Key points

**Past & future SME performance**: SMEs’ contribution to the Croatian ‘non-financial business economy’ is of key importance. 60.8% of overall value added and 68.1% of employment is generated by SMEs, exceeding the respective EU averages of 56.8% and 66.4%. However, the outlook for SME development is mixed. SME value added is forecast to continue its growth path and rise by 7.5% in 2017-2019. Overall SME employment is predicted to remain stable in the same period, due to rising employment in microfirms (by 1.5%) and small firms (by 0.7%), accompanied by an employment fall of 2.9% in medium-sized firms.

**Implementing the Small Business Act for Europe (SBA)**: Croatia’s SBA profile continues to be relatively weak. Although a number of policy measures have been implemented since 2008, not all SBA areas have yet been appropriately addressed and SME stakeholders perceive SBA implementation progress as moderate. Croatia performs below the EU average in four SBA policy areas. While entrepreneurship, skills & innovation and single market need further improvement, there are even bigger concerns over ‘responsive administration’, the weakest performing area. In contrast, Croatia performs above the EU average on the environment, state aid & public procurement and internationalisation, being among the best in the EU for the latter two areas, while on ‘second chance’ and access to finance it is in line with the EU average. Since last year, there has been visible progress in the environment and internationalisation areas, while on access to finance Croatia has made considerable progress since 2008. Nevertheless, the government still does not perceive implementing the SBA as crucial for SME development.

**SME policy priorities**: Despite gradual improvements in the ‘Think Small First’ and ‘responsive administration’ principles, Croatia has yet to put some of their fundamental aspects fully in place. Although the ‘SME test’ has been introduced, it is still underused. There has been a noticeable focus on reducing administrative burden, but further progress is needed in this area. Meanwhile, further improvement is needed on the efficiency of the public administration and the justice system and in regulatory stability. Additional measures and initiatives are also necessary in the single market area, focusing on SMEs’ participation in the single market and on the transposition of the relevant legislation. Furthermore, Croatia needs to improve its offer of financial resources for SMEs, especially for scaling-up activities.

### About the SBA fact sheets

The Small Business Act for Europe (SBA) is the EU’s flagship policy initiative to support small and medium-sized enterprises (SMEs). It comprises a set of policy measures organised around 10 principles ranging from entrepreneurship and ‘responsive administration’ to internationalisation. To improve the governance of the SBA, the 2011 review of it called for better monitoring. The SBA fact sheets, published annually, aim to improve the understanding of recent trends and national policies affecting SMEs. Since 2011, each EU Member State has appointed a high-ranking government official as its national SME envoy. SME envoys spearhead the implementation of the SBA agenda in their countries.
SMEs’ contribution to the Croatian ‘non-financial business economy’ is of key importance. 60.8% of overall value added and 68.1% of employment is generated by SMEs, exceeding the respective EU averages of 56.8% and 66.4%. The manufacturing sector generates the largest share of SME employment, at 23.8%, which is 5.0 percentage points higher than the EU average. SME productivity in the non-financial business economy, calculated as value added per person employed, is approximately EUR 20,500, less than half the EU average of EUR 43,900. Croatian SMEs are larger than average for the EU, employing 4.7 people on average vs an EU average of 3.9.

SMEs have been the main drivers of growth in the non-financial business economy in recent years. With an increase of 29.5% in value added in 2013–2017, SMEs clearly outperformed large firms, in which value added rose only by 3.2%. In contrast, at 3.2% SME employment growth was weaker, though still stronger than in large firms, for which the corresponding figure was only 2.4%. Most recently, in 2016–2017, this SME growth continued, with SME employment and value added rising by 1.1% and 4.2% respectively.

SMEs in manufacturing have been significant drivers of overall SME growth. SME value added rose substantially, by 27.4%, in
2013-2017, whereas SME employment growth was more subdued at only 2.0%. Exports were a crucial part of value added growth in this sector, up by 11.6% in 2015 and 5.9% in 2016. However, because of consistently low employment growth, SMEs have still not reached their pre-crisis levels of employment. In 2017, SME employment was still 12.3% lower than in 2008, whereas value added had recovered to its pre-crisis level. One reason for this limited employment growth is the structural weakness of Croatia’s manufacturing sector, which was hit hard by the financial and economic crises due to its lack of diversification and its orientation towards mainly low technology activities.

Croatian manufacturing firms are lagging behind many other EU countries in terms of technological capabilities and innovation. One of the strongest barriers to innovation is the low level of R&D collaboration between science and research institutions and the business sector. Another limiting factor for SMEs is the lack of high-quality innovation services targeted at SMEs. In response to this issue, Croatia’s national industrial strategy, ratified by its Parliament in 2014, aims to restructure the manufacturing industry to increase competitiveness and improve the ability to manufacture export products with higher value added.

Looking at recent developments, SME productivity in manufacturing did indeed increase by 24.9% in 2013-2017, with SME value added rising substantially faster than SME employment. The challenge in the next years will be to also generate stable employment growth.

Food products is the largest manufacturing subsector, responsible for 17.7% of all manufacturing SME employment. SME value added rose by 15.6% in 2013-2017, mainly due to growth in exports. However, in the same period SME employment declined by 1.6%. Despite this fall, food production is a significant source of employment in the Croatian economy due to its overlap with other sectors, most notably agriculture, wholesale and retail trade, transportation and storage and business services. As Croatia is particularly rich in the natural resource of forest land, which covers 48% of the country’s total land area, the wood products (except furniture) sector is also important for SMEs in manufacturing. This is the third largest subsector in terms of employment, providing 8.6% of all SME manufacturing employment in 2017 and playing a particularly strong role in job creation in rural areas. Nevertheless, SME employment in this subsector stagnated in 2013-2017. The two sub-sectors of wood products and furniture represent almost 7% of Croatian manufacturing exports, with wood products being one of the few sectors in which Croatia achieved a trade surplus in 2016.

In 2017, the positive trend in business registrations that started in 2016 continued. 16 759 businesses were registered, 8.3% more than in 2016. 17 603 businesses were deregistered in 2017, only a quarter of the total of 72 746 de-registrations in 2016. The comparatively large number of de-registrations in 2016 was largely due to the removal of inactive businesses from the business register, which in 2017 listed 254 776 businesses, of which 41.0% were inactive.

Many Croatian firms have successfully scaled up their operations in recent years. In 2015, 1 459 firms — 11.7% of all firms in the ‘business economy’ with at least 10 employees — were high-growth firms. This is slightly above the EU average of 9.9%. High-growth firms are particularly prevalent in information and communication, with a share of 16.3%, and in transportation and storage, at 14.2%.

The outlook for SME development is mixed. SME value added is forecast to continue its growth path and rise by 7.5% in 2017-2019. Overall SME employment is predicted to remain stable in the same period, due to rising employment in micro firms (by 1.5%) and small firms (by 0.7%), accompanied by an employment fall of 2.9% in medium-sized firms.
2. SBA profile

Croatia performs below the EU average in four SBA policy areas. While entrepreneurship, skills & innovation and single market need further improvement, there are even bigger concerns over ‘responsive administration’, where performance is weak. In contrast, Croatia performs above the EU average on the environment, state aid & public procurement and internationalisation, being among the best in the EU in the latter two areas, while for ‘second chance’ and access to finance it is in line with the EU average. Since 2008, Croatia has made some progress on entrepreneurship and ‘second chance’, and substantial progress on access to finance, but its downswing has continued for single market and skills & innovation.

Since 2008, Croatia’s progress in implementing the SBA has been moderate. Croatia has adopted a substantial number of policy measures since 2008, but overall results remain unsatisfactory. Policy-wise, insufficient effort is being made to address the ‘second chance’ area. Limited progress has also been made for single market and internationalisation, despite the efforts to address the whole range of SMEs’ needs in this area.

These measures were only moderately successful because of the lack of continuity in addressing SMEs’ practical needs.

Despite the general progress on the overall implementation of the SBA in Croatia, neither the government nor the public as yet perceive entrepreneurship as crucially important to the national economy. Croatia’s institutional framework is still not sufficiently SME-oriented, meaning that public institutions must improve how they address real SMEs’ needs and provide more support for private SME incentives to speed up the development process. Progress is particularly required on reducing administrative burdens for SMEs, though some recent improvements are becoming visible.

During 2017 and the first quarter of 2018, which is the reference period for policy measures in this year’s SBA fact sheet, Croatia adopted or implemented a moderate number of policy measures (10) addressing 7 out of the 10 policy areas under the Small Business Act: entrepreneurship, ‘responsive administration’, access to finance, single market, skills & innovation, environment and internationalisation. In addition, one measure was announced for skills & innovation.

Overall, SME stakeholders state that Croatia’s overall progress in the SBA policy areas has been relatively limited and that SBA implementation has to be significantly intensified.

There is consensus that the areas which saw the most significant progress in 2017 and the first quarter of 2018 were ‘responsive administration’ and internationalisation.

The government is focused on improving the business environment by: (i) implementing its 2017 national reform programme, which has been identified as one of the crucial points underpinning wider reform; and (ii) directly tackling SME needs. While the approach is promising, it is yet to yield results.

Finally, two measures addressing the internationalisation of SMEs have been adopted to improve and strengthen international cooperation and increase SMEs’ share of total exports.
SBA performance of Croatia: state of play and development from 2008 to 2018

Legend:
1. Entrepreneurship
2. ‘Second chance’
3. ‘Responsive administration’
4. State aid & public procurement
5. Access to finance
6. Single market
7. Skills & innovation
8. Environment
9. Internationalisation

Note: The scores presented in the chart above are not fully comparable to those displayed in previous versions of the fact sheet. This is due to a review of the framework of indicators used to assess performance across the SBA principles. Only the aspects with sufficient background data are presented. The value for progress over time was set to 0% in case of insufficient data and marked in the above chart by a diamond shape. For more details, please consult the methodological note on the webpage of the SME Performance Review:
3. SBA principles

3.0 ‘Think Small First’

The ‘Think Small First’ principle is meant to be a guiding principle for all policy- and law-making activities. It requires policymakers to take SME interests into account at the early stages of the policy-making process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply.

Since 2008 the ‘Think Small First’ principle has only partially been implemented in Croatia. Despite gradual improvements and moves towards a more effective implementation of this principle in recent years, overall progress has been limited. The specific interests of SMEs are still not fully taken into account when drafting new legislation, despite the good progress made in 2015 on implementing the e-consultation online system. SME views are mostly collected through a general e-consultation process, but this is not enough to provide a solid foundation for comprehensive analysis of proposed legislation from the SME perspective. In 2017 amendments to the Act on SME support were passed, introducing the ‘SME test’ as a mandatory element of legislative amendments and regulatory impact assessments. However, this is still relatively underused. It was expected that introduction of the SME test would significantly improve the procedure for legislative amendments and regulatory impact assessments. However, its impact has been blunted by the requirement that the proposer him/herself make a ‘prior’ evaluation as to whether the law will affect the SMEs and if so, how. If the proposer estimates that there is no significant influence, he or she is no longer obliged to conduct the SME test.

Comprehensive tax system reform and public procurement process improvements were also implemented in 2017, providing significant changes beneficial for SME business operations.

In the reference period, an initiative was launched to improve the business environment under the 2017 national reform programme. The aim is to further reduce the administrative burden and improve the efficiency of public services that contribute to a positive SME business environment. Nevertheless, there are still some important provisions that need to be put in place. The ‘report-only once’ principle has yet to be fully and consistently addressed. In addition, the judicial system needs to be substantially improved to better address SMEs’ needs.
Croatia performs well below the EU average on entrepreneurship, posting the second lowest score of all the EU countries. As in previous years, entrepreneurship remains one of Croatia’s main weaknesses, although steady progress has been made since 2008. While entrepreneurial intentions (17.5%) are well above the EU average (11.2%), the country performs below the EU average for the high status given to successful entrepreneurship, for which it has the third lowest score in the EU. Croatia also scored well below the EU average on entrepreneurship education, more specifically entrepreneurship education at post-secondary levels, for which it scored lowest of all EU Member States.

Policy efforts since 2008 are substantial, including the implementation of several national strategies and the introduction of various acts, targeted at supporting entrepreneurship. However, the overall results of all these initiatives are still not sufficient. Although improvement has been made in recent years, especially on strengthening the institutional framework and on entrepreneurial learning, this is yet to generate significant outcomes. Croatia has not sufficiently addressed specific support and matching schemes for ensuring successful business transfers, while lack of entrepreneurial skills programmes from early ages in the education curriculum still constitute a significant obstacle to a proper ‘entrepreneurs as a role-model’ approach. In addition, due to pending curriculum reform systematic teacher training to facilitate entrepreneurial education is not in place.

Despite the continuity of public support measures for scale-ups geared towards strengthening their competitiveness, these measures were mainly financial and too often sectoral, so additional specialised and strategically targeted support is needed to accelerate scale-ups’ growth in the later stages of business cycle. In addition, the most recently implemented support measures targeting exports and internationalisation and the development of skills and innovation are yet to provide tangible results.

During the reference period, the Ministry of Economy, Entrepreneurship and Crafts launched the measure ‘Providing high-quality services to SMEs through entrepreneurial support institutions’ (Pružanje visokokvalitetnih usluga za MSP putem poduzetničkih potpornih institucija). The financial support under the measure is granted to entrepreneurial support institutions to help them provide professional and advisory support including education and mentoring. This grant is also valid for institutions that provide information services to SMEs at various stages of their development, with particular emphasis on newly established SMEs that have been operating for less than 3 years. Despite the progress on professional and advisory support services to SMEs to reduce information asymmetry, a significant number of further actions on entrepreneurship are strongly needed.
3.2 ‘Second chance’

‘Second chance’ refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. Croatia has improved in this area and now performs broadly in line with the EU average. This can be explained by the improvement in the fear of failure rate, which has decreased significantly from 35.8% in 2016 to 26.6% in 2017. On this indicator, the country ranks among the best-performing countries in the EU.

As for the time and cost to resolve insolvency, Croatia scored the same as last year and was again below the EU average. Furthermore, for these two indicators there has been no real improvement since 2008.

Since 2008, policy progress has been very limited in this SBA area and little has been done in recent years to address the issue. There are no policies in place to facilitate a new start for ‘second chance’ entrepreneurs, and national awareness-raising campaigns to tackle the stigma of failure are still lacking. Specific early warning and helpdesk mechanisms to help businesses avoid failure in the first place are also lacking, while the various legal procedures involved with bankruptcy are still very drawn-out. Nevertheless, the recent implementation of the Law on the extraordinary administration procedure in enterprises of systematic importance is worth mentioning, as it addresses potentially significant macro- and micro-economic problems, including those of SMEs. A typical example is the situation where SMEs as suppliers depend upon companies of significant systematic importance for national economy, who are struggling to survive.

No significant new policy measures were implemented in 2017 and the first quarter of 2018.
3.3 ‘Responsive administration’

‘Responsive administration’ refers to public administration being responsive to the needs of SMEs. Croatia continues to record the lowest score among the EU Member States in this area. Eight procedures need to be completed to start a business in Croatia: this number is one of the highest of all Member States. Paid-in minimum capital requirements have kept decreasing over the years, reaching 12.5 % in 2018. Since last year, the cost of registering a property has decreased from 5 % to 4 % of the property value, which is better than the EU average. Croatia continues to perform well below the EU average on the number of tax payments per year, with 35 in 2018. Also, the percentage of respondents who agree that fast-changing legislation and policies are a problem for doing business has increased since 2015 from 79 % to 85 %, with Croatia performing well below the EU average. Moreover, government regulations became more burdensome during the reference period, making the country the lowest performer of the entire EU. Croatia clearly still struggles with responsive administration, as evidenced by the lack of any progress made in other areas of this SBA principle.

While there has been activity in this area since 2008, with plenty of measures introduced to reform the public administration, many of them have not lived up to expectations. Thus, the overall record can be considered as moderate. Nevertheless, there were successful measures such as the ‘HITRO.HR’ system to support business establishment, which was later upgraded to an online platform known as the ‘e-Company’ service. Another valuable improvement was the launch of the ‘e-Crafts’ service, providing secure online e-registrations for craftspeople to register or update their status. Additional improvements have also been made regarding: (i) the efficiency and effectiveness of interactions with government services such as the tax administration, which has been digitalised; and (ii) the new Law on public procurement, implemented to increase the efficiency and flexibility of procurement procedures. Nevertheless, responsive administration remains a critical area as most procedures and government regulations are complex and cumbersome for SMEs to negotiate.

During the reference period, a significant measure was announced. The measure, entitled ‘Improving the business environment within the 2017 national reform programme’ (Unapredenje poslovnog okruženja u okviru Nacionalnog programa reformi 2017*), has been highlighted as one of the crucial points underpinning the national reform programme. It has been implemented in certain aspects. It is specifically designed to improve the quality of public governance and public policies for the economy, while also directly tackling SME needs from the public policy perspective, thereby creating longer-term expectations for improvements to the competitiveness indicators.
3.4 State aid & public procurement

Croatia continues to score above the EU average on state aid and public procurement. The percentage of businesses participating in public tenders remains the strongest indicator, even though it decreased from 51% in 2015 to 43% in 2017. Substantial progress has been made on the average delay in payments from public authorities, which decreased from 26 days in 2016 to 12 days in 2017.

The government has been most active in this area, with multiple measures implemented since 2008, and this has produced visible results. The national grant programme ‘Entrepreneurial Impulse’ in particular stands out as a positive example of government efforts to provide targeted state aid to SMEs. Croatia has a solid public procurement legal framework and e-procurement is widely utilised, generating significant benefits for all involved in the procurement process. A new piece of secondary legislation concerning the obligation to publish procurement plans and contract registers in a standardised format on the e-procurement platform entered into force on 1 January 2018. This should improve the transparency and integrity of public procurement, potentially making it more attractive for SMEs. Nevertheless, the separation of large tenders into smaller lots to improve SME accessibility is uncommon in Croatia, as are central and joint purchasing practices that pool demand. Although the new Law on public procurement was recently introduced, with the aim to make public procurement more SME-friendly, there is still a noticeable lack of measures in place to protect SMEs in the case of late payments.

No significant new policy measures were implemented in 2017 and the first quarter of 2018.
3.5 Access to finance

Croatia’s overall performance has improved in this SBA policy area and now scores broadly in line with the EU average. Many SMEs depend on several of Croatia’s largest companies for their business. Unfortunately, the difficult economic situation coupled with problems in some large companies resulted in a worsening of losses caused by bad debt (Croatia’s score increased from 2.4 % in 2016 to 3.4 % in 2017). Other indicators have seen notable improvement, including the percentage of rejected loan applications and unacceptable loan offers, which fell from 12.3 % in 2016 to 0 % in 2017. Croatia improved its performance on the cost of borrowing for small loans relative to large loans, meaning that it is now performing above the EU average. It also has improved access to public financial support including guarantees. However, the country is still lagging behind the EU average on equity and business angels funding.

Policy-wise, from 2008 onwards multiple policy measures have been implemented, with moderate results. Several national annual programmes for SME finance have been integrated into the ‘Entrepreneurial Impulse’ national grant programme to create a clearer financial environment for SMEs and enable them to navigate the available financial support policy measures more easily. Different SME groups were targeted for support by various financial programmes, while HAMAG-BICRO, the Croatian agency for SMEs and investments, implemented several measures to stimulate entrepreneurial innovation. Various policy measures have been put in place focusing on direct financing, finance through leasing, and measures extending the maturity of loans. The Croatian Bank for Reconstruction and Development (HBOR) also provides different specialised loan programmes and credit schemes. Traditional bank loans remain the most common form of financing for SMEs, indicating that further diversification of financial sources is needed.

The four key measures implemented in 2017 and the first quarter of 2018 were as follows:

- ‘Construction and equipping of manufacturing capacities of SMEs’ (Uzgradnja i opremanje proizvodnih kapaciteta MSP) was implemented by HAMAG-BICRO, focusing on SMEs’ development and technological readiness. This measure encourages SMEs to invest in their own capacity, by providing grants to build and equip business units. It has a total budget of EUR 26.3 million.

- HAMAG-BICRO implemented the European Structural and Investment Funds (ESIF) individual guarantee programme. The programme is provided by financial institutions which enable SMEs to apply for a guarantee to cover a part of the loan.

- The ‘ESIF growth and expansion loans’ (ESIF Krediti za rast i razvoj) is a financial instrument implemented by HBOR and funded by ESIFs and commercial banks for financing new long-term investments of SMEs that have been operating for at least 2 years. The loans are

Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.
approved for up to 12 years, with a maximum of one loan per entrepreneur.

- the ‘Loans for family farm projects’ (Kreditiranje projekata obiteljskih poljoprivrednih gospodarstava) were adopted by HBOR and focus on allowing all family farms to finance their projects, regardless of whether they are in the VAT system. Previously this was not possible because family farms were not eligible. In addition, young starting-up family farm holders are exempted from self-employment obligations upon the realisation of their investments.

3.6 Single market

Croatia’s long-term trend for the single market SBA area points downward, placing the country among the three worst-performing EU Member States for this area during the reference period. The main reasons for the low scores are: (i) the difficult market access conditions for new and growing firms; (ii) SMEs’ weak trade performance in goods; and (iii) a still high number of single market directives to be transposed into national law. Although the number of single market directives not yet transposed has recently decreased from 22 to 13, Croatia’s score remains below the EU average. Deterioration can also be observed in the transposition delay for overdue directives, which recently went up from 6.3 to 7.9 months. However, with 17 pending infringement proceedings in 2017 (3 more than in the year before) Croatia still performs above the EU average.

Since Croatia’s accession to the EU there has been evident progress for the single market SBA area. However, progress has come predominantly through the transposition of single market directives, as there have not been enough measures to help SMEs to access and operate in the single market, although improvements are visible. Overall progress is therefore still limited. Although a SOLVIT centre has been set up, together with the Centre for the EU Internal Market, and the ‘Point of Single Contact’ online portal is active, there is still a lack of specialised public advisory support to better realise SMEs’ potential from the single market perspective. Grants have been allocated to exporters mainly through the ‘Entrepreneurial Impulse’ programme and similar initiatives. The Investment Promotion Act was adopted in 2015, implementing EU rules on declaring certain categories of aid like regional state aid and state aid for training as compatible with the single market.

During the reference period, amendments were made to the Investment Promotion Act (Zakon o izmjenama i dopunama Zakona o poticanju ulaganja) to further improve its initial implementation and to better harmonise it with EU legislation. The main goal is to stimulate and increase the realisation of

Variation from the EU average (measured in standard deviations, EU average=0)
Investment projects in the national economy. With a budget of EUR 32.6 million, the measure focuses on raising the technological level of SMEs by helping them acquire new equipment and technologies. It also aims to: (i) promote employment growth and education, creation of higher added value and the economic reactivation of unused state-owned property; (ii) increase entrepreneurial competitiveness; and (iii) balance regional development.

### 3.7 Skills & innovation

Croatia’s performance is below the EU average. The long-term trend since 2008 shows a continuous deterioration of the country’s performance for this SBA principle, although at the time of writing there was no update available for the group of innovation indicators. Only recently have some slight improvements occurred in individual indicators. In e-commerce, the percentage of SMEs purchasing online increased from 10.5% in 2016 to 12.9% in 2017 and their turnover increased slightly from 8.3% to 8.7%, while the percentage of SMEs selling online decreased from 18% to 17.1%. As far as skills and training are concerned, Croatia has improved significantly in the national R&D available to SMEs, although it reported the second lowest performance in the EU for this indicator. It also increased the percentage of enterprises providing ICT skills training to their employees and the percentage of employed people with ICT specialist skills, putting it in line with the EU average for both indicators.

Progress on skills & innovation since 2008 has been moderate. The entrepreneurial training provider network has been built up over the years, and includes various educational and training offers beneficial for SMEs. However, there is still a noticeable shortage of skilled labour for SMEs operating in the manufacturing sector. This is due to an adult education system that is not fully harmonised with industry needs. This issue has been exacerbated in recent years by the significant amount of Croatian labour that has sought work abroad. Several measures have been implemented to underpin innovation processes in SMEs, but the overall effects are still limited. The innovation support measures implemented over the past few years were strongly focused on establishing collaboration between business and academia. However, the expected outcomes have not yet materialised. The e-government approach has been substantially improved with the implementation of the central government portal and the integration of new e-services for entrepreneurs. Nevertheless, support for SMEs in their growth and specialisation phases is still insufficient, as is the protection of intellectual property rights, which should be further developed to benefit Croatian SMEs in this field.

The reference period saw the launch of the measure ‘Through product certification to market’ (Certifikacijom proizvoda do tržišta). The measure offers de minimis aid (i.e. aid with a negligible impact on competition, which does not require
notification) for product certification activities, specifically the assessment of product conformity with a specific standard or specification. Such certification activities are acceptable only if the authorised body carries out an independent assessment of compliance. The measure aims to increase the application of recognised standards to make it easier for businesses to access markets and increase competitiveness. One other measure was announced, in the form of new Law on state aid for research and development projects\(^3\) to increase private-sector investment in R&D.

### 3.8 Environment

Croatia is now among the top five best-performing Member States in this area; in contrast to the previous year, when it was still in line with the EU average. In 4 out of 5 indicators the country improved its scores from 2015 to 2017 by a large margin. Croatia made substantial progress on the share of turnover above 50% generated by green products or services, which jumped from 21% to 30%, placing it among the top three performers of the whole EU. The percentage of SMEs that have benefited from public support measures for production of green products also increased from 30% to 36%, a performance that is above the EU average. In addition, government support to SMEs in their resource-efficiency actions rose strongly from 39% to 63%. Only the proportion of SMEs that offer green products or services shrank, from 23% to 21%.

Since 2008, Croatia has put in place a modest number of policy measures relating to the environment principle. Several financial incentives have been provided by the government to encourage the use of renewable energy and uptake of energy saving production technologies. Several initiatives were also enacted to support SMEs in obtaining environmental management certificates; these all had positive effects on SMEs, particularly in the manufacturing industry. The introduction of direct co-financing incentives in 2015, implemented through the Environmental Protection and Energy Efficiency Fund, brought significant improvements by providing grants for projects related to environmental protection, sustainable development, energy efficiency and use of renewable energy sources. Despite the significant improvement in recent years, there is still a lack of measures providing regulatory incentives to get EMAS-certified and to promote green public procurement.

During the current reference period, the Ministry of Environment and Energy adopted the measure entitled ‘Increasing energy efficiency and renewable energy sources use in manufacturing industries’ (Povećanje energetske učinkovitosti i korištenja obnovljivih izvora energije u proizvodnim industrijama\(^3\)). The measure, which has a budget of EUR 41 million, is designed to support the implementation of energy efficiency measures and measures for the use of renewable energy sources. This is expected to lead to a reduction of energy consumption in manufacturing plants by at least 20% compared to the current situation.
3.9 Internationalisation

Croatia has continued its progress in this policy area and is now the third best performer among all EU Member States on these specific indicators. None of the indicators for internationalisation are below the EU average, while advance rulings and formalities for automation increased to the maximum of 2 index points and are now above the EU average. Croatia has reached the maximum performance in 4 of the 6 OECD trade facilitation indicators, placing the country among the top performers in the EU. The only notable negative development is reported for SMEs exporting online beyond the EU, the proportion of which dropped from 6.9% to 5.4%, moving the country from above the EU average to in line with it. The proportion of SMEs with extra-EU exports/imports of goods slightly increased between 2014 and 2015, but still remain in line with the EU average.

Since 2008, despite various government activities, mainly export-oriented measures in the form of grants for exporters, progress on internationalisation has been moderate. Over recent years, there has been a clear lack of a strategic and coordinated approach to internationalisation. As a result, the institutional framework for trade promotion is still not well developed. Despite the 2014-2015 action plan for export support including measures and corresponding activities needed to provide continuous support to Croatian exporters, its achievements are not significant. Alongside the lack of a comprehensive strategy specifically targeting SME internationalisation, there is a lack of continuity in the few measures focused on internationalisation that have been taken, as well as low levels of specialised educational, training and advisory programmes for exporting SMEs.

During 2017 and the first quarter of 2018, the two key measures were implemented. These are set out below:

- The ‘Business internationalisation of SMEs’ (Internacionalizacija poslovanja MSP-ova) measure, that focuses on increasing the Croatian economy’s ability to participate in global markets, while contributing to an increased share of SMEs in total exports of goods and services. The maximum aid intensity that may be awarded is 85% of eligible costs for micro and small enterprises and 65% for medium-sized enterprises.

- The ‘Business internationalisation of SMEs through business support organisations’ (Internacionalizacija poslovanja MSP-ova putem organizacija za poslovnu podršku) measure provides grants to encourage business support organisations to grow and develop the business capacity of SMEs by organising visits to present them on the international market and enhancing the national economy’s ability to participate in global markets. The measure was implemented by the Ministry of Economy, Entrepreneurship and Crafts to give domestic SMEs more of a chance to cooperate successfully with foreign business partners.
4. Interesting initiative

Below is an example of an initiative from Croatia to show what governments can do to support SMEs:

Providing high-quality services to SMEs through entrepreneurial support institutions

Entrepreneurial support institutions projects are awarded grants in order to provide high-quality professional and advisory support (including education and mentoring) as well as information services to SMEs at various stages of their development. There is a particular focus on newly established SMEs that have been operating less than 3 years in accordance with identified needs and proven shortcomings in the market where they operate.

The objective is to provide effective professional assistance to:

- strengthen SMEs’ position in the market;
- improve their economic performance and survival rates;
- foster their growth and development;
- strengthen entrepreneurial support institutions.

The medium-term goal is to contribute to creation of a more favourable business environment for entrepreneurship development and growth in Croatia.

References:
http://arhiva.strukturnifondovi.hr/natjecaji/1422
Important remarks

The European Commission Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW) produces the SBA fact sheets as part of the SME Performance Review (SPR), its main vehicle for economic analysis of SME issues. They combine the latest available statistical and policy information. Produced annually, they help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They take stock and record progress. They are not an assessment of Member State policies. Rather, they should be regarded as an additional source of information to improve evidence-based policy-making. For example, they cite only policy measures national SME policy experts consider relevant. They do not and cannot reflect all measures the government has taken over the reference period. There is more policy information on a database accessible from the SPR website.

SME Performance Review:
grow-spr@ec.europa.eu

Small Business Act:

Entrepreneurship and SMEs:
https://ec.europa.eu/growth/smes

Endnotes

1 The two graphs under Key points section present the trend over time for the variables. They consist of index values for the years since 2008, with the base year 2008 set at a value of 100. As from 2016, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2015 figures from Eurostat's Structural Business Statistics Database. The data cover the ‘non-financial business economy’, which includes industry, construction, trade and services (NACE Rev. 2 sections B to J, L, M and N). They do not cover enterprises in agriculture, forestry and fisheries or largely non-market service sectors such as education and health. A detailed methodology can be consulted at: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/


6 Ibid.


Ibid.


Ibid.


Due to data availability, the data on high-growth firms refers to the ‘business economy’ only, which covers sections B-N including section K (financial activities, except activities of holding companies). The ‘non-financial business economy’ excludes section K.

In line with the Commission implementing regulation (EU) No 439/2014, high-growth enterprises are defined as firms with at least 10 employees in the beginning of their growth and average annualised growth in number of employees greater than 10 % per annum, over a 3-year period. The share of high-growth enterprises is the number of high growth enterprises divided by the number of active enterprises with at least 10 employees. Source of the data on high-growth enterprises is Eurostat (http://ec.europa.eu/eurostat/web/products-datasets/-/bd_9pm_r2, last accessed 13.4.2018).

The 2018 SBA fact sheets benefited substantially from input from the European Commission’s Joint Research Centre (JRC) in Ispra, Italy. The JRC made major improvements to the methodological approach, statistical work on the dataset and the visual presentation of the data.

The quadrant chart combines two sets of information. Firstly, it shows current performance based on data for the latest available years. This information is plotted along the X-axis measured in standard deviations of the simple, non-weighted arithmetical average for the EU-28. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2018. These are measured against the individual indicators which make up the SBA area averages. Hence, the location of a particular SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA area relative to the EU average at a given point in time, but also about the extent of progress made between 2008 and 2018. All SBA principles, with the exception of the ‘Think Small First’ principle for which there is not enough statistical data available, are calculated as composite indicators following the OECD/JRC Handbook guide. A detailed methodology can be consulted at: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/

The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2017 and the first quarter of 2018. The national SME policy expert that PwC (DG GROW’s lead contractor for the 2018 SBA fact sheets) consulted made the selection. The experts were asked to select only the measures they considered the most important, i.e. the ones expected to have the highest impact in the SBA area in question. The complete range of measures the experts compiled in producing this year’s factsheets will be published alongside the fact sheets in the form of a policy database on the DG GROW website.


http://arhiva.strukturnifondovi.hr/natjecaji/1422 (last accessed on 13.4.2018)


http://hamaqibicro.hr/javni-poziv-izgradnja-i-opremanje-proizvodnih-kapaciteta-msp/ (last accessed on 13.4.2018)
https://strukturfondovi.hr/natjecaji/izgradnja-i-opremanje-proizvodnih-kapaciteta-msp-kk-03-2-1-15/ (last accessed on 13.4.2018)
https://efondovi.mrrfeu.hr/MISCms/Pozivi/Poziv?id=c36e6b98-e1ef-4c2f-ab38-37ba14bf5f0 (last accessed on 13.4.2018)
https://www.hbor.hr/tema/esif-kredit-za-rast-i-razvoj/ (last accessed on 13.4.2018)
https://www.hbor.hr/kreditni_program/poljoprivreda/ (last accessed on 13.4.2018)
https://www.hbor.hr/en/kreditni_program/agriculture/ (last accessed on 13.4.2018)

http://hamaqibicro.hr/otvoren-javni-poziv-certifikacijom-proizvoda-do-trzista/ (last accessed on 13.4.2018)
http://www.sabor.hr/prijedlog-zakona-o-drzavnoj-potpori-za-istrazivack (last accessed on 13.4.2018)

https://hamagbicro.hr/wp-content/uploads/2018/02/Program-ESIF-pojedina%C4%8Dna-jamstva-1.pdf (last accessed on 13.4.2018)

http://arhiva.strukturnifondovi.hr/natjecaji/1451 (last accessed on 13.4.2018)
https://strukturnifondovi.hr/natjecaji/internacionalizacija-poslovanja-msp-ova/ (last accessed on 13.4.2018)