in the quality of business environment. A lack of consistent government policies related to the issues of small and medium enterprises has been evident since 2002, when Croatia became involved in the GEM research, which represents one of the biggest obstacles to the development of the small and medium enterprise sector (Table 24).

**Table 24:** Evaluation of government policies in 2013 and 2014

	2013.		2014.	
	GEM average	Croatia	GEM average	Croatia
<b>Policies supporting entrepreneurial activity</b>	2.58	<b>2.19</b>	2.63	<b>2.15</b>
<b>Policies towards regulatory framework</b>	2.35	<b>1.83</b>	2.48	<b>1.55</b>

Source: *GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2015*

37 Source: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0394:FIN:EN:PDF>, downloaded on October 2, 2014

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

In 2014, the rating of Government policies, observed through policies supporting entrepreneurial activity is almost unchanged compared to 2013 (2.15 in 2014, 2.19 in 2013), while the rating of policies aimed at simplifying regulatory framework decreased (1.55 in 2014 compared to 1.83 in 2013). Both ratings of Government policies in Croatia are lower than the average of countries participating in the GEM research indicating the need to invest greater efforts in the field of development of consistent policies aimed at the small and medium enterprise sector.

### **4.1.3. Regulatory environment**

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

- Act on Improving Entrepreneurial Infrastructure (Official Gazette, NN 93/13, 41/14)
- Small Business Development Promotion Act (Official Gazette, NN 29/02, 63/07, 53/12, 56/13)
- State Aid Act (Official Gazette, NN 47/14)
- Companies Act (Official Gazette, NN 111/93, 34/99, 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)
- 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)
- Concessions Act (Official Gazette, NN 143/12)
- Capital Market Act (Official Gazette, NN 88/08, 146/08, 74/09, 54/13, 159/13, 18/15, 110/15)
- Alternative Investment Funds Act (Official Gazette, NN 16/13, 143/14)
- 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)
- Competition Act (Official Gazette, NN 79/09, 80/13)
- Public Procurement Act (Official Gazette, NN 90/11, 83/13, 143/13, 13/14)
- Environmental Protection Act (Official Gazette, NN 80/13, 78/15)
- Physical Planning and Building Act (Official Gazette, NN 76/07, 38/09, 55/11, 90/11, 50/12)
- Labour Act (Official Gazette, NN 93/14)
- Consumer Protection Act (Official Gazette, NN 41/14, 110/15)
- Bankruptcy Act (Official Gazette, NN 71/15)
- Enforcement Act (Official Gazette, NN 112/12, 93/14)

Tax system legislation consists of the following acts:

- General Tax Act (Official Gazette, NN 147/08, 18/11, 78/12, 136/12, 73/13, 26/15)
- Contributions Act (Official Gazette, NN 84/08, 152/08, 94/09, 18/11, 22/12, 144/12, 148/13, 41/14, 143/14)
- Profit Tax Act (Official Gazette, NN 177/04, 90/05, 57/06, 146/08, 80/10, 22/12, 148/13, 143/14)

- 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)
- Value Added Tax (Official Gazette, NN 73/13, 148/13, 153/13, 143/14)
- Real Estate Transfer Tax Act (Official Gazette, NN 69/97, 26/00, 153/02, 22/11, 143/14)
- Excise Duties Act (Official Gazette, NN 22/13, 32/13, 81/13, 100/15, 120/15)

The principal act of the customs system is:

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

During 2015, there have been changes in the legislative framework that affects the activity of the small and medium enterprise sector. The Act on Investment Promotion and Development of Investment Climate ceased to have effect and the new Act on Investment Promotion entered into force (Official Gazette, NN 102/15). Also new are the Bankruptcy Act (Official Gazette, NN 71/15) and the Accounting Act and its first changes and amendments (Official Gazette, NN 78/15, 134/15), which entered into force on January 1, 2016.

The changes and amendments to the Value Added Tax from January 1, 2015 introduced the possibility of paying the VAT on paid instead of issued invoice for small entrepreneurs with revenues up to HRK 3 million.

World Bank's Doing Business study monitors the quality of the regulatory environment and its impact on business activity in individual countries of the world. The results of the Doing Business 2016<sup>39</sup> study show that during 2015 there were no significant changes in regulations in Croatia that would affect business activity. Due to changes in methodology underlying the Doing Business study in 2016<sup>40</sup>, ranks of countries in 2014 and 2015 are not directly comparable. According to the results of the Doing Business 2016 study, Croatia is in the 40<sup>th</sup> place out of 189 countries included in this study. However, this does not represent a leap of 25 places from the 65<sup>th</sup> place in 2014, but the 2015 rank is comparable to the 39<sup>th</sup> place from 2014 (according to new methodology), which means the loss of one place in the ranking.

In 2015, Croatia is in the first place according to the criterion of trading across borders, thanks to the membership in the European Union, in the 10<sup>th</sup> place according to the criterion of enforcing contracts and in the 83<sup>rd</sup> place according to the conditions for starting a business. The worst ranking (129<sup>th</sup> place) was achieved in the area of obtaining construction permits, which it takes an average of 128 days and 19 procedures in Croatia.

Table 25 provides an overview of indicators of regulatory environment for Croatia in selected categories of enterprise start-up, paying taxes, enforcing contracts and enterprise bankruptcy, in relation to the best positioned countries in the study, Germany, and neighbouring Slovenia.

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

40 What is changing in Doing Business?, <http://bit.ly/1UPng1i>, downloaded on February 1, 2016

**Table 25:** Overview of selected indicators of quality of the regulatory environment according to the Doing Business 2016 study for 2015

Regulatory area	Indicator			
	Croatia	Best indicator (country)	Germany	Slovenia
<b>Regulations for enterprise start-up</b>				
Number of procedures	7	1 New Zealand	9	2
Time (days)	12	0.5 New Zealand	10.5	6
Cost (% of income <i>per capita</i> )	3.3	0 Slovenia	1.8	0.0
Minimum capital (% of income <i>per capita</i> )	26.6	0 105 countries	33.9	41.8
<b>Paying taxes</b>				
Number of payments per year	19	3 Hong Kong	9	10
Time (hours per year)	206	55 Luxembourg	218	245
Total tax burden (% of profit)	20	25.9 Ireland	48.8	31
<b>Enforcing contracts</b>				
Time (days)	572	150 Singapore	429	1160
Cost (% of debt)	16.7	9 Iceland	14.4	12.7
<b>Bankruptcy</b>				
Time of insolvency (years)	3.1	0.4 Ireland	1.2	0.8
Cost of insolvency (% of assets)	14.5	1 Norway	8	4
Recovery rate (cents on 1 USD)	30.5	92.9 Japan	83.7	88.2

Source: *Doing Business 2016, Economy Profile Croatia, Economy Profile Slovenia, Economy Profile Germany, The International Bank for Reconstruction and Development / The World Bank*

According to the criterion of **complexity of regulatory environment for enterprise start-up**, Croatia took the 83rd place in the Doing Business 2016 ranking in 2015, while it was in the 88th place in the previous year. The criterion of complexity of regulatory environment for enterprise start-up is measured by the number of procedures required to register an enterprise, the number of days required to register an enterprise, the minimum capital required for the establishment of an enterprise and the cost of registration. A positive shift in relation to Doing Business 2015 has been made in reducing the number of days required to register an enterprise from 15 to 12, while the number of procedures remained seven, as well as the required minimum capital in the amount of 26.6% of income, and the cost of registration increased slightly to 3.3% of the value of income. For comparison, in Albania and Italy it takes five and a half days, and six and five procedures respectively to register an enterprise. Doing Business 2016 stated reducing notary fees as a positive change that makes doing business in Croatia easier.

In the *Paying taxes* category, the total tax burden of entrepreneurs increased from 18.4% in 2014 to 20% in 2015, and the time to prepare and pay taxes slightly decreased from 208 to 206 hours per year. The number of taxes that have to be paid during a year is still 19, as in previous years, which is significantly higher than in, for example, Germany (9 taxes) or Slovenia (10 taxes), but in those countries it also takes significantly more time to prepare and pay taxes, and the profit tax rates are higher (Table 26).

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

**Table 26:** Taxes in Croatia

Type of tax	Tax payer	Tax base	Tax rate
VALUE ADDED TAX	Physical and legal entity (entrepreneur) that delivers goods or performs services	Fee for goods delivered or services performed	25% 5% reduced rate applicable to bread, milk, newspapers, books, textbooks, scientific journals, medicines, medical equipment and supplies, cinema tickets 13% reduced rate applicable to services in tourism and hospitality industry, cooking oil, sugar, baby food, newspapers and magazines, water supplies, tickets for concerts
INCOME TAX	Physical entity that earns taxable income	Total income earned by local tax payers in Croatia and abroad and by foreign tax payers in Croatia	12% on income up to HRK 26,400.00 per annum 25% on income above HRK 26,400.00 to HRK 158,400.00 per annum 40% on income above HRK 158,400.00 per annum
PROFIT TAX	Enterprises and other legal and physical entities that perform activity with the aim of making profit	Profit (difference between income and expenses)	20% 15% on withholding tax 12% on dividends and profit shares
SURTAX	Tax on income of tax payers	Income tax	Municipality: up to 10% Town with population less than 30,000: up to 12% Town with population above 30,000: up to 15% City of Zagreb: up to 30%

Source: Tax system of the Republic of Croatia, [www.porezna-uprava.hr](http://www.porezna-uprava.hr), 2015

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

Croatia is included in numerous international studies that monitor and analyse various aspects of national economies and their impact on the quality of the business environment and competitiveness. For many years, the annual reports of eminent global studies indicate the existence of key obstacles to the development of the small and medium enterprise sector in Croatia:

- Administrative obstacles, especially those related to long and expensive procedures for start-up and termination of an enterprise,
- Inefficiency of the judiciary,
- Lengthy ownership registration procedures,
- Low focus on entrepreneurial education,
- Underdevelopment of informal forms of financing start-up and growth of business ventures.

**GEM – Global Entrepreneurship Monitor research** monitors the connection between entrepreneurial<sup>41</sup> framework conditions and entrepreneurial activity at individual level. Since the beginning of implementation of the survey in 2002, the results of GEM research in Croatia consistently identify *government policies towards regulatory framework, entrepreneurial education and transfer of results of research 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.

Other international research projects that analyse various aspects of national economies also confirm the stated obstacles as crucial for entrepreneurial activity.

**Global Competitiveness Report 2015–2016**<sup>42</sup>, which is implemented by the World Economic Forum, in 2015 positions Croatia in the 77<sup>th</sup> place out of 140 surveyed countries, the same as the previous year. The report 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. Switzerland is at the top of the rankings, the same as in 2014, followed by Singapore and the United States, which also kept the same positions. Of the countries with which Croatia is compared in this report, progress in the rankings was achieved by Slovenia (+11), Czech Republic (+6), Macedonia (+3), Romania (+6) and Poland (+2). Bulgaria, Greece and Serbia remained in the same positions in 2015 as in 2014, and Hungary and Montenegro recorded a decline of 3 places (Table 27).

Decline in the ratings of factors of competitiveness of macroeconomic environment in Croatia continued in 2015, by 16 places, from 91<sup>st</sup> place in 2014 to 107<sup>th</sup> place in 2015. In 2013, the rating of this segment ranked Croatia in the 67<sup>th</sup> place in the competitiveness rankings, indicating a drop of as many as 40 places over a period of two years. The next factor in which a decrease was recorded is the development of financial market (from 74<sup>th</sup> place in 2014 to 88<sup>th</sup> place in 2015)<sup>43</sup>. An increase was recorded in areas of higher education and training, labour market efficiency, technological readiness and innovativeness.

The presence of the same obstacles over a number of years indicates a lack of long-term structural reforms needed to encourage productivity and entrepreneurship in order to initiate economic growth, on which both the standard of citizens and the reduction of unemployment depend.

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

42 Results are based on perceptive data obtained by researching entrepreneurs' opinions and from publicly available statistical indicators from 2014 and 2015, which were published in 2015. Methodology of the World Economic Forum is based on the analysis of 12 competitiveness factors, which include: institutions, infrastructure, macroeconomic stability, health and elementary education, higher education and training, labour market efficiency, goods market efficiency, technological readiness, business sophistication, innovativeness, market size and financial market.

43 "Global Competitiveness Report 2015-2016: Position of Croatia", National Competitiveness Council, Zagreb, 2015



**Table 27:** Results of the Global Competitiveness Report 2015 – 2016 – Croatia and reference countries

Country	Rank 2015	Rank 2014	Change	
Poland	41	43	↗	+2
Czech Republic	31	37	↗	+6
Bulgaria	54	54	→	0
Slovenia	59	70	↗	+11
Hungary	63	60	↘	-3
Montenegro	70	67	↘	-3
Macedonia	60	63	↗	+3
Croatia	77	77	→	0
Romania	53	59	↗	+6
Slovakia	67	75	↗	+8
Bosnia and Herzegovina	111	-	-	-
Albania	93	97	↗	+4
Serbia	94	94	→	0

Source: *Global Competitiveness Report 2015-2016*, World Economic Forum / National Competitiveness Council, 2015

**Corruption Perceptions Index**, which is carried out by *Transparency International* ([www.transparency.hr](http://www.transparency.hr)) measures the degree of perception of corruption in the public sector and among officials and defines a ranking list of countries according to the assessment of the extent of corruption in them. The results of the Corruption Perceptions Index in 2015 have been prepared on the basis of surveys in 168 countries worldwide, and respondents are business people and analysts. Corruption Perceptions Index evaluates all levels of work of public authorities. Most studies assess to what extent legal framework in a country prevents corruption, and some take into account how clear and transparent the processes of issuing documents by public authorities are. Within the research, respondents were asked, among others, questions such as: are there clear procedures and a system of supervision when it comes to the allocation and use of public funds; do officials misuse public funds for private or party purposes; does the government directly appoint a large number of officials.

According to the Corruption Perception Index, on a scale from 0 (complete corruption) to 100 (no corruption), Croatia scored 51 points, which positions it in the 50<sup>th</sup> place out of 168 countries, which participated in the survey in 2015. In relation to the result achieved in 2014, Croatia has advanced by 3 points, that is, 11 places, and the same number of points and ranking as Croatia is shared by Hungary, Slovakia and Bahrein. The least corrupted countries are Denmark (91 points), Finland (90 points) and Sweden (89 points). The average value of the index in the European Union is 67 points, indicating Croatia's significant lagging behind the average. Transparency International Croatia sees the results of the research as a visible advance in the fight against corruption<sup>44</sup>.

<sup>44</sup> Corruption Perceptions Index 2015, [www.transparency.hr/hr/clanak/51-hrvatsa-se-vise-ne-nalazi-medu-korumpiranim-drzavama-svijeta/385](http://www.transparency.hr/hr/clanak/51-hrvatsa-se-vise-ne-nalazi-medu-korumpiranim-drzavama-svijeta/385), downloaded on January 27, 2015

## 5. Access to financing

One of the main objectives of the Strategy for Development of Entrepreneurship in the Republic of Croatia 2013–2020 is to facilitate access to sources of financing for small and medium enterprises. In Croatia, traditional sources of financing are available to owners of small and medium enterprises, which are represented by banks and credit unions and government incentive programs and subsidised credit lines. The supply of venture capital funds and informal forms of financing (business angels) is very limited in the Croatian money market.

The GEM research evaluated the availability of financial resources in all the years of implementation of the survey in Croatia with ratings lower than 3, on a scale from 1 to 5, which indicates that the availability of financial resources is more of an obstacle than an incentive for the development of entrepreneurial activity (Table 28). In 2014, perception was nevertheless slightly better compared to the previous year (2.32 in 2014 compared to 2.29 in 2013). The perception of availability of non-traditional sources of financing in Croatia has been rated below the average of countries involved in the GEM research.

**Table 28** Perception of availability of non-traditional sources of financing in 2013 and 2014

	Rating 5 indicates:	2013		2014	
		GEM average	Croatia	GEM average	Croatia
<b>Financial support</b>	There are enough equity funds, debt financing, government subsidies, private investors, venture capital funds; availability of initial public offering (IPO)	2.55	<b>2.29</b>	2.46	<b>2.32</b>

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2015

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

**Table 29:** Indicators of quality of the regulatory environment related to the loan market for 2015 – from the Doing Business 2016 report

Regulatory area	Indicator			
	Croatia	Best indicator (country) <sup>45</sup>	Germany	Slovenia
<b>Credit market</b>				
Strength of legal rights index (0-12)	5	12	6	3
Depth of credit information index (0-8)	6	8	8	4
Public registry coverage (% of adults)	0	100 Portugal	1.6	3.1
Private registry coverage (% of adults)	100	100	100	100
<b>Registering property</b>				
Number of procedures	5	1	5	5
Time (days)	62	1	39	49.5
Cost (% of property value)	5	0 Saudi Arabia	6.7	2
<b>Protecting investors</b>				
Strength of minority investor protection index (0-10)	6.5	8.3	6	7.5
Extent of disclosure index <sup>46</sup> (0-10)	3	10	5	5

Source: *Doing Business 2016, Economy Profile Croatia, Economy Profile Slovenia, Economy Profile Germany, International Bank for Reconstruction and Development / World Bank*

Doing Business study monitors the *Credit market* component based on the following criteria:

- Strength of legal rights index,
- Depth of credit information index and
- Public registry coverage.

According to these criteria, Doing Business study 2016 positioned Croatia in 2015 in the 70<sup>th</sup> place out of 189 countries that have participated in the research, which is a deterioration compared to 2014, when Croatia was positioned in the 61<sup>st</sup> place, and even more pronounced in comparison to 2013, when Croatia was positioned in the 34<sup>th</sup> place.

Complexity of registering property is determined based on the following criteria:

- Number of procedures required to register property,
- Time required to register property and
- Cost of registering property (in percentage compared to the value of the property).

Compared to Slovenia and Germany, Croatia has the same number of procedures (5), but significantly longer time required to register property (62 days in Croatia, compared to 49.5 days in Slovenia and 39 days in Germany).

SBA Fact Sheet for Croatia, in researching the access to financing, recorded that 22.2% of small and medium enterprises in Croatia indicate a deterioration in access to public sources of financing, including guarantees in 2014, and banks declined to approve loans to 18% of small and

<sup>45</sup> When no country is specified, it means that several countries have the listed indicator.

<sup>46</sup> 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.

medium enterprises. In 2014, the time required for debt collection in Croatia was 55 days, which is an increase of 3 days compared to 2013. Operating loss due to inability to collect receivables in Croatia amounted to 10.1% of total revenue, while the EU average was 4.02%. According to the SBA Fact Sheet, in the strength of legal rights category, Croatia recorded the rating of 5, on a scale from 0–12, which is at the level of EU for 2014, but also a deterioration in relation to the rating of 7 in 2013. Croatia also recorded the same rating (5 on a scale from 0–12) in the area of strength of legal rights according to the Doing Business 2016 study, which is a very poor rating compared to the best achieved indicator in this category, rating of 12.

## 5.1. Banks

The market of bank loans intended for small and medium enterprises in Croatia is highly developed. Almost all banks have various types of loans intended for the small and medium enterprise sector in their offer: loans for financing exports, for working capital, investment loans, construction loans, loans for tourism services, mortgage loans, loans for specific (green) activities (development of olive growing, development of viticulture and winemaking), loans for 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 offer of financial products, almost all banks provide additional lines of financing to entrepreneurs, 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.).

Analysis of the conditions and the offer of banking financial products intended for the small and medium enterprise sector points to the dominance of the following financing terms:

### Long-term loans

Amount:	up to HRK 5 million (depending on creditworthiness and purpose)
Duration:	up to 15 years
Interest:	consensual
Insurance:	1:1 – 1:1.5; promissory notes, debentures, deposits

### Short term loans

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

Table 30 provides an overview of terms and conditions for approval of long-term and short-term loans to small and medium enterprises according to the offer of banks in Croatia, which have, for the purpose of preparation of the *Small and Medium Enterprises Report – Croatia 2015*, delivered information about their offer and conditions to CEPOR.

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

	Type of loan	Loan purpose	Maximum amount	Interest rate	Repayment period
<b>Privredna banka Zagreb d.d.</b>	Tourism loan	Preparation of the tourist season.	Up to HRK 120,000.00	According to the creditworthiness of the client.	Up to 12 months
	Agricultural loan	One-year production of agricultural crops.	From HRK 10,000.00 to HRK 150,000.00	6.5% annual, fixed	Up to 3 years
	Consumer loans	Purchase of consumer goods and services.	From HRK 3,800.00 to HRK 76,000.00	13.38% annual, variable	From 2 to 5 years
	Short-term loans	Financing current needs and maintaining short-term liquidity in production, trade, transport, for exports, payment for services, seasonal needs, investment in working capital.	Loan amount is set depending on the creditworthiness of the borrower.	According to the creditworthiness of the client.	Up to 12 months
	Investment tourism loan	Construction of new buildings, adaptation and furnishing, wellness programs and environment, procurement of mobile houses.	From HRK 38,000.00 to HRK 1,520,000.00	Variable	From 1 to 20 years
	Loans for the development of economic activities (in cooperation with HBOR)	Investments in fixed and permanent working capital.	From HRK 700,000.00 upwards	2% – 4% annual, fixed	Up to 12 years
	Loans to encourage the development of small and medium entrepreneurship (in cooperation with HBOR)	Investments in fixed capital, purchase of construction land, machinery, equipment, vehicles, etc.	From HRK 80,000.00 to HRK 8,000,000.00	2% – 4% annual, fixed	Up to 12 years
	Loans for the preparation of goods for export and loans for export of goods (in cooperation with HBOR)	Financing the preparation of export of goods.	Not limited, depending on the creditworthiness of the borrower.	4% – 10.6% (EKS: 3.08% – 11.63%)	Up to 1 year
	Loans for reconstruction and development of municipal infrastructure (in cooperation with HBOR)	Long-term financing of municipal infrastructure projects.	Not limited, 75% of the estimated value of investment is financed.	4% annual, fixed	Up to 15 years
	Loans to support the tourism sector (in cooperation with HBOR)	Investment in fixed and working capital (campgrounds, hotels, boarding houses).	From HRK 80,000.00 upwards, HBOR finances up to 75% of the estimated value excluding VAT.	2% – 6% annual, fixed	Up to 17 years
<b>Long-term financing</b>	Products developed in cooperation with MINPO – Measure 1	Investment in construction, reconstruction or expansion of business buildings, procurement of equipment.	From HRK 100,000.00 to HRK 5,000,000.00	5.70% – 6.70% annually, fixed, with subsidy of MINPO, courties and individual units of self-government in the amount of 2% – 5%	From 7 to 10 years

<b>Long-term financing</b>		EU Sinerigo loans (in cooperation with EIF and CIP)	Financing the needs for working capital and investment projects.	Up to HRK 190,000.00	According to the creditworthiness of the client.	From 3 to 6 years
		EU financing programs (in cooperation with EIB and CEB)	Financing the construction, purchase and adaptation of production capacities and business buildings, expansion and modernisation of production capacities, procurement of equipment, machinery and vehicles, research and development, protection of health and education, and financing of investments that contribute to maintaining current jobs and creating new ones.	From HRK 304,000.00 to HRK 7,600,000.00	According to the creditworthiness of the client.	From 4 to 7 years
<b>Erste&amp;Steiermärkische Bank d.d.</b>						
<b>Short-term financing</b>						
	Credit line	Flexible withdrawal of needed liquid assets, used on the principle of credit line on retail current account.	Depending on the creditworthiness of the borrower.	Contractual interest is paid only on the amount of funds (overdraft) in use.		Up to 12 months
	Revolving loan	Withdrawal and return of loan funds in accordance with the needs of the client's business.	Depending on the creditworthiness of the borrower.	Depending on the creditworthiness of the borrower.		Up to 3 years
	Loan for financing current business operations	Maintaining liquidity (e.g. payment of salaries, payments to suppliers...) Financing working capital needs. Financing export contracts and export preparations.	Depending on the creditworthiness of the borrower.	Depending on the creditworthiness of the borrower.		Up to 12 months /
	Loans covered by cash deposit or pledge	Financing short-term liabilities with pledge of 100% of cash deposit/ commission disbursements placed with bank guarantee/ securities guaranteed by the bank or securities issued or guaranteed by the Republic of Croatia.	95% of the offered deposit, 95% of the nominal value, i.e., up to 95% of the market value.	Depending on the creditworthiness of the borrower.		Up to 12 months
	Short-term limit	Limit within which the client can be approved all types of products defined by the contract.	Depending on the creditworthiness of the borrower.	Depending on the creditworthiness of the borrower.		Up to 12 months
	Loans in cooperation with HBOR – financing export preparations	Financing working capital intended for the preparation of production for export.	Depending on the creditworthiness of the borrower.	From 4,0% annually		Up to 12 months
	Loans in cooperation with HBOR – financing preparations for the tourist season	Financing preparations for the tourist season of the current year.	Maximum HRK 10,000,000.00	Variable, three-month EURIBOR + 3,75%		Two equal instalments – October 15 and November 15 of the current year

Long-term financing						
Loans in cooperation with EBRD	Financing current liquidity.	Maximum HRK 11,400,000.00 per loan, maximum HRK 22,800,000.00 per user	Depending on the creditworthiness of the borrower.	Up to 12 months		
Investment loan for investment in fixed assets	Investment in modernisation and/or expansion of business, diversification of branch and production facilities, business and storage facilities, construction land, vehicles, vessels and other fixed assets.	Depending on the amount of the investment and own participation.	Depending on the creditworthiness of the borrower.	Up to 10 years		
Loans for permanent working capital	Financing permanent working capital required for quality everyday operations.	Depending on the creditworthiness of the borrower.	Depending on the creditworthiness of the borrower.	Up to 7 years		
Investment loan for financing renewable energy sources projects	Financing investments in the construction of plants for the production of energy from renewable sources.	Depending on the creditworthiness of the borrower.	Depending on the creditworthiness of the borrower.	Up to 14 years, according to the Contract on the purchase of electricity		
Loan for construction projects	Financing projects of construction of residential and commercial buildings intended for sale in the market.	Depending on the creditworthiness of the borrower.	Depending on the creditworthiness of the borrower.	Disbursement period + max. 2 years of transfer of loan in repayment		
Agri-financing	Commercial investment loan for agricultural producers and food processors for financing land, construction/business facilities, equipment and devices, planting perennial crops or purchase of the basic herd. It is also possible to finance projects that will be co-financed from EU funds.	Depending on the creditworthiness of the borrower.	Depending on the creditworthiness of the borrower.	Up to 10 years		
Buyer's Credit	Financing exports of Croatian goods and services, except consumer goods pursuant to the rules determined by the OECD Consensus.	Depending on the creditworthiness of the borrower.	Depending on the creditworthiness of the borrower.	Up to 10 years		
Supplier's Credit	Financing exports of Croatian goods and services, except consumer goods pursuant to the rules determined by the OECD Consensus.	Depending on the creditworthiness of the borrower.	Depending on the creditworthiness of the borrower.	Up to 10 years		
Tourism loan	Financing investments in performing tourism activity.	Depending on the amount of the investment and own participation.	Depending on the creditworthiness of the borrower.	Up to 15 years		

<b>Long-term financing</b>						
Loans covered by cash deposit or pledge	Financing long-term liabilities with pledge of 100% of cash deposit/commission disbursements placed with bank guarantee/securities guaranteed by the bank or securities issued or guaranteed by the Republic of Croatia.	95% of the offered deposit, 95% of the nominal value, i.e., up to 95% of the market value.	Depending on the creditworthiness of the borrower.	Up to 10 years		
Investment loan for investment in solar power plants	Financing investments in the production of electricity from solar power plants.	a) up to HRK 228,000.00 b) from HRK 228,000.00 to HRK 2,280,000.00	Depending on the creditworthiness of the borrower.	a) up to 7 years b) up to 14 years		
Loans in cooperation with EIB	Long-term financing of working capital and investment projects.	Up to HRK 95,000,000.00	Depending on the creditworthiness of the borrower.	Up to 12 years		
Loans in cooperation with EBRD	Long-term financing of working capital.	Maximum HRK 11,400,000.00 per loan, maximum HRK 22,800,000.00 per user	Depending on the creditworthiness of the borrower.	Up to 5 years		
Loans in cooperation with MINPO and countries and the City of Zagreb – Measure 1	Long-term financing of purchase, construction, reconstruction or expansion of business facilities, purchase of new equipment, working capital	Up to HRK 5,000,000.00	3M EURIBOR + 4.5% to 3M EURIBOR + 6%	Up to 10 years		
Loans in cooperation with HBOR – financing the economy	Long-term financing of fixed and permanent working capital.	The maximum loan amount is not limited (depends on the specific investment project and the creditworthiness of the client)	2% – 4% annually	Up to 12 years		
Loans in cooperation with HBOR – financing the tourism sector	Long-term financing of fixed and permanent working capital.		2% – 6% annually	Up to 17 years		
Loans in cooperation with HBOR – financing the municipal infrastructure	Long-term financing of fixed and permanent working capital.		4% annually	Up to 15 years		
Loans in cooperation with HBOR – financing the development of small and medium entrepreneurship	Long-term financing of fixed and permanent working capital.	From HRK 80,000.00 to 8,000,000.00	2% – 4% annually	Up to 12 years		
<b>Zagrebačka banka</b>						
<b>Short-term</b>						
Loan for the development of tourism activities	Financing the preparation of the tourist season of the current year, and investments in tourism.	Minimum HRK 19,000.00, and the maximum depends on the creditworthiness of the borrower.	Variable	Up to 12 months		
Loan for the development of olive growing	Financing contracts for the delivery of olive oil, purchase of olives and refinancing loans in other banks.	Maximum amount of up to HRK 5,000,000.00, depending on the creditworthiness of the borrower.	Variable	Up to 12 months		



Short-term financing		Long-term financing	
Loan for the development of wine-making and viticulture	Financing contracts for the delivery of goods and refinancing loans in other banks.	Depending on the creditworthiness of the borrower.	Up to 12 months
Loan for business financing	Financing seasonal jobs and refinancing loans for the same purpose.	Depending on the creditworthiness of the borrower.	Variable
Loans in cooperation with EBRD - energy efficiency and renewable energy sources	Investments for energy efficiency improvements, investments in renewable energy sources and in energy renovation of buildings.	Up to HRK 15,200,000.00	Up to 12 months
Loans in cooperation with EFSE	For working capital and other short-term needs.	Up to HRK 760,000.00	Variable
Financing micro entrepreneurs in cooperation with EIF	New investments and working capital.	Up to HRK 180,000.00	Variable
Loan for investments	Purchase, construction, reconstruction or improvement of land or building.	Depending on the creditworthiness of the borrower.	From 3 months to 12 months From 5 to 10 years
Loan for the development of tourism activities	Purchase, construction, improvement or adaptation of tourism facilities, purchase of vessels and equipment for rental, and refinancing loans for the same purpose.	Depending on the creditworthiness of the borrower.	Variable
Loan for financing permanent working capital	Financing permanent working capital.	Depending on the creditworthiness of the borrower.	Variable
Loan for the development of wine-making and viticulture	Purchase of land in order to expand activities, planting permanent crops, procurement of equipment, permanent working capital.	Depending on the creditworthiness of the borrower.	Variable
Loan from the Beginner program for entrepreneurs in selected professions	Purchase of land and construction of facilities for carrying out activities, procurement of equipment, procurement of vehicles.	From HRK 38,000.00 to HRK 1,900,000.00	Up to 12 years Up to 25 years
Loan from the Senior program for entrepreneurs in selected professions	Purchase of land and development of infrastructure, procurement of equipment, vehicles, refinancing long-term purpose loans and reimbursement of investments in fixed assets.	At least HRK 38,000.00, the highest amount depending on the creditworthiness of the borrower.	Variable
Loan for the development of olive growing	Purchase of land and equipment for the purpose of planting olive trees or expansion of activities, purchase of equipment for irrigation, system of protection from frost and hail, refinancing loans of other banks.	Maximum amount up to HRK 5,000,000.00, depending on the creditworthiness of the borrower.	Variable

Long-term financing					
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 electricity production	Purchase and installation of solar for the production of electric and heat energy, investments in improvement of energy efficiency of commercial and residential real estate.	Depending on the creditworthiness of the borrower.			10 years
Loans in cooperation with EBRD - energy efficiency and renewable energy sources	Investments for energy efficiency improvements, investments in renewable energy sources and in energy renovation of buildings.	Up to HRK 15,200,000.00	Variable		Up to 5 years
Loans in cooperation with EFSE	Financing investments in purchase, construction or expansion of buildings, procurement of equipment and vehicles, and permanent working capital.	Up to HRK 760,000.00			Until December 15, 2017
Financing micro entrepreneurs in cooperation with EIF	New investments and working capital.	Up to HRK 180,000.00			Up to 5 years
Loans for innovative business entities in cooperation with EIF	Financing investments in tangible and intangible assets, and working capital.	From HRK 190,000.00 to HRK 15,200,000.00			From 4 to 7 years

Source: Erste&Steiermärkische Bank d.d., 2015, Zagrebačka banka d.d., 2015 and Privredna banka Zagreb d.d., 2015

Disbursed bank loans at the end of 2014 amounted to HRK 279.9 billion, which is a decrease by 2.4% compared to 2013. The largest decrease was recorded in disbursements to enterprises, by 3% or HRK 3.2 billion, then to financial institutions, by HRK 2.5 billion or 2%, and to the population, by HRK 1.2 billion or 1%. Loans to population accounted for the largest share of total bank loans (43.7%), and that share recorded an increase of 0.6 percentage points compared to 2013. The share of loans to companies in total loans decreased by 0.2 percentage points to 37.4%, while the share of loans to government units increased by 0.2 percentage points, to 15.4%. In the corporate lending sector, loans to public enterprises and other enterprises were equally reduced, with syndicated loans, loans for construction and investment loans decreasing the most. The most common forms of lending to enterprises were loans for working capital, investment loans and other (unspecified) loans.

**Workshops for representatives of financial institutions  
on the topic of business transfer  
organised by CEPOR – SMEs and Entrepreneurship Policy Center**

*In 2015, CEPOR continued with the implementation of the program to strengthen the capacity of banks to provide quality support to clients from the small and medium enterprise sector, which began in 2014. During October and November, with the financial support of EFSE – European Fund for Southeast Europe, three workshops for representatives of financial institutions on the topic of early recognition of crisis in clients from the small and medium enterprise sector, development of competencies important for the improvement of relations with owners of small and medium enterprises, and support that banks can provide to clients in the business transfer process. Workshops were held by Jean-Luc Wuidard, Belgian lawyer and expert on legal issues in the transfer of business of family enterprises, and Simon Haslam, British consultant and trainer, who holds workshops for the clients and bankers of the Royal Bank of Scotland at the Durham University Business School. The workshops were attended by more than 60 employees of banks, mostly associates and advisors for small and medium enterprises.*

## 5.2. Microfinance and credit unions

Microfinancing includes lending and the provision of basic financial services to micro enterprises, self-employed and unemployed people who have limited access to financing, which for them represents a high barrier to the implementation of a business venture. In such cases, approval or disapproval of a loan in the amount of e.g. HRK 20,000 could mean new employment on the one hand, or closure of a business entity, on the other.

Providers of microfinance services are credit unions, which operate in more than 100 countries worldwide, where they provide various financial services, primarily credit and deposit services. Comparison of the microfinance model in Croatia with best international practice developed over the last three decades indicates underdevelopment of microfinance in Croatia in relation to developed financial markets in which a wide range of such institutions operates<sup>47</sup>. 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

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<sup>47</sup> Overview of the Microcredit Sector in the European Union 2010-2011, European Microfinance Network, 2012

(46%); too high interest rate (34%); lack of information among users regarding financial products (26%)<sup>48</sup>.

Based on the **Credit Unions Act**<sup>49</sup> from 2011, savings and loan cooperatives in Croatia have been replaced by credit unions. The restrictive provisions of the Act, primarily defining of the territorial principle and the reduced number of activities, have prevented a large number of financial institutions to adjust to new legislation. 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, 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. Also, in terms of personnel, technical and financial capacity, a certain number of cooperatives was incapable of transformation and the new way of working as a credit union, which, together with the above restrictions brought by the 2011 Credit Unions Act, led to a significant reduction in the number of savings and loan cooperatives that were transformed into credit unions.

According to the Annual Report of the Croatian National Bank, 26 credit unions operated in Croatia in 2014, the same as in the previous two years. The value of their total assets was HRK 709 million, which is HRK 49 million, or almost 7% more than in 2013. The share of credit unions in the assets of the financial sector is just 0.1%, which reflects their marginal role among financial intermediaries<sup>50</sup>, but credit unions are essential for their very specific target market, which is evident from the average size of loans granted by credit unions.

According to the Croatian Association of Credit Unions (HUKU), members of the Association have disbursed 9,658 loans in the total amount of HRK 329.7 million in 2014, which is 594 loans less and HRK 17.8 million lower total amount of disbursed loans than in 2013 (Table 31). The average granted loan amount by credit unions in 2013 was HRK 33,898, and HRK 34,142 in 2014.

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48 In 2010, CEPOR – SMEs and Entrepreneurship Policy Center and Croatian Bank for Reconstruction and Development – HBOR conducted a survey among the participants of the Microfinance Workshop with the aim to collect opinions on application and possibilities of microfinancing in Croatia. Korynski, P.: "Microfinance in Croatia: Research results", CEPOR, 2010

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

50 "Annual Report 2014", Croatian National Bank, Zagreb, 2015, p. 28

**Table 31:** Loans granted by credit unions – members of the Croatian Association of Credit Unions in 2013 and 2014 (HRK)

Name of credit union	2013			2014		
	Number of loans	Loan amount	Average loan amount	Number of loans	Loan amount	Average loan amount
ABC KU Sisak	542	12,641,480.50	23,324	520	11,409,075.51	21,940
KU Apoen Valpovo	738	11,255,000.00	15,251	679	11,252,000.00	16,571
KU Deponent Zagreb	106	7,647,020.60	72,142	131	8,292,750.00	63,303
KU Dukat Viškovo	931	16,050,000.00	17,240	590	15,800,000.00	26,779
GAMA KU Zagreb	372	25,974,000.00	69,823	1004	11,940,000.00	11,892
KU Kod Sata Sisak	378	3,602,839.00	9,531	184	2,495,198.19	13,560
KU Libertina Čakovec	290	12,299,500.00	42,412	280	12,412,400.00	44,330
KU NOA Osijek	254	7,926,839.78	31,208	240	9,381,369.29	39,089
Zagorska KU Zabok	440	26,909,003.63	61,157	414	26,012,403.13	62,831
KU Jamstvo Županja	1,805	76,911,314.00	42,610	1500	59,108,700.00	39,405
KU Sjenica Čakovec	-	-	-	317	9,905,400.00	31,247
KU Konavle Dubrovnik	504	35,493,185.14	70,423	484	34,024,127.16	70,297
KU Krajcar Županja	514	28,076,000.00	54,623	556	33,220,390.94	59,748
KU Marjan Split	1,478	51,672,000.00	34,961	1524	57,160,000.00	37,506
KU Bra-Ma Split	126	12,210,899.11	96,912	139	11,134,700.00	80,105
KU Sindikalna Zagreb	1,774	18,850,000.00	10,626	1096	16,200,000.00	14,781
<b>Total</b>	<b>10,252</b>	<b>347,519,081.76</b>	<b>33,898</b>	<b>9,658</b>	<b>329,748,514.22</b>	<b>34,142</b>

Source: Croatian Association of Credit Unions, 2015 (2014)

### 5.3. Venture capital funds

Venture capital<sup>51</sup> is a type of investment by financial investors in the share capital of companies that are not listed on the stock exchange and have the potential to achieve high growth rates over a period of 3–7 years.

Economic co-operation funds (ECF) are open-ended venture capital investment funds with private offering, established by the Investment Funds Act in early 2011. Initially, five ECFs that have complied with all the prescribed conditions and received a work permit from the Croatian Financial Services Supervisory Agency (HANFA) were founded. The aim of establishment was to encourage economic development, preserve current and create new jobs by strengthening existing and starting new business entities, through ownership restructuring by investing additional capital. The area of investment of ECFs are companies with headquarters in Croatia, which exclusively or predominantly operate within the territory of Croatia, and the estimated duration of the investment is 10 years, with a maximum extension of 2 years. The highest payment obligation of the Government of the Republic of Croatia towards one ECF can be up to HRK 300 million<sup>52</sup>.

Croatian Bank for Reconstruction and Development (HBOR) was appointed by the Croatian Government as the qualified investor for participation in the establishment of ECFs, and in its name and on behalf of the Government invests in each of the ECFs an amount equal to the amount of investment of private investors. Upon establishment, the role of HBOR is to participate in the activities of ECFs together with private investors.

The new Alternative Investment Funds Act<sup>53</sup>, which entered into force in July 2013, governs 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), the method of issue and redemption of units of AIFs, delegation of duties to third parties and supervision of the operation and management of AIFMs, AIFs, depositaries and persons marketing units in AIFs.

In 2014, there were four alternative investment venture capital fund management companies in Croatia:

- Nexus Private Equity Partneri d.o.o. (<http://www.nexus-pe.hr/>) manages three venture capital funds: Nexus ALPHA with HRK 254 million of accumulated capital, Nexus FGS with HRK 380 million of accumulated capital, and Nexus FGS II with HRK 600 million of accumulated capital. The company took over the management of the Nexus FGS II fund in November 2014, which previously operated under the name Alternative Private Equity FGS and was managed by Alternative Private Equity d.o.o.

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51 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 13, 2011

52 "Annual financial statements of the Croatian Bank for Reconstruction and Development for 2014", Croatian Bank for Reconstruction and Development, 2015, p. 19

53 Official Gazette NN 16/13, 143/14

- Quaestus Private Equity d.o.o. ([www.quaestus.hr](http://www.quaestus.hr)) manages two venture capital funds: Quaestus Private Equity Capital whose size is HRK 266 million and Quaestus Private Equity Capital II whose size is HRK 532 million. Quaestus Private Equity is the first Croatian venture capital fund established in 2003. It has realised 10 investments in the period from 2004 to 2014 (Hospitalija Trade, Metronet, Akronim, Vulić&Vulić, Fragaria, Textile Factory Trgovišće, Spačva, Tele 2, Hlad and GFG Gustus), 3 of which have achieved an exit (Tele 2, Hlad and GFG Gustus)<sup>54</sup>.
- Prosperus-invest d.o.o. ([www.prosperus-invest.hr](http://www.prosperus-invest.hr)) manages the Prosperus FGS alternative investment fund, whose size is HRK 340 million.
- Honestas Private Equity Partneri d.o.o. ([www.honestas-pe.hr](http://www.honestas-pe.hr)) manages the Honestas FGS fund whose size is HRK 155 million.

According to HBOR, decisions to invest in 7 projects worth more than HRK 250 million were made in 2014, of which 50% relates to the share of the Republic of Croatia. Investments were made in the sectors of agriculture, tourism, IT sector, wood industry and textile industry. The companies in which capital of alternative investment funds was invested employed a total of 1,077 workers<sup>55</sup>.

The first regional venture capital fund, Enterprise Innovation Fund (ENIF) was launched in late 2015, and investments are focused on equity capital 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 EUR, 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. The initial founders of the fund are the European Investment Fund (EIF), the European Bank for Reconstruction and Development (EBRD) and the European Commission, and among the first investors were the Ministry of Entrepreneurship and Crafts through the Croatian Agency for SMEs, Innovations and Investments (HAMAG-BICRO), the Government of the Republic of Macedonia and other institutional and private investors<sup>56</sup>.

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54 [www.quaestus.hr](http://www.quaestus.hr), downloaded on October 17, 2014

55 "Annual financial statements of the Croatian Bank for Reconstruction and Development for 2014", Croatian Bank for Reconstruction and Development, 2015, p. 19

56 <http://www.hamagbicro.hr/pokrenut-regionalni-fond-rizicnog-kapitala-od-40-milijuna-eura-enterprise-innovation-fund-enif/>, downloaded on December 14, 2015

## **How to strengthen the role of venture capital<sup>57</sup>** **Analysis of the Croatian Banking Association (CBA)**

*Analysis of the Croatian Banking Association on the financing of small and medium enterprises from July 2015 indicates the start of recovery in the small enterprise sector, but significant financial constraints are still present, which limit growth and development of enterprises. Higher risk and lack of capital in the small and medium enterprise sector is an ongoing phenomenon that does not depend on the business cycle, but its overcoming depends on the activities of specialised financial intermediaries that supply capital. Venture capital funds are such financial intermediaries.*

*There is a serious difficulty in access to capital for financing small and medium enterprises on the upswing in Croatia – 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.*

The analysis, therefore, points to 5 recommendations, that is, measures that could be used to achieve these objectives:

**1. Develop a comprehensive strategy and action plan for the development of the venture capital industry in Croatia.** *The state should continue to have an active role, and it is necessary to involve interested international financial institutions and foreign partners. The recommendation is to simultaneously develop private equity and venture capital funds because of their complementarity and work to remove barriers to potential investments whose value is less than HRK 20 million.*

**2. Include regional perspective in relation to Southeast Europe.** *Orientation towards the wider region would affect the improvement of relations between the expected return and risk and thus encourage more active involvement of foreign partners.*

**3. More active role of pension funds in developing and investing in venture capital funds.** *Changes and adjustments in legislation are necessary in order for pension funds to invest more significantly in projects that bring capital gains in the long run. Pension funds are indeed the only remaining potential domestic investors in venture capital funds.*

**4. Education and systematic cooperation with distribution channels, banks in particular.** *It is necessary to educate entrepreneurs on the possibilities of risk capital financing, and it is essential to better exploit the potential of cooperation with banks, which have the function of a distribution channel because they identify companies – potential targets for investment.*

**5. The essential elements of regulations should be regulated by laws, and not by by-laws and should not be changed during the investment cycle.**

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57 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 September 28, 2015



## 5.4. Business angels

Business angels are investors that provide seed capital needed for implementation of projects to entrepreneurs, help by transferring their own entrepreneurial and managerial experiences and by giving practical advice and guidance.

CRANE (CRoatian Business Angels NEtwork) – is the Croatian umbrella association of business angels<sup>58</sup> (www.crane.hr). CRANE was founded in 2008 as a non-profit association, and its members are successful entrepreneurs and investors who want to multiply their knowledge, experience and earned money by investing in entrepreneurial ventures and enable new entrepreneurs to cross the path from the idea, founding the company to establishing in the market and making a profit.

From 2008 to 2015 CRANE recorded a small number of projects (Table 32), indicating low level of development of this form of financing business ventures in Croatia. Thus, only one investment in the value of HRK 494,000 was realised in 2014, while four entrepreneurial ventures were financed in 2015, with the average value of HRK 171,000. Since the establishment of the association in 2008 until the end of 2015, more than HRK 15 million was invested in 22 entrepreneurial projects, and the average investment amount was HRK 402,975.

**Table 32:** CRANE Croatian Business Angels Network – investments from 2008 to 2015

	Number of projects / investments	Amount (HRK)	Average investment amount (HRK)
2008	2	9,150,000	4,575,000
2009	3	1,029,000	343,000
2010	2	1,131,500	565,750
2011	5	2,634,100	526,820
2012	2	<i>Data not available</i>	
2013	3	<i>Data not available</i>	
2014	1	494,000	494,000
2015	4	684,000	171,000
<b>Total</b>	<b>22</b>	<b>15,472,600*</b>	<b>402,975*</b>

Source: CRANE, 2015

\*The amounts do not include data for 2012 and 2013, which are not available because of trade secrets.

In Western economies, business angels are managers and entrepreneurs at the end of their business career, with extensive experience and accumulated capital, which they invest in entrepreneurial projects. 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” programs (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.

58 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.

In March 2015, Croatian Agency for SMEs, Innovations and Investments – HAMAG-BICRO announced an open public call according to the Program for the promotion of investment in equity capital of innovative small enterprises<sup>59</sup>, which aims to encourage investment in equity capital of innovative enterprises by eligible investors for the purpose of further development and/or commercialisation of innovative products or services by approving additional funds in the form of grants. In terms of the call, eligible investors are business angels, syndicates of business angels, corporate investors and venture capital funds. For the funds invested in equity capital of innovative enterprises by eligible investors, HAMAG-BICRO awards that enterprise a grant in the same amount, up to HRK 200,000, which reduces the investment risk to investors, and provides the necessary capital increase to innovative beginner entrepreneurs.

## 5.5. Government incentive programs and subsidised credit lines

Through promotion of investment<sup>60</sup>, grants – supports within the Entrepreneurial Impulse program and loan programs, the Government of the Republic of Croatia implements measures aimed at promoting the development of the small and medium enterprise sector.

### Grants of the Ministry of Entrepreneurship and Crafts

**Program to Encourage Entrepreneurship and Crafts – Entrepreneurial Impulse 2014** was adopted in February 2014, and it has brought several novelties to Entrepreneurial Impulse 2013. The novelties are aimed at simplifying the application procedure for the interested entrepreneurs and craftsmen, and are related to reducing the list of mandatory documentation, longer period of time between the publication of the invitation to tender and the start of receipt of applications, and the prolongation of the time for project implementation from 6 months to one year. Grants are awarded through 10 measures divided into 4 priorities:

- Enhancing the competitiveness of small business,
- Improving the entrepreneurial environment,
- Promotion and learning for entrepreneurship and crafts and
- Easier access to financing.

A total of 1,532 grants, in the total amount of HRK 344,955,792.00, with the average grant amount of HRK 225,167.00<sup>61</sup> were approved. A more detailed overview of grants approved within the first three priorities (Enhancing the competitiveness of small business, Improving the entrepreneurial environment and Promotion and learning for entrepreneurship) is given in Table 33, and within the priority Easier access to financing, funding was allocated through HAMAG-BICRO's microcredit schemes and guarantee programs, subsidising of interest rates for entrepreneurial loans and through investments of economic co-operation funds.

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59 The text of the call is available at: <http://www.hamagbicro.hr/javni-poziv-prema-programu-poticanja-ulaganja-u-vlasnicki-kapital-inovativnih-subjekata-malog-gospodarstva/>, downloaded on March 20, 2015

60 The new Investment Promotion Act has been in force since October 2015, with the objective of "promotion of economic growth and pursuing of the economic policy of the Republic of Croatia, its involvement in the international trade flows and strengthening the investment and competitive capacity of Croatian enterprises". Source: Investment Promotion Act, NN 102/15

61 "Entrepreneurial Impulse – Program to Encourage Entrepreneurship and Crafts for 2015", Ministry of Entrepreneurship and Crafts, 2015, p. 11

**Table 33:** Grants approved from the Entrepreneurial Impulse 2014 program, Ministry of Entrepreneurship and Crafts

Measure/project	Number of approved grants	Approved amount – HRK
<b>MEASURE A</b>	<b>118</b>	<b>23,525,802.82</b>
A1 Micro entrepreneurship and crafts	101	19,275,803.59
A2: Cooperative entrepreneurship	10	1,574,678.70
A3: Entrepreneurship of clusters	7	2,675,320.53
<b>MEASURE B</b>	<b>84</b>	<b>54,012,282.76</b>
B1: Small and medium enterprises and crafts	67	47,816,544.56
B2.1: Innovation in entrepreneurship - physical persons	3	138,126.39
B2.2: Innovation in entrepreneurship - commercial entities	14	6,057,611.81
<b>MEASURE C</b>	<b>43</b>	<b>8,431,948.13</b>
C2: Technology parks, business incubators and business accelerators	11	4,945,532.19
C3A: Development agencies, entrepreneurship centers and competence centers	23	2,499,613.03
C3B: Internationalisation of business	9	986,802.91
<b>MEASURE D</b>	<b>1226</b>	<b>6,733,324.22</b>
D1: Education for entrepreneurship	28	1,000,000.00
D2.1: Lifelong learning for craftsmen	1148	3,099,319.77
D2.2: Scholarships for pupils in craft occupations	15	1,753,239.00
D2.3: Apprenticeship for craft occupations	34	820,442.14
Pilot project Modern design of traditional and artistic products	1	60,323.31
<b>TOTAL</b>	<b>1471</b>	<b>92,703,357.93</b>

Source: Ministry of Entrepreneurship and Crafts, 2015

### Program of improved lending to entrepreneurship and crafts “With loan to success 2014”<sup>62</sup>

The program implements measures of favourable financing of the small business sector through subsidised interest on entrepreneurial loans approved by commercial banks. The goal of the Program is to facilitate access to finance to the small business sector in a way that improved loan terms stimulate improvement of business activity, new investment or maintaining business continuity. The Program is implemented through two measures – Measure 1 “With loan to

62 <https://vlada.gov.hr/UserDocsImages//Sjednice/2014/184%20sjednica%20vlade//184%20-%201.pdf>, downloaded on October 5, 2015

competitiveness” and Measure 2 “With loan to a successful business”, with the specified purpose of the loan and loan terms. Within Measure 1, loan in the amount of HRK 100,000 to 5 million can be used for purchase of business facilities and new equipment, with an interest rate of up to 7% and a repayment period of up to 10 years. Funds for interest subsidy are provided by the Ministry of Entrepreneurship and Crafts: 2 percentage points for projects in the manufacturing sector and 1 percentage point for projects in the service sector, while the counties and the City of Zagreb additionally subsidise the interest according to their terms. Within Measure 2, loans can be used for financing current liquidity and permanent working capital, and the funds for interest subsidy are provided by the Ministry of Entrepreneurship and Crafts in the amount of 5 percentage points.

### **Credit lines of the Ministry of Entrepreneurship and Crafts for the development of small business at the local level<sup>63</sup>**

Within the credit lines “Local projects for small business development” and “Local development projects – microcrediting” started in 2009, involving the participation of the Ministry of Entrepreneurship and Crafts, counties and commercial banks, 112 loans in the amount of HRK 165.6 million were approved in 2014. Due to the utilisation of the credit potential, both credit lines were closed in March 2014. For these, as well as for other credit lines for which the Ministry pays subsidised interest, HRK 25.8 million were allocated in 2014<sup>64</sup>.

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

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

In 2014, 728 loans in the amount of HRK 2.1 billion were granted within loan programs to small and medium enterprises (Table 34).

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63 “Entrepreneurial Impulse – Program to Encourage Entrepreneurship and Crafts for 2015”, Ministry of Entrepreneurship and Crafts, 2015, p. 31

64 *Ibid.*, p. 32

**Table 34:** Overview of loans granted to small and medium enterprises by HBOR in 2013 and 2014, by loan groups

HBOR loan programs	2013			2014		
	Number of loans granted	Total amount of funds granted (million HRK)	Average loan amount (million HRK)	Number of loans granted	Total amount of funds granted (million HRK)	Average loan amount (million HRK)
Loans for SMEs in <b>special state concern areas, on islands and for agriculture</b>	122	205.8	1.7	113	267.0	2.4
Loans for SMEs for <b>start-up and development</b> of entrepreneurship	403	1,293.7	3.2	311	730.1	2.3
Loans for SMEs for <b>tourism</b>	73	576.5	7.9	58	445.1	7.7
Loans for SMEs for financial <b>restructuring</b>	38	131.6	3.5	4	4.2	1.1
Loans for SMEs for <b>export</b>	108	437.2	4.0	95	363.0	3.8
Loans for SMEs for <b>working capital</b>	336	857.9	2.6	147	291.5	2.0
<b>TOTAL</b>	<b>1,080</b>	<b>3,502.7</b>	<b>3.2</b>	<b>728</b>	<b>2,100.9</b>	<b>2.9</b>

Source: HBOR – Croatian Bank for Reconstruction and Development, 2015

During 2014, HBOR continued to encourage entrepreneurs to make new investments, that is, to launch new investment cycles, to maintain and improve liquidity, and continued with the measures that have been launched and proved to be successful – lowering interest rates by one percentage point for new investments in agriculture and fisheries, tourism, industry, environmental protection and energy efficiency, and the model of risk sharing, which enables small and medium enterprises, with HBOR taking over part of the risk, to easily realise their investments with commercial banks.

In addition to these measures and modes of operation, HBOR has introduced several measures in 2014 aimed at increasing lending activity, expansion of distribution channels, and finding new modes of operation. Measures which cover small and medium enterprises are:

- New lending programs: Financing of EU Private Sector Projects, Financing of EU Rural Development, Fisheries and Wine Envelope Projects and Micro-Loans with CIP guarantee instrument
- Cooperation with commercial banks on the model of credit lines
- Cooperation with leasing companies
- Introduction of a program for the issuance of performance related bank guarantees
- Introduction of the subordinated debt finance model.

Small and medium enterprises express the most interest in HBOR's loan programs Export Support, Small and Medium Entrepreneurship, and in financing programs co-financed from EU funds. In 2014, 163 loans for projects co-financed from EU funds in the total amount of HRK 609.5 million were approved, which is a significant increase compared to 2013, when 73 loans in the total amount of HRK 274.5 million were approved. The majority of such loans were approved to small and medium enterprises.

As an export bank and export credit agency of the Republic of Croatia, HBOR follows Croatian exporters in all export phases, through lending programs, issuance of performance related guarantees and insurance of export receivables. During 2014, exporters were approved 307 loans in the amount of about HRK 3.4 billion within all the programs, while within the most wanted Export Support program, 136 loans in the amount of almost HRK one billion were approved.

Within its role as a development bank, HBOR provides loans to special groups of entrepreneurs that have limited access to credit. This refers primarily to entrepreneurs beginners, young entrepreneurs and women entrepreneurs for whom HBOR has developed programs with particularly favourable and adjusted terms, through which over 200 projects were supported during 2014 and in 10 months of 2015.

In November 2014, as an additional measure of export promotion, HBOR has developed and adopted a new program for insurance of collection of export receivables intended for exporters with annual export turnover up to EUR 2 million with a grace period of up to 180 days, regardless of which countries their foreign customers come from (insurance of receivables from around the world). The program is intended for the smallest entrepreneurs and entrepreneurs that are just starting to sell their products and services in the international market, because private insurance market does not offer insurance for such companies. Additional benefits of using this insurance program are ease of contracting, coverage of up to 95% of the risk, minimal administrative obligations for the exporter, obtaining compensation from HBOR in a short period and fixed insurance price.

In November 2015, HBOR introduced a new loan program – **Loan program for the preparation of project and other investment documentation**<sup>65</sup>. The aim of this Program is to provide funds for preparation of project and other investment documentation to investors. Loan funds can be used to finance the development of conceptual designs, investment studies, bills of quantities, environmental impact studies, obtaining location, building and occupancy permits, and all other documents necessary for the implementation of investment. The funds, among other things, can be used to prepare documentation for projects that will be nominated for financing under the Investment Plan for Europe (*The Juncker Plan*). These loans can be used by units of local and regional self-government, utility companies, enterprises, crafts, self-employed natural persons, family farms, cooperatives and institutions.

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

Croatian Credit Insurance<sup>66</sup> d.d. (HKO) owned by HBOR, since 2010 specialises in insurance of short-term receivables arising from sales of goods and services between business entities. HKO insures receivables of all business entities (regardless of their economic activity and size) that sell goods and services with deferred payment. The purpose of insurance of receivables is to protect liquidity and assets, i.e., ensure collection of payment, enable more secure entry into business relations with new buyers, and reduce costs of additional measures for collection of receivables.

Croatian Credit Insurance ended 2014 with 61 concluded insurance contracts, of which 37 insurance contracts relate to insurance of export receivables, while 24 insurance contracts relate

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65 <http://www.hbor.hr/kreditiranje-izrade-projektne-dokumentacije01>, downloaded on November 10, 2015

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

to insurance of domestic receivables. The total volume of insured transactions in 2014 amounted to HRK 3.1 billion, which is an increase of 17.1% compared to 2013. The total charged premium in 2014 amounted to HRK 10.8 million, which represents an increase of 20.3% compared to 2013 when it amounted to HRK 9 million.

In 2014, the company paid indemnities for 13 damages, in the total amount of HRK 2.5 million to buyers in Czech Republic, Italy, Hungary, Macedonia, Serbia and Croatia<sup>67</sup>.

### **Croatian Agency for SMEs, Innovations and Investments (HAMAG-BICRO)<sup>68</sup>**

Activities of the Croatian Agency for SMEs, Innovations and Investments (HAMAG-BICRO) include the promotion of establishment, development and investment in small enterprises, financing the operation and development of SMEs by loans and issuing guarantees for approved loans, and providing grants for research, development and application of modern technologies. Agency provides financial support to innovative and technology oriented small and medium enterprises in Croatia, and is focused on developing and coordinating national policy measures related to innovation and the necessary financial instruments with the ultimate goal to motivate the private and public sector to invest in research and development.

The practice of providing support to entrepreneurs through issuance of guarantees and letters of intent, under the programs Growing together, EU start-up and Farmers continued in 2014. 274 guarantees, including letters of support, were granted, which is 33% less than in 2013, when 410 guarantees were granted. The majority of guarantees were granted under the guarantee program Growing together (126), followed by programs EU start-up (94) and Farmers (54). The total amount of granted guarantees and letters of intent was HRK 328.3 million, and employment of 1,216 new employees in the micro, small and medium enterprise sector was planned.

The final step in granting of HAMAG-BICRO's guarantees is the issuance of credit guarantees to commercial banks. 258 guarantees were issued in 2014, which is 130 guarantees less than in 2013, when 388 guarantees were issued. The amount of issued guarantees was HRK 303.1 million, which is HRK 121 million less than in the previous year (Table 35). The majority of guarantees were issued under the program Growing together. By counties, most guarantees were issued in the City of Zagreb (21%), followed by Split-Dalmatia Country (10%) and Istria County (8%).

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67 "Consolidated and unconsolidated financial statements for the year 2014", Croatian Credit Insurance, Zagreb, 2015, p. 5

68 Croatian Agency for SMEs, Innovations and Investments – HAMAG BICRO was created in 2014 by merging the Croatian Agency for SMEs and Investments (HAMAG INVEST) and the Business Innovation Center of Croatia (BICRO) with the aim of strategic creation of a unique system that will provide support to entrepreneurs through all the stages of business development.

**Table 35:** Guarantees granted and issued by HAMAG-BICRO in 2013 and 2014, by programs

Guarantee program	Number of granted guarantees by programs		Number of issued guarantees by programs		Amount of issued guarantees by programs (HRK)	
	2013	2014	2013	2014	2013	2014
<b>Growing together</b>	187	126	232	131	301,814,035	182,098,898
<b>EU start-up</b>	177	94	108	73	57,771,875	53,697,831
<b>Farmers</b>	46	54	48	54	64,795,693	67,319,046
<b>TOTAL</b>	<b>410</b>	<b>274</b>	<b>388</b>	<b>258</b>	<b>424,381,603</b>	<b>303,115,775</b>

Source: HAMAG-BICRO, Annual Report 2014, 2015, pp. 12-15

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

The Microcredit program, intended for entrepreneurs beginners operating less than 24 months, with the aim of starting and expanding business activities and encouraging self-employment, which was started as a pilot project in 2013, continued in 2014. The minimum amount of such micro loans is HRK 10,000, and the maximum is HRK 120,000, with annual interest rate of 0.99% (EKS 1.09%) and repayment period of up to 5 years. In 2014, 263 loan requests were received, and 45 micro loans in the average amount of HRK 96,000 were approved. In 2013 and 2014, 77 micro loans were approved with the total approved amount of HRK 6.5 million.

Through its innovation programs, HAMAG-BICRO seeks to motivate private and public sectors to invest in research and development by providing financial support to innovative and technologically oriented enterprises and scientific institutions. Programs for encouraging investment in research and development activities are the following:

- **TEST** is a program for financing research projects initiated by Croatian scientists, through which new technologies are developed, in order to, upon completion of the research phase, aspire to further commercialisation and creation of new products or services. Projects within the TEST programs finance pre-commercial research activities of development of new technologies (products/processes/services) to the phase of creation of original solutions (prototype, pilot solution), and research linking fundamental sciences and their technological application in the industry and the economy in general.
- **PoC – Proof of innovative concept program** 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 program has two categories of users, which are small business entities (PoC Private) and scientific institutions (PoC Public). PoC projects are funded in the amount from HRK 35 thousand to HRK 350 thousand for a period of 12 months.



- **RAZUM** is a program aimed at providing financial support primarily 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.
- **IRCRO** – Program 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 program is HRK 900 thousand.
- **EUREKA/EUROSTARS** is a European initiative for funding market-oriented projects associated with different fields of technology. The program 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 program 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.
- **TEHCRO – Program of investment in technology and innovation infrastructure** is focused on investment in start-up, improvement and development of infrastructural institutions, such as science and technology parks, incubators for new technologies, research and development centers and competence centers.

Grants awarded for innovation projects in 2014 are shown in Table 36.

**Table 36:** Projects funded by HAMAG-BICRO programs in 2014

Program	Number of users	Amount of awarded grants (HRK)	Average grant amount (HRK)
<b>POC</b>	77	14,725,000	191,234
<b>PoC Private</b>	32	7,016,000	219,250
<b>PoC Public</b>	45	7,709,000	171,311
<b>IRCRO</b>	1	248,000	248,000
<b>TEST</b>	2	209,000	104,500
<b>RAZUM</b>	2	4,498,000	2,249,000
<b>EUREKA</b>	6	2,045,000	340,833
<b>TEHCRO</b>	3	1,375,000	458,333
<b>Total:</b>	<b>91</b>	<b>37,825,000</b>	<b>415,660</b>

Source: HAMAG-BICRO, Annual Report 2014, 2015

### **First Croatian ethical development bank<sup>69</sup>**

*“ebank” is an ethical development bank owned by its members, whose primary goal is not high profit, but investment in projects that, in addition to financial viability, have a positive impact on society and environment. “ebank” is owned by the Cooperative for Ethical Financing, established in April 2014, which is the founder and sole owner/shareholder of “ebank”. Collection of the share capital for “ebank” (a minimum of HRK 40 million), through membership in the Cooperative for Ethical Financing, began at the end of 2014. Natural and legal persons who have paid the basic cooperative share in the amount of HRK 2,500 can become cooperative members.*

*The bank will direct its investments to projects related to (ecological) agriculture, renewal energy sources, informatisation and new technologies, social entrepreneurship, start-up enterprises and entrepreneurs beginners, and small and medium enterprises focused on production, processing and professional services.*

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<sup>69</sup> <http://www.ebanka.eu/>, downloaded on 5.10.2015.

## 6. Education for entrepreneurship

Proactivity and entrepreneurship are one of the eight key lifelong competences<sup>70</sup> which represent a combination of knowledge, skills and attitudes that are necessary in contemporary society for personal fulfilment and development of the individual, the role of active citizen in society, social inclusion and employability. Other competences are: ability to communicate in the mother tongue, ability to communicate in foreign languages, understanding and utilisation of knowledge in mathematics, science and technology, ability to use digital technology, ability to learn, social and democratic skills in multicultural environment and ability of cultural expression. It is recommended that EU member States use these key life competences as the basic guidelines for the development of strategies and infrastructure that enable lifelong learning of individuals.

In 2010, Croatia has adopted the **National Strategy for Entrepreneurial Learning 2010–2014**<sup>71</sup>, which lists the reasons for learning for entrepreneurship, proposal of implementation of the program of learning for entrepreneurship within the educational system, as well as the expected results of entrepreneurship education development.

For the purpose of implementing the National Strategy for Entrepreneurial Learning, International Conference on Entrepreneurial Learning – ICEL is organised on an annual basis. In October 2015, the fifth ICEL5 conference was held under the title “Learning for Entrepreneurship: Impact of Entrepreneurial Knowledge on Business, Management and Economy”, organised by the University College of Economics, Entrepreneurship and Management Nikola Šubić Zrinski.<sup>72</sup>

Results of the GEM research indicate a continuous decline in the perception of quality of education for entrepreneurship at primary and secondary levels of education in Croatia (1.95 in 2012, 1.86 in 2013 and 1.68 in 2014), and continuous lagging behind of Croatia compared to the average of countries involved in the GEM research. The perception of quality of education for entrepreneurship at the tertiary level also records a tendency of decline through the years (2.65 in 2012, 2.63 in 2013 and 2.35 in 2014), and is also below the average of countries involved in the GEM research (Table 37).

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70 Source: Key Competences for Lifelong Learning – European Reference Framework, European Communities, 2007

71 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 programs, introduction of entrepreneurship as one of the key competences in all education curricula, increasing the capacities of educational institutions for the introduction of education for entrepreneurship, increasing the competences of educators, teachers and trainers for education for entrepreneurship, and strengthening cooperation and networking between educational institutions, scientific-research and business entities on entrepreneurship programs. Source: [http://www.hzz.hr/UserDocImages/Strategija\\_ucenja\\_z\\_a\\_poduzetnistvo\\_2010-2014.pdf](http://www.hzz.hr/UserDocImages/Strategija_ucenja_z_a_poduzetnistvo_2010-2014.pdf), downloaded on November 10, 2015

72 The first ICEL conference was held in 2011 in Zagreb, the second in 2012 in Novi Sad, the third in 2013 and the fourth in 2014 in Zagreb. Source: <http://www.iceconf.eu/>, downloaded on November 16, 2015

**Table 37:** Perception of quality of education for entrepreneurial activity in 2013 and 2014 (ratings ranging from 1 to 5)

	Rating 5 indicates:	2013		2014	
		Average	Croatia	Average	Croatia
<b>Education and training</b> (primary and secondary level of education)	Primary and secondary level of education encourages creativity, independence, proactivity; provides information on market principles and puts emphasis on entrepreneurship	2.08	<b>1.86</b>	2.06	<b>1.68</b>
<b>Education and training</b> (tertiary level of education)	There are enough university courses on entrepreneurship, business education is at the world level; vocational, professional and continuing education provides good preparation for self-employment	2.85	<b>2.63</b>	2.9	<b>2.35</b>

Source: *GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2015*

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

In secondary education, entrepreneurship is recognized as a set of knowledge and skills only in vocational schools as a mandatory subject in the curriculum of economy schools, and through the training firm project<sup>73</sup>. In Croatia, the work in the training firm expanded within the school subject Vocational practice, and is generally an elective subject. In order for the business activities of training firms to reflect reality as accurately as possible, Central Office for Training Firms (SUVT) was founded in 2007. SUVT operates within the Agency for Vocational Education and Training and Adult Education and maintains the register of all the training firms in Croatia.

The first programs in entrepreneurship at the tertiary level of education were started in 2000 at the J.J. Strossmayer University of Osijek, Faculty of Economics, at the postgraduate level<sup>74</sup> ([www.ices.hr](http://www.ices.hr)) and at the VERN Polytechnic in Zagreb ([www.vern.hr](http://www.vern.hr)). Table 38 gives an overview of universities in Croatia with programs in entrepreneurship at undergraduate, graduate and/or postgraduate levels of study. Table 39 shows a list of polytechnics and Table 40 lists colleges with programs in entrepreneurship. Programs whose focus is on management of small enterprises are also included in the overview of educational programs in the field of entrepreneurship.

73 In 2003, Ministry of Science, Education and Sport began to systematically promote spreading the idea of training firm, by joining the ECO NET project. The ECO NET project ([www.econet-see.com](http://www.econet-see.com)) was jointly implemented by the Government of the Republic of Croatia (through the Ministry of Science, Education and Sport, i.e. Agency for Vocational Education and Training and Adult Education) and the Government of the Republic of Austria. The aim of the project is strengthening and propagating the teaching concept of training firm in Croatia through professional development of teachers in four pilot schools. Agency for Vocational Education and Training and Adult Education ensures further propagation of knowledge and experiences by organizing and implementing professional training of teachers working in economy and trade schools, which are introducing the subject Vocational practice (training firm is also a part of their curriculum). Source: "Training firm – door to the world of entrepreneurship (manual for teachers)", Agency for Vocational Education and Training and Adult Education, Zagreb, 2009, p.8.

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

**Table 38:** List of universities in Croatia with entrepreneurship programs at undergraduate, graduate and/or postgraduate levels of study in 2015

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	Entrepreneurship	Entrepreneurship	Entrepreneurship and Innovativeness
University of Zagreb	Public	Economics of Entrepreneurship (Varaždin <sup>75</sup> )	Specialist Graduate Professional Study Economics of Entrepreneurship	Strategic Entrepreneurship *** Entrepreneurship and Entrepreneurial Management	-
	Public	-	Economics of Entrepreneurship	-	-
University of Split – Faculty of Economics	Public	Professional Study Small Business 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 Studies	Public		Entrepreneurship in Culture and Tourism		

Source: Agency for Science and Higher Education, 2015; web pages of universities in Croatia, 2015<sup>75</sup>

**Table 39:** List of polytechnics in Croatia with entrepreneurship programs at undergraduate and/or graduate levels of study in 2015

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

Source: Agency for Science and Higher Education, 2015; web pages of polytechnics in Croatia, 2015

<sup>75</sup> The study is conducted in cooperation with the Faculty of Organization and Informatics Varaždin

**Table 40:** List of colleges in Croatia with entrepreneurship programs at undergraduate and/or graduate levels of study in 2015

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, 2015; web pages of colleges in Croatia, 2015

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

### **Academic entrepreneurship at Croatian universities**

Spin-off company **Comprehensive Water Technology d.o.o.** was founded in late 2014 with the signing of a social contract between the University of Zagreb and the Faculty of Chemical Engineering and Technology. The University owns 20% of the company, and the Faculty the remaining 80%. The company's activities include treatment of drinking water and wastewater, and it employs outstanding junior researchers, which the faculty is not able hire.

By signing of a social contract in December 2015, the University of Zagreb and the Faculty of Transport and Traffic Sciences founded the spin-off company **Centar za promet i logistiku d.o.o.**, which is 80% owned by the Faculty and 20% by the University, and the company's activity is related to the improvement of transport systems and application of innovative technical and technological solutions in transport.

Company **Membrain projektiranje d.o.o.** was founded in 2015 by eight students of technical faculties of the University of Zagreb, who have participated in the global competition on sustainable buildings with their self-sustaining prefabricated house project Concept Membrain. Upon completion of the competition they decided to use the knowledge and experience gained from working on the project and founded a company that provides engineering services, technical consulting, energy renovation project development, and research and development of technology and materials services.

Since 2015, in order to support excellence and development of entrepreneurial awareness, **startup @ foi** support system of the Faculty of Organization and Informatics in Varaždin provides support to students in establishing their own student enterprises, in the form of free consulting, connecting with successful representatives of the IT scene and potential mentors and externalised accounting and legal services. The first student start-up that entered the FOI's support system is **Tourgent**, enterprise engaged in the development of the eponymous application designed to facilitate the operations of bus operators and travel agencies.

Back in 2012, with the purpose of encouraging entrepreneurship, better cooperation between the economy and higher education, and the development of university resources, the University of Rijeka founded the **Strip d.o.o. company**. The projects that were launched by this company thus far are: COOP – community-based service learning, RICOUNT – development and implementation of lifelong learning through usage of new technologies, University Accommodation Agency – intermediary for the accommodation of students in private apartments and Lupis – project for encouraging youth entrepreneurship.

Within the Entrepreneurial Impulse for 2014 and the measure Education for Entrepreneurship, 28 grants in the total amount of HRK 1 million were awarded. The results achieved through this measure include one implemented program for promotion of entrepreneurship, and initiated work of 9 pupils' cooperatives, 15 training firms and 3 student incubators.

### **Global Entrepreneurship Week<sup>76</sup>**

*Global Entrepreneurship Week is celebrated every year in November, and through various activities at the local national and global level popularises entrepreneurship and raises awareness of the importance and impact of entrepreneurship on economic and social development. Global Entrepreneurship Week 2015 was celebrated in 160 countries, and it is estimated that it involved as many as 10 million people who participated in more than 30 thousand events that were organised by over 25,000 organisations.*

*Global Entrepreneurship Week is celebrated in Croatia since 2008. Within the Global Entrepreneurship Week 2015, 19 activities were organised through which successful entrepreneurs and their entrepreneurial experiences were presented to students and pupils, and some of the most active partner institutions in Croatia are the Faculty of Economics in Osijek and student association Entrepreneurs without Borders (EwoB), Business School PAR Rijeka and First Gymnasium Varaždin.*

There are numerous institutions outside the system of formal education that offer education for beginner entrepreneurs and/or already operational enterprises, such as centers for entrepreneurship, Croatian Chamber of Economy, Croatian Employers' Association and private enterprises active in the sector of adult education.

Croatian Chamber of Economy participates as an intermediary in the **Erasmus for young entrepreneurs<sup>77</sup>** program, which encourages the exchange of entrepreneurs between European Union Member States. The program aims to encourage and facilitate the exchange of experiences, learning and networking of beginner entrepreneurs. Beginner entrepreneurs who have been running their own business for less than 3 years and persons who plan to start a business based on a viable business plan can participate in the program on the one hand, and successful and experienced entrepreneurs who have been running a company for more than 3 years on the other. Young entrepreneurs thus during several months of stay in the company of the experienced entrepreneur in a foreign country have the opportunity to develop their entrepreneurial skills and gather initial experience for running their own business, while experienced entrepreneurs – hosts are given an opportunity to find new partners and discover new markets. The cost of stay of beginner entrepreneurs is covered by the European Commission<sup>78</sup>.

76 <http://hr.gew.co/>, downloaded on November 30, 2015

77 <http://www.erasmus-entrepreneurs.eu/>, downloaded on November 30, 2015

78 <https://www.hgk.hr/sektor-centar/centar-za-poduzetnistvo-inovacije-i-tehnoloski-razvoj/erasmus-za-poduzetnike-pocetnike>, downloaded on November 30, 2015

**South East European Centre for Entrepreneurial Learning – SEECEL**<sup>79</sup> began its work in 2009, with initial funding of the Government of the Republic of Croatia and organisational support of the Croatian Chamber of Economy. Along with Croatia, SEECEL's founding countries Albania, Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia, Serbia and Turkey. SEECEL's mission is to work on systematic development of lifelong entrepreneurial learning as a key competence, in line with policies and practices of the European Union, implemented through structured regional cooperation. Since 2013, SEECEL is a partner in the process of evaluating the progress of the pre-accession countries of South East Europe and Turkey according to the Small Business Act, together with the European Commission, OECD, ETF and EBRD.

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<sup>79</sup> SEECEL's principal areas of activity are 1) Development of entrepreneurial learning as a key competence in the educational system at the levels ISCED 1, ISCED 2 and ISCED 3; 2) Promotion of entrepreneurial learning in higher education at non-economic faculties and colleges (ISCED 5/6); 3) Systematic monitoring of training, education and improvement needs in micro, small and medium enterprises (TNA); 4) Development and promotion of good policies and practices; 5) Development and promotion of women entrepreneurship in South East European countries through the joint work of the public and private sectors; 6) The Community of Practise is a horizontal activity, which contributes to the exchange of information and good practices, developing, creating and sharing professional materials, collaborative learning, finding partners for new projects, etc. Source: <http://www.seeceel.hr/goals-5050>, downloaded on October 10, 2015



## 7. Access to information and advisory services

Access to information and advisory services is a significant factor in the development of entrepreneurial activity. In 2014, there was an increase in the rating of perception of quality of commercial and professional infrastructure for support of the development of the small and medium enterprise sector in Croatia from 2.7 in 2013 to 2.9 in 2014. At the same time, the average rating of perception of quality of supporting commercial and professional infrastructure of the countries participating in the GEM research is declining, from 3.7 in 2013 to 3.0 in 2014 (Table 41).

**Table 41:** Perception of quality of commercial and professional infrastructure for support of the development of the small and medium enterprise sector in 2013 and 2014 – ratings from 1 to 5

	Rating 5 indicates:	2013		2014	
		Average	Croatia	Average	Croatia
<b>Commercial and professional infrastructure</b>	There are consultancy, professional legal and accounting services; companies can afford them; they are of high quality	3.7	<b>2.7</b>	3.0	<b>2.9</b>

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2015

In 2014, Study of the Consultancy Market in Croatia<sup>80</sup> was conducted, within which a comprehensive assessment of the state of the market of consultancy services for small and medium enterprises and the supporting business infrastructure in Croatia was carried out. The results of the Study have shown that in the period from 2011 to 2014 22% of owners of small and medium enterprises hired a consultant, mostly to solve problems of legal nature, problems related to preparation of a business plan, problems in financial management, or management in general. Of all the enterprises that have used consultants, only 55% were fully satisfied with the service and will certainly again decide to use consultancy services in the future. The most important criterion for the selection of consultants is expertise and knowledge, followed by an understanding of the business problem and the experience of the consultant. The least important criteria are origin of the consulting company (foreign or domestic), geographic distance and price. The same criteria have also been recognised as the most important and the least important by the consultants, indicating consultants' awareness of their position from the perspective of enterprise owners. According to research results, owners of small and medium enterprises that seek consulting assistance would be more willing to consider the use of consultancy services if the consultant is ready to participate in the risk of the decision made on the basis of consulting support (by providing free advice before starting cooperation, implementing a free-of-charge pilot project, defining the price of consulting service in correlation with the result achieved).

The most important institutions that provide support to the development of the small and medium enterprise sector in Croatia are:

80 The Study of the Consultancy Market in Croatia was ordered by the *European Bank for Reconstruction and Development (EBRD – Business Advisory Services)* and conducted by CEPOR. The results of the Study are based on secondary research and a survey of consultants for small and medium enterprises and owners and decision makers in small and medium enterprises. More information: "Study of the Consultancy Market in Croatia", CEPOR – SMEs and Entrepreneurship Policy Center, Zagreb, 2014, [www.cepor.hr](http://www.cepor.hr), downloaded on November 10, 2015

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

Entrepreneurship and Innovation Department operates within the CCE's Industry and IT sector, whose activities are aimed at providing information and support to entrepreneurs. The scope of work of the Department includes proposing measures to improve the entrepreneurial climate in Croatia, monitoring and analysis of business performance of the small and medium enterprise sector, representing interests and providing expert assistance to members regarding the financing of entrepreneurial projects, counselling concerning applying to support schemes for small and medium enterprises and regarding access to relevant EU programs, cooperation with relevant ministries on the implementation of 10 principles of the Small Business Act, as well as cooperation with educational and other institutions in organising educational programs for entrepreneurs. In 2014 and 2015, the Department organised trainings at which it informed small and medium enterprises about programs Entrepreneurial Impulse, Erasmus for young entrepreneurs and Horizon 2020 Instrument for small and medium enterprises, in order to encourage them to submit project proposals under those programs. Also organised were "innovation missions" in Moscow, London and Taipei and two "innovation missions" in Kuala Lumpur, Malaysia. "Innovation missions" represent a platform that provides the opportunity to Croatian innovative enterprises to achieve business contacts in international markets, in accordance with predefined criteria, as well as participation in innovation fairs in cities in which "innovation missions" are held.

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

The main activities of the CCTC are: promoting craftsmanship, representing the interests of craftsmen before state authorities in shaping the economic system, giving opinions and suggestions to state authorities when enacting legislation in the field of craftsmanship, establishing commissions for apprentice and master exams, and providing help to craftsmen during the establishment and operation of crafts. CCTC is also active in the organisation, co-financing and encouraging appearances of craftsmen at trade fairs in the country and abroad. Participation and presentation of members of the CCTC at trade fairs is co-financed in the amount from 30% to 50%, while for local trade fairs CCTC grants aid to the organisers. In 2014, CCTC has co-financed appearance of 137 craftsmen at four international trade fairs, in Munich, Mostar, Novi Sad and Celje, and appearance of 465 craftsmen at seven trade fairs in Croatia.

## **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)**

Small and Medium Sized Enterprises' Association of the Croatian Employers' Association actively participates in the processes of creating a better legal framework and improving business environment, and is continuously working to improve and promote the importance of small and medium enterprises for the Croatian economy. The Association is included in the development of legislative and other solutions either through direct involvement of entrepreneurs in the drafting of specific laws, or through participation of the Association's representatives in working groups, bodies, commissions or committees, and it has so far been involved in the preparation of the following laws and strategies: Labour Act, Act on Vocational Rehabilitation and Employment of persons with Disabilities, Occupational Safety and Health Act, Crafts Act, Act on Mortician Activities, Bankruptcy Act and other tax and financial laws, Strategy of Women Entrepreneurship

Development, Industrial Strategy, Smart Specialisation Strategy, Education Strategy, Innovation Strategy, Social Entrepreneurship Strategy, Anti-Corruption Strategy and plans and measures for employment for 2014. The Association's lobbying activities on behalf of small and medium enterprises encompass participation in research, preparation of studies and consultations, and participation in conferences, round tables and other events on the topic of development of small and medium entrepreneurship in Croatia. During 2014, the Association participated in 9 studies/consultations and was present at 18 conferences/round tables with various topics, some of which were: strengthening the export potential of small and medium enterprises, family entrepreneurship, learning for entrepreneurship and financing small and medium enterprises.

### **Croatian Employers' Association – CEA:**

#### CEA Score 2015 and Business expectations in 2016

*Since 2013, CEA on an annual basis monitors changes in achieving goals and recommendations published in the strategic document "What we advocate: goals and recommendations for overcoming the crisis and economic growth". Goals and recommendations of CEA's associations are defined for 13 areas – productivity and competitiveness, fiscal consolidation, public administration, burden on the economy, investment and business barriers, the judiciary, labour market, education, health and pension system and territorial constitution, efficiency of public companies, supply of capital, entrepreneurial climate, encouraging investment and social dialog. For each of these goals (except for social dialogue, because it is a too complex phenomenon that cannot be easily measured), CEA has developed CEA Score – a system of indicators that measure the achievement of goals and the results of reforms. CEA Score does not show the results of statistical measurements, but instead combines the existing and published indicators, and it does not measure the intensity of efforts in the implementation of economic policies, but their result, i.e., the degree of achievement of CEA's goals.*

*CEA Score in December 2015 was 33 out of possible 100 points, which is shift of two points compared to the end of 2014, when CEA Score was 31 points, but the score still represents a position far below the required minimum of 50 points. Such a result shows that Croatia in relation to the 10 new members of the European Union (Estonia, Lithuania, Latvia, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Bulgaria and Romania), which are observed by the CEA Score, remains stagnant when it comes to progress in reforms. The critical areas in which the necessary reforms are absent are: productivity and competitiveness (20 points out of possible 100), fiscal consolidation (20 out of 100), labour market (18 out of 100), the judiciary (31 out of 100) encouraging investment (27 out of 100). The best evaluated areas are public companies (57 out of 100), public administration (56 out of 100) and supply of capital (40 out of 100).*

*The "CEA Business expectations" study includes the assessment of the state of economy in 2015 and the assessment of business expectations for 2016. The results reflect the views of more than 6,000 entrepreneurs and employers gathered in CEA. The general state of economy in 2015, on a scale of 1 to 5 (where 1 means "very bad", and 5 "excellent") has been rated with an average grade of 2.13, which is the best grade of the general state of economy since 2012, when this study was conducted for the first time. In 2015, the number of respondents who rate the economic situation as "fair" (grade 3) increased compared to the number of respondents with the same grade in 2014 (31.4% vs. 7.8%). The increased average grade was influenced by a significant decrease in the number of respondents who think that the state of economy is "very bad" (19.8% in 2015 vs. 43.1% in 2014). The number of those who think that the state of economy is "mostly bad" is almost unchanged (47.9% in 2015 vs. 49.1% in 2014). The general state of economy in 2015 was graded the lowest in the construction sector (1.67), among large entrepreneurs (2.02) and among Slavonian*

employers (1.92). On the other hand, the best grades of the general state of economy were recorded in the sector of business services and trade, (2.26), among small entrepreneurs (2.2) and among Northern Adriatic employers (2.33).

Predictions of the surveyed entrepreneurs and employers on expectations for 2016 announce moderate business optimism. The largest share of respondents, 46.3% of them, believe that the general state of Croatian economy in 2106 will be “a little better”, while 42.1% of respondents believe that it will remain “about the same”. Regarding the conditions for investment and business in 2106, the majority of respondents, 62.8% of them, believe that they will remain the same, while 27.3% predicts that they will be “a little better”. Insolvency and non-payment, inefficient public administration and high taxes and contributions are identified by entrepreneurs and employers as the main obstacles to successful business operations in 2016 in Croatia.

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

CEPOR<sup>81</sup> is the first think-tank in Croatia whose goal is to influence the public-political environment emphasizing the role of small and medium enterprises in the development of Croatian economy and contribute to the development of entrepreneurial culture and stimulating institutional and regulatory framework for entrepreneurial activity.

In achieving its mission, CEPOR continuously monitors entrepreneurial activity (through participation in the Global Entrepreneurship Monitor – GEM research since 2002) and the small and medium enterprise sector (through the preparation of the Small and Medium Enterprises Report – Croatia, since 2011).

During 2015, CEPOR continued with the implementation of the GEM research in Croatia, and published the results of GEM for 2013 in its annual publication Small and Medium Enterprises Report – Croatia 2014, including other relevant information on the activities and the support to the small and medium enterprise sector in Croatia.

Implementation of the “Business Transfer – Creation and Implementation of Support Programs for Small and Medium (Family) Enterprises” project, which is financed under the Entrepreneurial Impulse 2014, continued in 2015. Research on the needs of owners of small and medium enterprises for support in the process of transfer of ownership and management (Business Transfer Barometer Croatia 2015) was carried out, and the research results were published in the publication of the same name.

Further CEPOR’s activities related to business transfer of small and medium enterprises in 2015 include participation in the implementation of the EU project<sup>82</sup> – Business Transfer Awareness

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

82 Within the EU project BTAR – Business Transfer Awareness Raising (2014-2016), financed from the CIP programme, the best practices in the implementation of campaigns aimed at raising awareness of the business transfer process were analysed in Finland, France, Sweden, Spain and Croatia, and, based on the exchange of experiences among countries participating in the project, new approaches to promoting business transfers were designed and implemented. Project leader: Seinajoki University of Applied Sciences, Finland, while the partner in Croatia is the Faculty of Economics in Osijek, J.J. Strossmayer University of Osijek.

Raising – Developing activities and tools to advance business transfer success, organisation of the Family Business Forum on the topic “Legal and Economic Aspects of Business Transfer” and workshops for entrepreneurs, lawyers and representatives of financial institutions in October 2015. In November 2015, CEPOR co-organised the Policy Forum on the topic “Successes and Challenges in SME Business Transfer”, which preceded the RENT conference, the most important European research conference on Entrepreneurship, which gathered around 200 researchers in Zagreb. The conference was hosted by the Faculty of Economics in Osijek, J.J. Strossmayer University of Osijek.

### **Advisory support to family businesses in Croatia – CEPRA Center for Family Businesses and Business Transfer**

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

*The “Business Transfer – Creation and Implementation of Support Programs for SMEs and Family Businesses” project, financed from the Ministry of Entrepreneurship and Craft’s Entrepreneurial Impulse 2014 program, was implemented from September 2014 to September 2015. An educational program to support the business transfer process for SMEs and family businesses was developed within the project, and the same was implemented through 8 workshops aimed at entrepreneurs and representatives of business support institutions in 4 cities – Pula, Split, Zagreb and Osijek. A policy review was also prepared, with identified recommendations on the necessary support for SMEs and family businesses in the business transfer process.*

*Since 2014, CEPOR is a member of **TRANSEO**<sup>83</sup> – European Association for SME Transfer.*

## **European Bank for Reconstruction and Development (EBRD), [www.ebrd.com](http://www.ebrd.com)**

### Advice for Small Business Team (ASB)

Through the Advice for Small Business Team – ASB, the European Bank for Reconstruction and Development provides support to small and medium enterprises in accessing professional business information and advisory services significant for achieving growth, exports and increasing employment, with a special emphasis on the area of women entrepreneurship. Since the start of operations in Croatia in 1999, the ASB Team awarded over EUR 7 million of donor funds, thereby ensuring access to counselling to over 600 enterprises.

## **Entrepreneurial zones and business support institutions**

The Act on Improving Entrepreneurial Infrastructure<sup>84</sup> defines entrepreneurial infrastructure in the broad sense as the totality of all spatially specific forms of performing of various entrepreneurial activities created as a result of deliberate and organised spatial development concept of units of local and regional self-government, that is, the Republic of Croatia. In the narrow sense, entrepreneurial

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

84 Official Gazette NN 93/13, 41/14

infrastructure comprises a system of entrepreneurial zones and business support institutions, which include development agencies, entrepreneurial centers, business incubators and accelerators, business parks, science and technology parks and competence centers. The purpose of improving business infrastructure and business environment is to encourage economic growth by planning and building entrepreneurial infrastructure, which is in the function of 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.

Unified Register of Entrepreneurial Infrastructure (JRPI) is an integrated electronic database of subjects of entrepreneurial infrastructure. Recorded and systemised in the Register are only those subjects of entrepreneurial infrastructure in the Republic of Croatia, which are users of supports, incentive measures, grants or concessions granted by the Ministry of Entrepreneurship and Crafts or other state administration bodies. The Register is maintained by the Ministry of Entrepreneurship and Crafts and can be accessed through the link <http://reg.minpo.hr/pi/public/#>.

## **Entrepreneurial zones**

Entrepreneurial zones are infrastructurally equipped areas defined by spatial plans, intended for carrying out certain types of entrepreneurial or commercial activities. The main characteristic of entrepreneurial zones is common use of infrastructurally equipped and organised space by entrepreneurs, to whom performing business operations within the entrepreneurial zone enables the streamlining of operations and use of available resources of the entrepreneurial zone together with other users of the entrepreneurial zone. There are 169 entrepreneurial zones registered in the Unified Register of Entrepreneurial Infrastructure.

### ***Entrepreneurial zone Podi – Šibenik – an example of good practice of entrepreneurial zones***

*Entrepreneurial zone Podi in Šibenik, with an area of 550 ha is currently the largest entrepreneurial zone in Croatia. Lots can be customised to different needs of entrepreneurs, and there are different lots for intended manufacturing purposes and for business and commercial purposes. In 2015, 23 enterprises operated in the zone, and there were another 11 enterprises operating within the business incubator located in the zone. The benefits for entrepreneurs who decide to lease space in the entrepreneurial zone, provided in cooperation with the City of Šibenik and the Šibenik-Knin County, include favourable price of land, reduced utility fees, exemption from payment of municipal contributions for the manufacturing sector, tax reliefs and accelerated process of issuing construction and location permits.*

## **Development agencies**

In terms of the Act on Improving Entrepreneurial Infrastructure, development agencies are 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, encouraging and attracting investments and initiating and implementing projects to encourage economic development and entrepreneurship, unifying the work of economic entities, local and regional entrepreneurial institutions, and higher education institutions and knowledge centers. There is a distinction between local development agencies, established by units of local self-

government, and county development agencies, which are founded by regional self-governments. County development agencies in the role of regional coordinators, in accordance with the Act on Regional Development of the Republic of Croatia, are responsible for efficient coordination and encouraging regional development of units of regional self-government. The law also recognises development agencies for certain activities, such as energy development agencies. There are 14 development agencies registered in the Unified Register of Entrepreneurial Infrastructure.

### ***VIDRA – an example of good practice of regional development agencies***

*VIDRA – Virovitica-Podravina County's Development Regional Agency (<http://ravidra.hr/>) is an example of good practice of local development agencies. VIDRA works with the aim to encourage rural and regional development and increase competitiveness of the economy of the Virovitica-Podravina County and the wider region. For the purpose of development of entrepreneurship in the County, VIDRA provides information and counselling services about European Union grants and national sources of funding, organises trainings and designs and implements development projects.*

*VIDRA's implemented projects include the "E-incubator with and without walls", project of building a business incubator worth HRK 7.2 million, and currently being implemented is the project of building the Pannonian Wood Competence Center, which is worth HRK 25 million.*

## **Entrepreneurial centers**

Entrepreneurial centers are part of the business support infrastructure, whose objective is to provide advisory and educational services to support entrepreneurs when launching and developing entrepreneurial ventures. Entrepreneurial centers organise seminars and other forms of additional education and cooperate with local and regional administration on implementation of development programs aimed at supporting the development of the small and medium enterprise sector. Centers operate as parts of county/city administrations, as independent enterprises or as associations, and are financed from local budgets, European Union projects, Ministry of Entrepreneurship and Crafts supports and own sources of financing. Over the years of work some of entrepreneurial centers have developed into regional development agencies. There are 14 entrepreneurial centers registered in the Unified Register of Entrepreneurial Infrastructure.

### ***Entrepreneurial center of the City of Zagreb Blue Office – an example of good practice of entrepreneurial centers***

*Blue Office (<http://plaviured.hr/>) was opened in February 2015 as a business unit of the Development Agency Zagreb – Technology Park Zagreb. Blue Office was established with the aim of strengthening business support infrastructure in the area of the City of Zagreb, and it acts as a channel and platform for communication of relevant institutions at the state and city level with Zagreb entrepreneurs. Activities of the Blue Office include education, counselling, support programs and the promotion of entrepreneurial culture. In one year of operation, 136 trainings were held, at which 2061 attendants participated. The most sought after training in the Blue Office is the Start-up Academy, a program designed for beginner entrepreneurs and those who intend to become entrepreneurs, which provides them with the basic knowledge needed to successfully run a business. Also available to entrepreneurs are consulting services in the fields of law, business planning, internationalisation of business, finance, sales, marketing, project management and innovation.*

## Business incubators and accelerators

Business incubators provide support to beginner entrepreneurs through a range of business services and resources, including business (working) spaces under favourable conditions, typically until the third or no later than the fifth year of operation. Business incubators represent an important link in the system of support for the generation of new small enterprises, which become financially self-sufficient and independent after leaving the incubator.

Unlike incubators, business accelerators are specialised business entities in charge of providing support services to entrepreneurs in the post-incubation stage, or the stage of development and business expansion in the domestic and foreign markets. There are 15 business incubators and 12 business accelerators registered in the Unified Register of Entrepreneurial Infrastructure.

### ***Koprivnički poduzetnik d.o.o. – an example of good practice of business incubators***

*The Koprivnica business incubator is managed by Koprivnički poduzetnik d.o.o. (<http://www.inkubator.info/>), company owned by the City of Koprivnica, whose role is to develop stimulating entrepreneurial climate in Koprivnica and create conditions to facilitate growth and development of start-ups.*

*Entrepreneurs are offered assistance services with applications to EU and national grant competitions, preparation of business plans and studies, renting of premises and equipment, educational programs, and enterprises can remain in the incubator for a maximum of 4 years. Beginner entrepreneurs who are owners and founders of enterprises up to 6 months of age can get business premises for 1 kuna per month, with free educational programs and business plan creation. 24 enterprises operate in the incubator, employing a total of 55 employees, while additional 27 employees are employed by enterprises that are using the coworking space. The total turnover of incubator tenants in 2014 amounted to HRK 28.9 million, and three export-oriented enterprises achieved modest export in the amount of HRK 150 thousand. Documentation for the construction of a new business incubator for creative industries is being prepared, which is an investment worth about HRK 13 million.*

## Business and science and technology parks

Business parks are registered legal persons that provide physical space, land and resources for accommodation of businesses entities on a commercial basis. The following business parks operated in 2015 in Croatia: Business Park Bjelovar, Business Park Virovitica, Business Park Zagreb, Business Park Medimurje and Business Park Karlovac.

Technology Parks connect experts and entrepreneurs with the intention of achieving economic goals with the help on new technologies. Technology parks place emphasis on development and scientific-research activities, and they are established primarily in the vicinity of higher education institutions and research centers, i.e. important economic-technological systems. In 2015, the following technology parks operated in Croatia: Technology Park Varaždin, Technology-Innovation Centre of Rijeka, Technology Park Zagreb, Technology Center Split, Technology Development Centre – Regional Development Agency of Brod-Posavina County, Technology Innovation Centre Medimurje, 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 Innovation Centre Međimurje – an example of good practice of technology parks**

*Technology Innovation Centre Međimurje – TICM (<http://ticm.hr/>) is an example of good practice of technology parks in Croatia. TICM was founded in 2011 as a company that provides support services to technology-based and innovative entrepreneurship, and is located in the Knowledge Centre of Međimurje County, together with other county business support institutions. TICM's activities include incubation of innovative enterprises in the ICT sector, advisory services in the field of business planning and intellectual property protection, preparation of project proposals for applying to various competitions, implementation of projects approved under the Entrepreneurial Impulse and other programs, organisation of trainings, seminars and conferences aimed at existing and potential entrepreneurs, and rental of premises and equipment to the users of the technology park.*

*During five years of operation of the technology park, a total of 29 enterprises were incubated, and 6 enterprises have completed the incubation process. At the end of 2014, 23 enterprises with 65 employees were located in the technology incubator, and the incubator occupancy rate was 93%. TICM is implementing several projects aimed at the promotion of youth entrepreneurship, and is actively involved in the development of projects, with which, through investment from EU Structural Funds, it is planned to build an additional building for incubation facilities, develop the Centre for the Metalworking Industry and the Centre for Applied Computing, and establish and equip the Institute for the Promotion of Culture of Knowledge, all within the Knowledge Centre of Međimurje County.*

### **Competence centers**

Competence centers carry out research projects of development or production character and develop competences in specific areas. They are focused on developmental and applied research and its commercialisation, and supporting and strengthening intellectual property within specific subject areas and branches of competence. They are designed to support the strengthening of the capacity of the business sector, mainly small and medium enterprises, which lack their own capacities for research and development, in order to carry out research and development projects. Competence centers 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.

### **Competence Center for Renewable Energy Resources – an example of good practice of competence centers<sup>85</sup>**

*Competence Center for Renewable Energy Resources (CKOIE), whose founder and owner is the City Varaždin, and which operates within the Technology Park Varaždin, is an example of good practice of competence centers in Croatia. CKOIE is a development and research center focused on applied research and commercialisation of research results in the field of use of renewable energy sources. The activities of the Center for the users of their services include assessment of energy potential and defining sustainable technologies for the use of renewable energy sources, risk analysis, verification of technologies, standardisation and development of equipment. CKOIE also carries out its own research activities aimed at developing new products or improving the existing solutions (technologies) for the production of energy from renewable sources.*

<sup>85</sup> <http://www.ckoie.hr/>, downloaded on November 15, 2015

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

European Enterprise Network (<http://een.ec.europa.eu/>) provides support and advisory services to entrepreneurs in Europe with the aim to exploit the opportunities provided by the EU and the Single European Market. The network was started in 2008 and it brings together around 600 business support organisations and over 3,000 experts from more than 60 countries. EEN operates through 98 consortiums, which consist of chambers of commerce, development agencies, technology parks, institutes, universities. The work of the Network is funded through the Programme for the Competitiveness of Enterprises and SMEs – COSME. European Enterprise Network in Croatia ([www.een.hr](http://www.een.hr)) is a partner consortium composed of six partner institutions, which support entrepreneurship and innovation: 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.

Services of the European Enterprise Network are designed primarily for small enterprises, but they can also be contacted by large enterprises, universities and research centers with queries related to the internationalisation of business, technology transfer, access to finance research funding, advice on EU law and standards, intellectual property and patents.

During 2014 and 2015, the European Enterprise Network organised more than 115 business meetings and networking events, at which entrepreneurs from Croatia also participated. Business events organised by the EEN allow entrepreneurs to find potential partners in EU countries, and take place within international trade fairs in Croatia and across Europe.

## 8. Croatia as a member of the European Union

Croatian membership in the European Union requires a new analytic view of the changes in the regulatory framework within which economic entities operate, and on the quality of other components of the entrepreneurship ecosystem.

Since July 1, 2013 and its entry into European Union, Croatia recorded a positive balance of payments and withdrawals from the EU budget. According to the Report on the audit of the effectiveness of financial management of EU funds in the Republic of Croatia<sup>86</sup>, in the period from July 1, 2013 to December 31, 2014, Croatia paid EUR 699,491,530.06 to the EU budget, and received EUR 721,874,335.58 from EU funds, ending the stated period with a positive difference of EUR 22,382,805.52. According to the level of utilisation of the structural instruments by the end of 2014, Croatia is ranked 24<sup>th</sup> out of 28 EU Member States, with the rate of 50.3%.

As a consequence of full membership in the European Union, a positive change is visible in the significant increase in the total amount of funds allocated at the end of 2013 and 2014, compared to 2012 when Croatia was still beneficiary only of the IPA program. At the end of 2014, Croatian users have contracted projects in the total amount of over EUR 969 million, of which just over EUR 486 million was paid to users. The share of contracted funds in the total allocated funds was 76.39%, and the share of funds paid to end users in the total contracted funds was 50.17%. Both of these ratios are a significant increase compared to the results achieved at the end of 2013, but still remain among the worst results of all Member States (Table 42).

**Table 42:** Financial overview of IPA and structural funds 2007 – 2013 for the Republic of Croatia

	December 31, 2012	December 31, 2013	December 31, 2014
<b>Total allocated funds, million EUR</b>	693.73	1,254.66	1,269.12
<b>Contracted funds, million EUR</b>	111.47	133.89	969.52
<b>Contracted / total allocated, %</b>	16.07%	10.67%	76.39%
<b>Paid to end users, million EUR</b>	111.47	133.28	486.47
<b>Paid / total contracted, %</b>	27.91%	23.82%	50.17%

Source: Ministry of Regional Development and EU Funds EU, 2015

For the financial period 2007–2013, Croatia had a total of EUR 748,621,736 available from the IPA program, and an additional EUR 433,583,988.60 available from structural instruments, making the total available funds for that period EUR 1,269.12 billion. According to the n+3 rule, the deadline for the use of funds from the financial perspective 2007–2013 is December 2016, meaning that the funds from the old financial perspective can be used until then, although the new financial perspective 2014–2020 already started. The finding of the state audit on the effectiveness of financial management of EU funds<sup>87</sup> determined that additional EUR 207.4 million remain to be contracted until the end of 2016, additional EUR 426.5 million remain to be received from the

86 Report on the audit of the effectiveness of financial management of EU funds in the Republic of Croatia, <http://www.sabor.hr/izvjesce-o-obavljenj-reviziji-ucinkovitosti-uprav>, downloaded on February 2, 2016

87 Ibid.

European Commission, and additional EUR 568.9 million remain to be paid to end users. Therefore, it is the recommendation of the State Audit Office that it is necessary to accelerate the activities of relevant institutions focused on contracting and payment of funds to end users, because there is a risk that the funds will not be utilised by the set deadline in accordance with the n+3 rule.

The EUčinkovitost research, conducted in 2014, examined the IPA program (2007–2013) funds for supporting the projects of private and public organisations in the Republic of Croatia, awarded through grant competitions<sup>88</sup>. According to the results of the research, of the total number of EU projects financed under the IPA program, 67% of projects were awarded to the public sector, 12% to the private profit sector, and 21% to the private non-profit sector. By regions, the largest number of projects was awarded to Continental Croatia (74.3%), which encompasses 14 counties and 67% of population, 25.3% of projects were awarded to Adriatic Croatia, which encompasses 7 counties and 33% of population, while 0.4% of projects were awarded to international organisations. The research has also shown that the average time from submission of project proposal to signing of contract was 14 months and 17 days, and that, although the achievement of the set results is 95%, the number of projects in which those results are fully sustainable was only 50%. Furthermore, project users have spent 15% more time than planned on project administration, and project users' rating of satisfaction with the work of contracting bodies is 3.44 (on a scale from 1 – worst to 5 – best). Expert assistance in public procurement is the service that grant beneficiaries consider the most worthwhile investing in, in order to increase the success of EU projects, followed by expert assistance in managing the implementation of the project, and lectures and workshops in the field of project implementation.

## **Cohesion Policy of the European Union in the financial perspective 2014 – 2020**

By joining the European Union, Croatia became a beneficiary of European funds that are focused on supporting the implementation of European Union policies in Member States.

**Cohesion Policy** is the second financially most important common policy of the European Union, with the main objective to achieve balanced development within the EU and strengthen economic, social and territorial cohesion. Cohesion Policy is also the principal investment policy of the European Union aimed at achieving the objectives of the Europe 2020 strategy – encouraging smart, sustainable and inclusive growth and job creation. Investment priorities in the program period 2014–2020 are defined through 11 thematic objectives:

1. Strengthening research, technological development and innovation
2. Enhancing access to, and use and quality of, information and communication technologies
3. Enhancing the competitiveness of SMEs
4. Supporting the shift towards a low-carbon economy
5. Promoting climate change adaptation, risk prevention and management
6. Preserving and protecting the environment and promoting resource efficiency
7. Promoting sustainable transport and improving network infrastructures
8. Promoting sustainable and quality employment and supporting labour mobility
9. Promoting social inclusion, combating poverty and any discrimination
10. Investing in education, training and lifelong learning
11. Improving the efficiency of public administration

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88 The EUčinkovitost research was conducted by the Projekt Jednako Razvoj d.o.o. consulting firm. The research included 390 EU projects, that is, 67.7% of the total of 576 EU projects in Croatia that make up the population of the research (projects under the IPARD program and cross-border programs with EU Member States are not part of the research). More information: <http://pjr.hr/pjr-eu-ucinkovitost/>, downloaded on October 14, 2015

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

The common name for all these funds is European Structural and Investment Funds (ESIF), and their total budget in the financial perspective 2014–2020 for the entire EU amounts to EUR 454 billion. As a full member of the EU, in this seven-year period, Croatia has EUR 10.74 billion at its disposal from the ESI Funds, including funds from the Youth Employment Initiative (YEI)<sup>89</sup>. The framework for the use of financial resources allocated to Croatia from the ESI funds are operational programmes, which have been adopted pursuant to the Partnership Agreement between the European Commission and the Republic of Croatia. Partnership Agreement between the European Commission and the Republic of Croatia on using EU Structural and Investment Funds for growth and jobs in the period 2014–2020<sup>90</sup> is the umbrella strategic document, which contains strategic plans and investment priorities of Croatia when using the funds available.

Operational programmes are planning and programming documents that describe in detail and elaborate measures and activities for efficient implementation and use of the ESI Funds. For the 2014–2020 period, Croatia has prepared two operational programs for the implementation of Cohesion Policy:

- Operational Programme “Competitiveness and Cohesion” for the use of the European Regional Development Fund and the Cohesion Fund, with total indicative allocation of EUR 6.88 billion, and,
- Operational Programme “Efficient Human Resources”, for the use of the European Social Fund and the Youth Employment Initiative, with total indicative allocation of EUR 1.58 billion.

Rural Development Programme of the Republic of Croatia defines a framework for the use of EUR 2.03 billion allocated from the European Agricultural Fund for Rural Development, while the use of almost EUR 253 million available from the European Maritime and Fisheries Fund is defined by the Operational Programme for Maritime Affairs and Fisheries (Table 43).

**Table 43:** Allocations for Croatia from the ESI funds for the period 2014 – 2020

European structural and investment funds	Allocation for Croatia (billion EUR)
Cohesion Fund	2.56
European Regional Development Fund	4.32
European Social Fund	1.52
European Agricultural Fund for Rural Development	2.03
European Maritime and Fisheries Fund	0.25
Youth Employment Initiative (YEI)	0.06
<b>Total</b>	<b>10.74</b>

Source: <https://cohesiondata.ec.europa.eu/countries/HR>

<sup>89</sup> Youth Employment Initiative (YEI) was launched to provide extra support to young people aged below 25 and living in regions where youth unemployment was higher than 25% in 2012. The Youth Employment Initiative most frequently supports the provision of apprenticeships, traineeships, mediation in employment and further education leading to qualification.

<sup>90</sup> Partnership Agreement, [http://europa.eu/rapid/press-release\\_IP-14-1223\\_en.htm](http://europa.eu/rapid/press-release_IP-14-1223_en.htm), downloaded on December 21, 2015

- **Cohesion Fund**

The Cohesion Fund is intended for the Member States whose value of the gross national product (GNP) per capita is less than 90% of the EU average. In the 2014–2020 period, the Cohesion Fund focuses on Croatia, Bulgaria, Cyprus, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia. Cohesion Fund resources are intended to reduce economic and social disparities between Member States and to finance major infrastructural projects in transport, energy and environmental protection in order to achieve economic and social cohesion of the European Union.

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

**Example of good practice of utilisation  
of funds from the Cohesion Fund in Croatia<sup>91</sup>**

*The “Water supply and sewerage system with wastewater treatment plant for Slavonski Brod” project was financed from the Cohesion Fund in the 2007–2013 programming period through the Operational Programme “Environment”. The main objectives of this project started in 2009 include improving the water supply system of Slavonski Brod and connecting additional 4,300 inhabitants to the water supply system, improving the wastewater discharge system and connecting further 9,950 inhabitants to the city sewer system and construction of a wastewater treatment plant. All planned work on the water supply and sewerage system was completed by the end of December 2012. The value of total investment amounts to EUR 29.6 million, of which EUR 17.4 million was financed by the EU.*

- **European Regional Development Fund**

European Regional Development Fund (ERDF) aims to contribute to economic and social cohesion in the European Union by reducing differences in development between European regions, that is, through support to the development and structural adjustment of lagging regions and the transformation of declining industrial regions, and through support to cross-border, transnational and interregional cooperation. Special attention is given to urban regions and to financing of sustainable urban development, as well as to regions that are exposed to severe and permanent natural or demographic difficulties, such as the northernmost regions with very low population density, and island, border and mountain regions. Priority areas to which the ERDF funds are directed are: innovation and research, Digital Agenda, support to small and medium entrepreneurs and transition to a low carbon emissions economy, and ERDF thus contributes to the objectives of the Europe 2020 strategy for smart, sustainable and inclusive growth.

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

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91 [http://ec.europa.eu/regional\\_policy/en/projects/croatia/improving-water-supply-and-wastewater-treatment-in-slavonski-brod](http://ec.europa.eu/regional_policy/en/projects/croatia/improving-water-supply-and-wastewater-treatment-in-slavonski-brod), downloaded on December 21, 2015

### **Example of good practice of utilisation of funds from the European Regional Development Fund in Croatia<sup>92</sup>**

*In September 2015, Biosciences Technology Commercialisation and Incubation Centre “BIOCentre” was opened at the Scientific and University Campus Borongaj. BIOCentre is intended for start-up companies in the field of bioscience from Croatia and the wider region, providing them access to infrastructure, technology transfer, education and networking. BIOCentre offers services and programs which encourage more intensive cooperation between science and economy, such as business incubation program (BIOIncubation), technology transfer (BIOTransfer), education (BIOEducation), business networking (BIONetworking) and the availability of the necessary infrastructure (BIOInfrastructure).*

*The investment worth EUR 18.8 million, of which the value of EU funding was almost EUR 14 million, was realised within the Operational Programme “Regional Competitiveness 2007–2013”.*

#### **• European Social Fund**

European Social Fund (ESF) was founded with the intention of increasing the mobility of workers and employment opportunities in the common market. It is focused on four thematic objectives: promoting sustainable and quality employment and supporting labour mobility; promoting social inclusion, combating poverty and any discrimination; investing in education, training and vocational training for skills and lifelong learning; enhancing the institutional capacity of public authorities and stakeholders and efficient public administration. ESF pays special attention to young people, women and other people from disadvantaged groups on the labour market. Partially funded by the ESF is the Youth Employment Initiative, which supports young people neither in employment nor in education and training (the NEET group – neither in employment nor in education and training) in regions where youth unemployment exceeds 25%.

The total amount of funds from this Fund for the period 2014–2020 for Croatia is EUR 1.52 billion, and financing of up to 85% of project costs is allowed.

### **Example of good practice of utilisation of funds from the European Social Fund in Croatia<sup>93</sup>**

*Implementation of the project “Entrepreneurial Café Split – From small coffee to a large deal!” began in July 2015 in Split, financed by the European Social Fund within the Operational Programme Human Resources Development 2007–2013. The City of Split is the project leader, and the project is implemented in cooperation with the Croatian Employers’ Association and UHY savjetovanje d.o.o. The project aims to create positive entrepreneurial environment, improve entrepreneurial culture and facilitate networking of the existing and potential entrepreneurs by organising informal gatherings and exchange of experiences in the Entrepreneurial Café Split. The project is implemented through 8 campaigns – entrepreneurial gatherings within which young people from 15 to 29 years participate in the Student Case Study Challenge competition and talk with experienced visiting lecturers – entrepreneurs on entrepreneurship in tourism, entrepreneurship in agriculture, women entrepreneurship, social entrepreneurship, start-up and IT enterprises.*

*The total value of the one-year project is EUR 38.917 EUR, of which the EU co-finances 85%, or EUR 33.080.*

92 [http://ec.europa.eu/regional\\_policy/hr/projects/croatia/supporting-biotechnology-and-life-science-business-start-ups-in-croatia](http://ec.europa.eu/regional_policy/hr/projects/croatia/supporting-biotechnology-and-life-science-business-start-ups-in-croatia); <http://www.safu.hr/hr/vijesti/otvoren-biocentar>, downloaded on December 21, 2015

93 <http://poduzetnickikafic.hr/o-projektu/>; <http://www.esf.hr/projekti/splitsko-dalmatinska-zupanija/malom-kavom-do-velikog-posla/>, downloaded on December 21, 2015

- **European Agricultural Fund for Rural Development**

The purpose of the European Agricultural Fund for Rural Development (EAFRD) is to contribute to the development of territorially and environmentally more balanced, more favourable and resilient in a context of climate change, more competitive and innovative agricultural sector of the Union, and to the sustainable development of rural areas. As one of the instruments of the Common Agricultural Policy, EAFRD should also contribute to the long-term strategic objectives of the EU rural development policy: promoting the competitiveness of agriculture, ensuring sustainable management of natural resources and climate change, reaching a balanced territorial development of rural economies and communities, including the creation and preservation of existing jobs.

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

***Example of good practice of utilisation of funds from the European Agricultural Fund for Rural Development in Slovenia<sup>94</sup>***

The “Awareness raising and sales promotion for organic crops and products” project, financed by the EAFRD, was implemented from 2012 to 2015 in Murska Sobota in Slovenia. The project was implemented by a local agricultural cooperative, and a marketing plan was created with the support of a professional marketing agency, which defined activities of promotion of organic products in rural households and trade fairs. Farmers were trained in marketing and communication with end consumers, which enabled them to adequately present the advantages and benefits of their products. Promotional activities, events and materials were used to increase the visibility of agricultural organic products build consumer confidence as a basis for increasing sales and profits of organic producers gathered in the agricultural cooperative. Within the project, a total of 55 events, 27 workshops for children and youth and 79 product tastings were organised, and the involved cooperative members participated in 41 trade fairs at national level.

The total value of the project was EUR 342,840, of which EAFRD contributed EUR 199,990.

- **European Maritime and Fisheries Fund**

European Maritime and Fisheries Fund (EMFF) is a financial instrument of the European Union, which seeks to contribute to achieving the objectives of the new, reformed Common Fisheries Policy (CFP) and encourage the implementation of the EU Integrated Maritime Policy (IMP). EMFF is also focused on promoting sustainable, innovative, competitive and knowledge-based fisheries and aquaculture, promoting economic growth social inclusion, creation of jobs and providing support to employability and mobility of labour in coastal and inland communities dependent on fisheries and aquaculture and on diversification of fisheries activities.

The total amount of funds from this Fund for the period 2014–2020 for Croatia is EUR 252.6 million, and financing of up to 85% of project costs is allowed.

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<sup>94</sup> [http://enrd.ec.europa.eu/sites/enrd/files/gp\\_webtemplate\\_ekosi.pdf](http://enrd.ec.europa.eu/sites/enrd/files/gp_webtemplate_ekosi.pdf), downloaded on November 16, 2015



### **Example of good practice of utilisation of funds from the European Maritime and Fisheries Fund in Finland<sup>95</sup>**

*“Tourism Training for Fishermen in Lapland” is a project that was implemented in Finland from 2010 to 2013 and co-financed by the European Maritime and Fisheries Fund. Through the project, 14 fishermen were trained to acquire knowledge and skills required to work with tourists, including skills and necessary permits required by law, marketing skills necessary for creating tourism products and their promotion, and skills needed to maintain good relations with customers and local tourist agencies. The result of the project are 11 created tourism products, published in the brochure distributed to all tourism businesses in the project area. The total value of the project was EUR 163,420 EUR, of which EUR 63,734 was financed by the EMFF.*

## **The possibilities of financing of small and medium enterprises from EU funds**

Partnership Agreement between the European Commission and the Republic of Croatia on using EU Structural and Investment Funds for growth and jobs in the period 2014–2020 recognises the small and medium enterprise sector in Croatia as an important component of economic growth and driver of job creation. Thematic objective 3 “Enhancing the competitiveness of SMEs, of the agricultural sector, and of the fishery and aquaculture sector” defines investment priorities and use of financial instruments for the support to Croatian small and medium enterprises from European Structural and Investment Funds. Recommendation of the European Commission for Croatia is to take appropriate measures to improve the business environment, which would contribute to the European objective of increasing competitiveness through higher productivity. The indicative amount of EU support in the 2014–2020 period for this objective is EUR 970 million, or a total of EUR 1.9 billion, including investments in increasing the competitiveness of the agricultural sector and the fishery and aquaculture sector.

This Agreement defines the intended use of the resources of ESI funds for the improvement of competitiveness and productivity of small and medium enterprises in Croatia by improving business growth driven by efficiency and innovation. The investment priorities of ESI Funds include access to financing, new technologies, skilled labour and logistics, adequate and professional SME support institutions, and business infrastructure as the most important elements in creating a competitive advantage for businesses. The Partnership Agreement thus defines the following priorities for increasing the competitiveness of enterprises<sup>96</sup>:

- Facilitating access to finance for small and medium enterprises by increasing the supply of funding and by introducing business support services that facilitate access to finance for small and medium enterprises
- Improving innovation and growth of small and medium enterprises
- Increasing the number of new enterprises (newly established enterprises) and ensuring the survival of the existing enterprises, especially in sectors with high growth potential and of great local/regional importance.

In the period of use of pre-accession funds of the European Union, the funds available to the Republic of Croatia were limited, especially for small and medium enterprises. At the end of 2013,

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<sup>95</sup> <http://bit.ly/1oGIMNv>, downloaded on November 16, 2015

<sup>96</sup> Partnership Agreement between the Republic of Croatia and the European Commission for the Use of EU Structural and Investment Funds for Growth and Jobs in the period 2014-2020, p. 61

the first public call for small and medium enterprises for obtaining co-financing from structural funds was announced – Increasing Economic Activity and Competitiveness of Small and Medium Enterprises, under the Operational Programme for Regional Competitiveness 2007–2013. After this first call, which allowed small and medium enterprises in Croatia to obtain co-financing from ESI Funds, another tender for the same potential applicants followed in 2014 – Application of Information and Communication Technology to Improve Business Processes, also under the Operational Programme for Regional Competitiveness 2007–2013.

In the financial perspective 2014–2020, based on the Operational Programme Competitiveness and Cohesion, several tenders intended for Croatian small and medium enterprises were opened. Grants are awarded through permanently open calls for project applications, until the utilisation of available resources (Table 44).

**Table 44:** Overview of open and announced tenders for small and medium enterprises under the Operational Programme Competitiveness and Cohesion

TENDER NAME	STATUS	PERIOD FOR SUBMITTING APPLICATIONS	APPLICANTS	TOTAL AVAILABLE FUNDS (HRK)	AMOUNT OF SUPPORT PER PROJECT (HRK)
Investment in production technology of SMEs	Open	Until December 31, 2020	Small and medium enterprises, craftsmen	357,200,000	500,000 to 5,000,000
Building production capacities of SMEs and investment in equipment	Open	Until December 31, 2020	Small and medium enterprises, craftsmen	760,000,000	1,500,000 to 15,000,000
Support to development of SMEs in tourism by increasing quality and additional hotel offer	Open	Until December 31, 2016	Small and medium enterprises, craftsmen	304,000,000	1,000,000 to 10,000,000
Innovations of newly established SMEs	Announced	Until December 31, 2016	Small and medium enterprises, craftsmen	22,800,000	150,000 to 1,500,000
Increasing development of new products and services resulting from research and development activities	Announced	Until December 31, 2020	Small and medium enterprises, micro enterprises, large enterprises	760,000,000	190,000 to 57,000,000

Source: [www.strukturnifondovi.hr/natjecaji](http://www.strukturnifondovi.hr/natjecaji)

Apart from structural funds, small and medium enterprises can apply for grants from the Programmes of the Union, which are centrally managed by the European Commission, of which two Programmes – Horizon 2020 and COSME, are specialised for financing projects of small and medium entrepreneurship.

**Horizon 2020** is the European Union’s Programme for research and innovation for the period from 2014 to 2020. With a budget of EUR 78.6 billion, Horizon 2020 is focused on three main priorities: Excellent Science, Industrial Leadership and Societal Challenges, in order to address societal challenges and bridge the gap between research and the market. Financial supports to small and medium enterprises in the framework of the Horizon 2020 programme cover the entire innovation cycle, from the stage of preliminary concept and feasibility study through research, development and testing, to commercialisation and market launch.

**SME Instrument** under the Horizon 2020 programme is intended for highly innovative small and medium enterprises with high growth potential. The SME Instrument is implemented in three phases, with the aim of transforming disruptive ideas into concrete, innovative solutions with European or global impact, and enterprises apply for individual phases depending on the degree of readiness of the innovation. The first phase is intended for projects that require assessment of concept and a feasibility study to confirm the feasibility of the proposed disruptive innovation or concept, and is financed with EUR 50,000. Through Phase 2, innovation activities, such as demonstration, testing, development of pilot lines, scaling-up and/or miniaturisation, are financed, for which EU co-financing can be received in the amount from EUR 0.5 to 2.5 million. Phase 3 is the phase of commercialisation of innovation, i.e., adapting the innovation into a product ready for the market, and does not include financial support for the innovative enterprise, but comprehensive support, training, mentoring and assistance with access to venture capital funds. In 2014 and 2015, a total of four Croatian enterprises have received support through Phase 1 – **Amphinicy Technologies** from Zagreb, **AS2CON-Alveus** from Rijeka, **Rimac** from Sveta Nedelja and **TEMA** from Pula<sup>97</sup>.

**COSME** is a European programme for small and medium enterprises with a budget of EUR 2.3 billion, within which small and medium enterprises are provided support in the following areas: facilitating access to finance, supporting internationalisation and access to markets, Creating an environment favourable to competitiveness, and encouraging an entrepreneurial culture. The aim of the COSME programme is to provide access to finance through loan guarantees for up to 330,000 small and medium enterprises, in total value of up to EUR 21 billion. Also, through providing risk capital for funds that invest in small and medium enterprises in the growth phase, the programme aims to provide easier access to the capital necessary for growth for up to 560 enterprises, in the total amount of up to EUR 4 million. The Enterprise Europe Network, the SME Internationalisation Portal, Intellectual Property Rights SME Helpdesks and the EU-Japan Centre for Industrial Cooperation are financed through the COSME programme<sup>98</sup>.

### **Voucher project “My EU Project” of the Croatian Chamber of Economy<sup>99</sup>**

*In early 2015, the CCE launched the “My EU Project” voucher project, which awards direct financial assistance for the preparation of application documentation for projects co-financed by European Union funds to CCE member companies. Vouchers can only be used to produce application documentation, which includes creation of a business plan/investment study, preparation of application forms and/or collection of supporting documents prescribed by regulations and the announced competition by the competent authority.*

*The first tender published in January 2015 was intended for the CCE members who plan to submit their projects for co-financing from the European Agricultural Fund for Rural Development. The total value of this tender was HRK 350,000, and 35 successful applicants exercised their right to a voucher worth HRK 10,000. The second tender for awarding vouchers was published July 2015, in total value of HRK 300,000, and though it 30 vouchers for financing the preparation of project documentation were awarded. The project continues in 2016.*

97 <https://ec.europa.eu/easme/en/sme-instrument-beneficiaries>, downloaded on November 20, 2015

98 [http://ec.europa.eu/growth/smes/cosme/index\\_en.htm](http://ec.europa.eu/growth/smes/cosme/index_en.htm), downloaded on November 21, 2015

99 [http://www.hgk.hr/djelatnost/gosp\\_medunarodniodnosi/moj-eu-projekt-vaucer](http://www.hgk.hr/djelatnost/gosp_medunarodniodnosi/moj-eu-projekt-vaucer), downloaded on November 21, 2015

## Conclusion

**Small and Medium Enterprises Report Croatia – 2015** provides an overview of the situation of the small and medium enterprise sector in Croatia in 2014 and 2015. CEPOR has been publishing the report since 2011, in Croatian and English, with the aim to consolidate a multitude of fragmented information and data about the state, activities, support and environment of small and medium enterprises in Croatia. The report provides a comprehensive insight into the issues and trends of development of this important sector of the economy. Similar representations of the state of small and medium enterprises are also available in other countries, e.g. Slovenia<sup>100</sup> and France<sup>101</sup> and at the level of the entire European Union<sup>102</sup>.

Below are the conclusions identified by the Report, based on the analysis of performance results and recommendations of national and international studies for the improvement of the small and medium enterprise sector in Croatia.

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

Small and medium enterprise sector represents a very important segment of the Croatian economy, and its role is identified through the share in the total number of enterprises (99.7% in 2014), share that small and medium enterprises have in total revenues (53%), the share in total exports (48.5%) and employment (68.4%).

A very slight tendency of strengthening business performance of the small and medium enterprise sector in Croatia continued in 2014 – share in total revenues increased by 0.9 percentage points, share in employment by 0.4 percentage points, and share in exports by 0.3 percentage points, compared to 2013.

Small and medium enterprise sector recorded continuous slight decline in the average number of employees in the period from 2010 to 2014, with simultaneous increase in total income, which indicates rationalisation of operations, and the trend of increasing the productivity and competitiveness of small and medium enterprises in Croatia.

In 2014, 50.9% of employees in small enterprises participated with 40.5% in total net consolidated profit of the Croatian economy, while 31.6% of employees in large enterprises participated with 44.1% in total net consolidated profit of the economy, which still indicates significant room for improvement of business efficiency and competitiveness of small enterprises in Croatia.

According to the results of the GEM research in Croatia, in 2014 large majority of growing enterprises in Croatia, as many as 72.7% of them, have products that are new to no one, while there are only 8.2% whose products are new to everyone, indicating a low level of innovation capacity. Investment in research and development is one of the key components for increasing innovation and competitiveness of the economy. Despite this, in 2014 Croatian gross domestic expenditure for research and development decreased by 3.5% compared to 2013.

Analysing the ranking of regions according to business venture start-up activity in 2014 – Zagreb

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100 Rebernik, M., Širec, K. (eds.): "Slovenska podjetja in značilnosti start-up ekosistema – Slovenski podjetniški observatorij 2015", Univerza v Mariboru, Ekonomska – poslovna fakulteta, 2016

101 Dufourcq, N.: "PME 2014 Rapport sur l'évolution des PME", BPI France, 2015

102 Annual Report on European SMEs 2014/2015 – SMEs start hiring again, European Commission, 2015

and surroundings and Dalmatia are in the first place, while Lika and Banovina, and Slavonia and Baranja are at the rear.

### **Women entrepreneurship**

In the period from 2010 to 2014, the share of women – enterprise owners in the Croatian economy increased from 17.3% to 20.3%. Women are entrepreneurially active mainly in the service sector, that is, there is smaller difference in the ownership structure of enterprises between women and men in those activities, while in the manufacturing sector the share of enterprises owned by men is significantly higher than the share of women enterprise owners.

GEM research monitors the difference in business venture start-up activity between women and men. After a continuous decrease in the gap in business venture start-up activity between women and men in Croatia was recorded in the period from 2010 to 2013, that gap increased again in 2014, and the business venture start-up activity of women was 2.4 lower than the activity of men. Consistently present gap in activity of women and men in starting entrepreneurial activity indicates obstacles, and demands a thorough evaluation of the existing programs and measures for the development and strengthening women entrepreneurship in Croatia.

### **Institutional and legislative framework**

Croatia has for a long time been included in a number of international studies that monitor the quality of institutional and legislative framework in which businesses operate (Doing Business – World Bank, competitiveness – World Economic Forum, entrepreneurship – Global Entrepreneurship Monitor, SBA Fact Sheet – EU...). It was concluded in all these studies that the complexity and lack of transparency of the legislative framework is the most significant obstacle to strengthening the intensity of entrepreneurial activity in Croatia. One of the problems is the lack of regular evaluation of effects of the legislative framework on the environment in which small and medium enterprises operate, especially when introducing new legal regulations that the Government should implement, in accordance with the Think Small First principle adopted by the European Union.

Ministry of Entrepreneurship and Crafts in 2014 still serves as the main carrier of operational programs that should be transferred to implementation agencies and institutions (such as HAMAG BICRO and HBOR). The role of Croatian Employer's Association, Croatian Chamber of Economy, Croatian Chamber of Trades and Crafts and CEPOR – SMEs and Entrepreneurship Policy Center, following the example of the most developed economies of the European Union, should be more visible and more pronounced in the development of policies related to the small and medium enterprise sector.

### **Access to financing**

The market of bank loans intended for small and medium enterprises in Croatia is highly developed. Almost all banks have various types of loans intended for the small and medium enterprise sector in their offer. In addition to the offer of financial products, banks provide additional lines of financing to entrepreneurs, which are based on business cooperation with ministries, HBOR, HAMAG-BICRO, local self-government units, cities, counties, and international financial institutions. Despite this, access to financing for small and medium enterprises in Croatia can be rated as very limited, partly because of inadequate guarantee schemes, and partly due to lack of financial resources for the riskier stages of development of entrepreneurial ventures, such as venture capital funds and business angels. CRANE – Croatian umbrella association of business angels records a small number of projects, and only one investment was realised in 2014, while four entrepreneurial ventures were financed in 2015.

Microfinance in Croatia, compared to best international practice, is also underdeveloped, and the following were identified as the main problems: very restrictive regulatory framework, inadequate guarantee schemes, inadequate offer of banking products and services (credit unions cannot perform payment transactions, savings are not insured by the Croatian National Bank) and lack of information among users about financial products.

It is difficult to evaluate the effectiveness of Government programs for providing access to finance for small and medium enterprises in Croatia because of the lack of detailed feedback on the contribution of existing loan programs to creation of new jobs, retaining jobs or starting new entrepreneurial ventures; and non-transparency, incoherence and lack of coordination of the financing programs intended for small and medium enterprises, which are implemented by line ministries. The involvement of the Ministry of Entrepreneurship and Crafts in operational implementation of financing programs represents a shift away from the Ministry's primary role, which is to focus on policy and regulatory aspects of the small and medium enterprise sector.

### **Education for entrepreneurship**

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

Non-formal education for beginner entrepreneurs and/or already launched enterprises is offered by institutions such as centers for entrepreneurship, Croatian Chamber of Economy, Croatian Employers' Association and private companies active in the sector of adult education.

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

Access to information and advisory services is an important factor in the development of entrepreneurial activity. According to the Act on Improving Entrepreneurial Infrastructure, entrepreneurial infrastructure, in the narrow sense, comprises a system of entrepreneurial zones and business support institutions, which include development agencies, entrepreneurial centers, business incubators and accelerators, business parks, science and technology parks and competence centers.

According to the results of the Study of the Consultancy Market in Croatia from 2014, advisory infrastructure for the development of the MSME sector consists of two types of institutions – business support institutions and private professional consulting companies. Services of business support institutions are primarily focused on providing information and advisory services related to creation of business plans and project applications to published tenders, while professional consultants, unlike most business support institutions, provide more complex and more specialised advisory services.

In 2014, the GEM research in Croatia recorded an increase in the rating of perception of quality of commercial and professional infrastructural support for the development of the small and medium enterprise sector in Croatia from 2.7 in 2013 to 2.9 in 2014, which is almost at the level of rating of perception of quality of countries participating in the GEM research (3 in 2014).

## **Croatia as a member of the EU**

In the period since its entry into EU membership on July 1, 2013 until the end of 2014, Croatia recorded a positive balance of payments and withdrawals from the EU budget in the amount of almost EUR 22.4 million. However, according to the level of utilisation of funds from EU structural instruments by the end of 2014, with the rate of 50.3%, Croatia is ranked only 24<sup>th</sup> out of 28 EU Member States.

In the new financial perspective 2014–2020, Croatia has EUR 10.74 billion from European Structural and Investment Funds at its disposal. Partnership Agreement between the Republic of Croatia and the European Commission is the umbrella strategic document that defines strategic plans and investment priorities of Croatia for this period.

Partnership Agreement between the Republic of Croatia and the European Commission defines the goal of using resources of ESI Funds in order to strengthen the competitiveness of Croatian small and medium enterprises. Recommendation of the European Commission for Croatia is to take appropriate measures to improve the business environment, which would contribute to the European objective of increasing competitiveness through higher productivity, for which an indicative amount of EU support of EUR 970 million is foreseen in the 2014–2020 period. During this seven-year period, Croatian small and medium enterprises can apply for tenders and receive grants the Operational Programme “Competitiveness and Cohesion”. Highly innovative small and medium enterprises with high growth potential can obtain supports from the Union’s Programmes – Horizon 2020 and SME Instrument.

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- [www.womeninadria.com](http://www.womeninadria.com)
- [www.zadruga.coop/hr](http://www.zadruga.coop/hr)
- [www.zakon.hr](http://www.zakon.hr)

## The European Fund for Southeast Europe

The European Fund for Southeast Europe (EFSE) aims to foster economic development and prosperity in the Southeast Europe region, including the European Eastern Neighbourhood Region, through the sustainable provision of additional development finance. The Fund offers long-term funding instruments to qualified partner lending institutions to better serve the financing needs of micro and small enterprises and low-income private households.

EFSE's partner lending institutions include commercial banks, microfinance banks, microcredit organisations and non-bank financial institutions such as leasing companies. They on-lend funds received from EFSE to the Fund's ultimate target group: micro, small enterprises and low-income private households. All of EFSE's partner lending institutions are carefully selected: in addition to being financially stable, the institutions must treat their clients fairly and in a transparent manner.

Supporting the EFSE's investment activities is the EFSE Development Facility (EFSE DF), which was created in 2006 to support the EFSE's development finance mandate. Its mission is to deploy effective, targeted and innovative technical assistance to maximise the impact and outreach of the Fund's development finance mandate in its target countries. The capacity-building services of the EFSE DF encompass capacity building and training, financial sector support as well as applied research with the aim to strengthen the internal capacities and operations of the Fund's partner lending institutions.

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 (MSE) 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, including 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 (Oesterreichische Entwicklungsbank - 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), Sal. Oppenheim and Deutsche Bank.

For more information about EFSE and the EFSE DF, please visit <http://www.efse.lu>







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