Key points

Past & future SME performance:
SMEs account for 59.4% of value added and 68.9% of employment in Croatia's 'non-financial business economy', exceeding the respective EU averages of 56.4% and 66.6%. In 2014-2018, SME value added in the 'non-financial business economy' increased by 28.1%, outperforming the 16.6% value added growth of large firms. The forecast for overall SME value added in 2018-2020 is a rise of 7.2%, marking a slowdown in value added growth.

Implementing the Small Business Act for Europe (SBA):
The SBA profile of Croatia continues to be relatively weak. It scores below the EU average in entrepreneurship, 'second chance', access to finance, single market and skills & innovation, while for 'responsive administration' Croatia has the lowest performance in the EU. In State aid & public procurement, the country performs around the EU average. On the other hand, Croatia posted the third-best score for internationalisation and scores above the EU average for environment. While a number of various policy measures have been implemented since 2008, not all SBA areas have been addressed and SME stakeholders perceive the SBA implementation progress as moderate. Recently, progress has been mostly made on 'think small first' and 'responsive administration', but more needs to be done for Croatia to become an SME-friendly business environment. From the public-sector perspective, SBA implementation is still not perceived as crucial for SMEs' development.

SME policy priorities:
Some progress is visible in the 'think small first' and 'responsive administration' principles, but implementation of policy measures to improve the business environment needs to be continued and accelerated, in particular for services market liberalisation and reduction of the administrative burden. The 'SME test' was formally introduced but is still not fully and comprehensively utilised. There is a strong need for a more efficient judiciary and more stable regulatory system capable of providing a friendlier environment for SMEs. At the same time, financial sources necessary for SMEs' scaling up have to be further diversified.

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 account for 59.4% of value added and 68.9% of employment in Croatia’s ‘non-financial business economy’, exceeding the respective EU averages of 56.4% and 66.6%. Croatian SMEs employ an average of 4.8 people, surpassing the EU average of 3.9. However, the average productivity of Croatian SMEs, defined as value added per person employed, is €20,800, less than half the EU average of €44,600.

In 2014-2018, SME value added in the ‘non-financial business economy’ increased by 28.1%, outperforming the 16.6% value added growth of large firms. In contrast, SME employment growth of 3.5% lagged behind that of large firms, where employment rose by 7.1%. Indeed, SME employment growth varied widely according to firm size. Micro firm employment contracted by 3.6% in 2014-2018, but increased in small and medium-sized firms during the same period, by 12.8% and 6.0% respectively. Despite the overall employment growth, SME employment remains 8.5% below its pre-crisis level of 2008. Overall labour productivity in SMEs grew by 23.8% in 2014-2018. Most recently, in 2017-2018, SME growth accelerated,
with value added and employment rising by 6.4% and 1.8% respectively.

In 2014-2018, SME value added in the *wholesale and retail trade* sector increased by 37.5%. Large firms in the sector generated even higher growth of 55.9%. Most recently, in 2017-2018, SMEs and large firms generated notable double-digit value added growth of 11.0% and 24.3% respectively. This high growth in value added reflects recovery from the global 2008 crisis and from domestic structural economic problems, marked by economy-wide stagnation in 2008-2014. During the crisis, large traders coped better with falling demand than SMEs, enabling them to recover their value added at a faster rate and finally overtake their pre-crisis level in 2015. In contrast, SMEs in the sector are still generating lower value added than in 2008.

Another factor in the weaker growth of SMEs relates to the trend of recent decades for large commercial wholesale and retail supply chains to replace traditional small retailers. SME employment in the sector fell consistently in 2014-2018, by a total of 5.9%, and employment in large firms stagnated. Employment volatility was largely due to the financial crisis which engulfed the Agrokor Group, a major player in the wider Croatian economy. In addition to operating as a food producer and wholesaler, Agrokor’s retail trading arm, Konzum, is the largest retail network in the Balkans. Although state intervention rescued Agrokor from insolvency, the rest of the sector continued to suffer significant economic turbulence, negatively affecting employment in the *wholesale and retail trade* sector as a whole. In 2014-2018, the sector’s labour productivity in SMEs grew by 46.1%.

In 2014-2018, the *accommodation and food services* sector generated very healthy growth. The value added of SMEs and large companies increased by 28.7% and 101.5% respectively, and employment also rose, by 2.3% and 29.0% respectively. This corresponds to an SME labour productivity increase of 25.8% in 2014-2018. Major growth drivers were government programmes, which helped stimulate the development of tourism activities, and an increase in foreign tourists, who are attracted to Croatia as a safe alternative to other destinations. Consequently, the sector has benefited from significant foreign direct investment, mainly in large firms and hotel chains, which explains the superior growth of large firms compared to SMEs.

In 2018, a total of 17,414 new firms were registered and 8,537 liquidated, bringing the total number of registered companies to 264,043 by the end of 2018, 3.6% more than in the previous year. However, an accurate comparison of data from 2017 and 2018 is not possible due to a significant number of firms (25,071) being removed from the Register of the Croatian Bureau of Statistics in the last quarter of 2017 and the first quarter of 2018 in order to adapt the register to new reporting requirements.

Many firms have successfully scaled up their operations in recent years. In 2016, 1,551 firms (12.2% of all firms in the “business economy” with at least 10 employees) were high-growth firms. This share is higher than the EU average of 10.7%. In 2018, Croatian SMEs in the specialised knowledge-intensive services and high-tech manufacturing sectors, both of which are usually R&D-intensive, accounted for 26.6% of SME value added in the manufacturing and services sectors. This is significantly lower than the EU average of 33.0%.

The forecast for overall SME value added in 2018-2020 is a rise of 7.2%, marking a slowdown in value added growth. In terms of SME employment, SMEs are expected to generate 9,900 jobs by the end of 2020, 1.4% more than in 2018.
2. SBA profile

Croatia’s SBA profile is moderately weak. The country scores below the EU average in 6 out of the 10 SBA principles. While its performance in entrepreneurship, ‘second chance’, access to finance, single market and skills & innovation are below the EU average, the country also scores particularly poorly in responsive administration, where its performance is weakest among EU Member States. In State aid & public procurement, the country performs in line with the EU average. Nevertheless, Croatia posted the third-best score among EU countries in internationalisation and is above the EU average for environment.

Since 2008, Croatia’s policy progress in most of the SBA policy areas has been moderate. As a result, it still needs to substantially speed up SBA implementation. A substantial number of policy measures has been adopted since 2008, but the aggregated results are still unsatisfactory. Policy-wise, the ‘second chance’ area remained unaddressed, and advancements have likewise been limited for single market, reflecting insufficient steps in these policy areas. Several different ministries implemented multiple export-oriented measures, predominantly in the form of grants for exporters, but overall results and success were moderate. The lack of continuity of measures on skills & innovation and the insufficient focus on tackling SMEs’ practical needs also contributed to the unsatisfying results. Moreover, due to recent negative demographic trends, the lack of a qualified workforce continues to be a significant issue for SME stakeholders.

Overall, Croatia has made some general progress on SBA implementation. However, the entrepreneurship SBA principle is not yet adequately addressed. To accelerate and potentiate the SME development process, there is evident need for stronger and more focused government support. Additional strategically targeted support for private SME incentives would be beneficial, as this would help accelerate the advancement and growth of the economy, which still has not reached the pre-crisis level.

Despite some visible improvements on ‘think small first’ and ‘responsive administration’, Croatia is still not sufficiently SME focused, and there is a clear need for better addressing real SMEs’ needs. Recent improvements and progress on reducing administrative burdens for the national economy and for SMEs are starting to materialise, but further progress is still strongly needed.

During 2018 and the first quarter of 2019, which is the reference period for policy measures in this year’s SBA fact sheet, Croatia adopted/implemented a relatively moderate number of policy measures (16). These addressed 7 out of the 10 policy areas under the Small Business Act: entrepreneurship, ‘responsive administration’, State aid & public procurement, single market, skills & innovation, environment and internationalisation. In addition, one measure was announced for access to finance.

Overall, Croatia’s general progress in the SBA policy dimensions was assessed by the stakeholders as relatively limited. This drives home the need for further intensification of SBA implementation.

There is consensus that the areas that saw the most significant progress in 2018 and the first quarter of 2019 were ‘think small first’ and ‘responsive administration’.

Improving the business environment is high on the list of the government’s strategic priorities in the new national reform programme from 2018. This is a particularly important part of the administrative unburdening of SMEs, which underpins reforms tackling SMEs’ real everyday needs. Although limited results can already be noticed, full and comprehensive achievements that would further stimulate and speed up the growth process in the SME sector have yet to materialise fully.
SBA performance of Croatia: state of play and development from 2008 to 2019\(^\text{12}\)

**Performance**

Variation from the EU average (in standard deviations; EU average=0)

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 SMEs’ 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, Croatia has made progress on implementing regulatory impact assessments, and SMEs are consulted through the ‘SME test’ in place since the beginning of 2017. Furthermore, the e-consultation process with stakeholders in place from 2015 onwards has significantly sped up consultation, making it more effective and publicly visible. Comprehensive tax system reform and improvements in public procurement processes were also implemented in 2017, providing a more stable and SME-friendly business environment.

Despite significant improvements towards more thorough implementation of the ‘think small first’ principle, Croatia still needs to fully address some of its fundamental aspects. The specific interests of SMEs are still not fully taken into account when drafting new legislation, despite the good progress made through the implementation of e-consultation online system. The reason is that SMEs’ views are often collected through the general e-consultation process, which does not lend itself fully to comprehensive analysis of proposed legislation from the point of view of SMEs. The ‘SME test’ needs to be extended to implementing regulations, administrative rules and procedures emerging from the primary legislation. The ‘report-only once’ principle has been significantly improved through the 2018 national reform programme, but it has yet to be fully and consistently addressed. ‘Common commencement dates’ for new amendments to existing legislation have not yet been applied, so new laws, regulations and administrative decisions still do not come into force on fixed dates.

During the reference period no significant new policy measures in the area of ‘think small first’ were adopted.
3.1 Entrepreneurship

Croatia continues to perform below the EU average in this SBA policy area, although the country’s performance has improved since last year. In fact, Croatia’s performance has been steadily progressing since 2008. While Croatia’s highest score was for entrepreneurial intentions, its lowest scores were for the status given to successful entrepreneurship and for entrepreneurial education at basic and post-secondary level. Additionally, the country is among the three worst EU performers in established business ownership.

Between 2017 and 2018, there were improvements in multiple indicators: (i) the share of adults who intend to start a business within 3 years increased from 17.5% in 2017 to 22.4% in 2018; (ii) early-stage entrepreneurial activity rose from 8.9% in 2017 to 9.6% in 2018; and (iii) early-stage entrepreneurial activity among women rose from 6.4% in 2017 to 7.1% in 2018. Additionally, the country’s score for media attention on entrepreneurial activity increased by more than 5 percentage points.

Since 2008, Croatia has introduced various policy measures promoting entrepreneurship, implementing several national strategies and introducing various acts specifically targeted at supporting entrepreneurs. Despite this, the aggregated results are still not sufficient. In 2017, one measure was launched providing financial support to entrepreneurial support institutions. The aim of the measure is to help such institutions provide professional and advisory support including education and mentoring, with particular emphasis on newly established SMEs that have been in business for no more than 3 years.

Improvement has been made in recent years, especially on ensuring a more stable and robust institutional framework and a wide and well-developed entrepreneurial learning platform through entrepreneurial support institutions such as entrepreneurial centres and incubators. However, a significant number of further actions on entrepreneurship are strongly needed. There is a noticeable lack of entrepreneurial skills programmes from early ages in the education curriculum, while systematic teacher training on entrepreneurship is not in place, so the ‘entrepreneurs as a role model’ approach is not properly utilised. Insufficient attention has been paid to putting in place specific support and matching schemes for ensuring successful business transfers.

In 2018 and the first quarter of 2019, the entrepreneurship promotion ‘Promocija poduzetništva’ measure was launched by the Ministry of Economy, Entrepreneurship and Crafts. The measure’s main aim is to encourage the promotion of entrepreneurship in the wider society by organising and implementing promotional activities to create a more positive environment for entrepreneurs. The measure also promotes successful entrepreneurial business practices. The measure will provide financing for the organisation and implementation of
promotional activities; those activities should result in a build-up of positive attitudes towards entrepreneurship.

The Ministry will promote entrepreneurial success, lifelong and entrepreneurial learning as well as innovative entrepreneurship through this measure, potentially with the Croatian Chamber of Economy, Croatian Chamber of Trades and Crafts, Croatian Employers’ Association and Association of Croatian Exporters as implementation partners.

3.2 ‘Second chance’

‘Second chance’ refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. Croatia’s performance in this SBA policy area was below the EU average in the current reference period and has been stagnating since 2008. While Croatia was in line with the EU average last year, the significant increase of its fear of failure rate from 26.6% in 2017 to 40% in 2018 is the main explanation for the country’s performance drop this year. On the other three indicators, performance remains stable. Croatia still scores below the EU average for the time and cost taken to resolve insolvency. Finally, the strength of the insolvency framework index remains around the EU average.

Limited policy progress has been achieved in the ‘second chance’ principle since 2008, and little has been done in recent years to address the issue. Croatia still does not have a fast-track procedure that would allow entrepreneurs to move more quickly through the bankruptcy process, and there is no policy on facilitating re-starts. Legal procedures connected with bankruptcy are still highly time- and effort-consuming. There is also a noticeable lack of national awareness-raising campaigns to tackle the stigma of failure. Specific early warning and help-desk mechanisms to help businesses avoid failure in the first place are lacking. 2017 saw the implementation of the Law on the extraordinary administration procedure in enterprises of systematic importance for the Republic of Croatia. The Law addresses potential significant macroeconomic and microeconomic problems, including those of SMEs, in specific situations where enterprises of significant systematic importance for the national economy are struggling to survive.

No significant new policy measures were implemented during the reference period.
3.3 ‘Responsive administration’

‘Responsive administration’ refers to public administration being responsive to the needs of SMEs. Croatia remains the worst performing EU country in this SBA policy area, even though it has progressed slightly since 2008. ‘Responsive administration’ remains Croatia’s weakest SBA principle. The number of procedures required to set up a business is still the second highest among EU Member States. In addition, Croatia’s bureaucratic procedures for businesses still have a lot of room for improvement: (i) the competency of government staff in supporting new and growing firms scores third lowest within the EU; (ii) the country’s government regulations are perceived as the most burdensome in the EU; and (iii) its fast changing legislative and policy-related procedures are perceived to be problematic by 85% of respondents, the third poorest score in the EU. In addition, Croatia’s number of tax payments per year ranks as the highest and is well above the EU average.

Policy efforts since 2008 on ‘responsive administration’ can be considered as moderate. The government has introduced a number of measures to reform public administration, but a significant number of them have not lived up to expectations. There was, for example, insufficient focus on practical entrepreneurial issues and a lack of sufficient commitment to implementation. Nevertheless, there were several successful measures, such as the ‘HITRO.HR’ system supporting the establishment of businesses, later upgraded to an electronic ‘e-Company’ service. According to the national reform programme, the government has started to develop an online one-stop shop platform for starting business in just one step, with a maximum wait of 3 days and without notarisation. Another valuable improvement was the launch of the ‘e-Crafts’ service to provide secure online e-registrations for establishing a craft or amending an existing registration. The interaction with government services was made more efficient and effective through the digitisation of tax administration procedures, while implementation of the new Public Procurement Act increased the efficiency and flexibility of public procurement procedures. In 2017, significant measures under the national reform programme focused on ‘improving the business environment’. There were several measures specifically designed to improve the quality of public governance and public policies and to directly tackle SME needs in the area of administrative unburdening. E-government has improved substantially through the implementation of the Central Government Portal and through integration and centralisation of multiple e-services for entrepreneurs on one place. Nevertheless, ‘responsive administration’ remains an area of specific attention, with plenty of procedures and regulations still needing improvements.

During the reference period, three significant measures were implemented.
- ‘Continuation of tax reductions in the framework of the tax system reform’ (Nastavak smanjenja poreza u okviru reforme poreznog sustava) was implemented by the Ministry of Finance. The measure simultaneously amended several acts (the VAT Act, the Contributions Act, the Income Tax Act, the Profit Tax Act and the Real Estate Transfer Tax Act) to achieve further tax unburdening for SME taxpayers and general business entities, thus unburdening the economy in general. The contributions system was reduced in scope and simplified, while the tax burden on labour and the acquisition of property was reduced. SME taxpayers were specifically targeted, with the aim of minimising costs and burdens for them.

- Amendments to the General Tax Act (Izmjene Općeg poreznog zakona) were also implemented by the Ministry of Finance. The aim of the amendments is to reduce reporting requirements for entrepreneurs from the previous four times a year to once a year, and only when submitting tax returns on income tax or profit tax. This measure also introduces the possibility to submit a complaint (appeal) electronically. There is also new regulation on the conversion of accounting documents from paper to electronic format and vice versa, thus better regulating and simplifying tax procedures while making them more cost effective.

- The Ministry of Economy, Entrepreneurship and Crafts made further improvements to the business environment under the 2018 national reform programme (Daljnjie unapređenje poslovog okruženja u okviru Nacionalnog programa reformi 2018), addressing several broad areas of government intervention. Croatia’s efforts to improve the business environment specifically target improving the quality of public governance and public policies for the economy. This involves directly tackling SMEs’ needs and creating long-term sustainable assumptions for improving their competitiveness by reducing tax and administrative burdens for entrepreneurs. Other measures address the need for further liberalisation of services markets, the introduction of electronic business start-ups and e-procurement procedures, and the integration and unification of inspection services. In total, Croatia plans to implement over 70 reform measures in 11 reform areas. Of particular importance for SMEs is the amendment of three specific acts: the Companies Act, the Court Register Act and the Electronic Invoicing in Public Procurement Act.

### 3.4 State aid & public procurement

Important methodological changes have been introduced for this principle in this year’s fact sheet. Three new indicators from the Tenders Electronic Daily (TED) database have been added and refer to procurement above EU thresholds:

- percentage of awards for which the winner was an SME;
- proportion of bids by SMEs;
- percentage of calls for tenders which were split into lots.

In addition, the indicator on e-procurement has been removed. Therefore, the overall performance in this area cannot be compared to last year’s.

State aid & public procurement is Croatia’s third-best performing SBA policy area, with the country around the EU average. For the new indicators, Croatia scored second lowest for the percentage of bids from SMEs, around the EU average for the percentage of award-winning SMEs, and slightly above the EU average for the percentage of calls for tender split in lots. The delay in payments from public authorities has been cut in half, from 12 days in 2017 to 6 days in 2018.
Since 2008, the government has been most active in this area, with multiple measures implemented resulting in visible improvements. The ‘Entrepreneurial Impulse’ national grant programme stands out as a particularly positive example of government efforts to provide targeted State aid for SMEs. Croatia has a solid public procurement legal framework and there is extensive use of e-procurement, with significant benefits deriving from it. A new Public Procurement Act was recently introduced, making public procurement regulation more efficient. Nevertheless, there is still insufficient focus on ensuring that procurement caters to SMEs’ specific needs, e.g. having the possibility to cut tenders into lots and central and joint purchasing to pool demand. There is also a noticeable lack of measures in place to protect SMEs in case of late payments.

During the reference period, four measures were implemented.

- ‘Improving the competitiveness and efficiency of SMEs through information and communication Technologies ICT — No. 2’ (Poboljšanje konkurentnosti i učinkovitosti MSP-a kroz informacijske i komunikacijske tehnologije IKT - 2). This measure was launched by the Ministry of Economy, Entrepreneurship and Crafts to strengthen the market position and increase the competitiveness and efficiency of SMEs using ICT, thus also contributing to the development of information society in Croatia. The measure addresses identified weaknesses in SMEs resulting from inadequate application of ICT solutions in business processes. The aim is to increase the number of business processes that are improved by introducing ICT solutions while also increasing sales revenues. This also stimulates business processes development and production, and the implementation, adaptation and integration of business solutions with the existing or new ICT systems.

- The Ministry of Economy, Entrepreneurship and Crafts launched the ‘Innovation of newly established SMEs – phase II’ (Inovacije novosnovanih MSP-ova - faza II). State aid grant programme focused on supporting development of innovation in newly established SMEs that will result in new outputs (tangible or intangible — including services). The main focus is on helping start-ups commercialise innovative products and services with potential for market and export growth. Particular emphasis is placed on radical innovation and significant improvements in commercialisation of products and services.

- The ‘Act on State aid for research and Development projects’ (Zakon o državnoj potpori za istraživačko-razvojne projekte) was introduced by the Ministry of Economy, Entrepreneurship and Crafts to promote private-sector investment in research and development and strengthen cooperation with scientific research organisations. This in turn will increase the competitiveness of Croatian SMEs and large enterprises, and ultimately of the entire economy. The aim is to increase private-sector investment in research and development and the number of entrepreneurs investing in R&D, while encouraging R&D cooperation between entrepreneurs and scientific organisations. The measure focuses on strengthening SMEs’ innovation and implementation capacities and provides support to companies involved in R&D through tax relief, in the form of a reduction in the tax base for the actual costs of investing in R&D projects.

- The Ministry of Economy, Entrepreneurship and Crafts also introduced ‘WWW vouchers’ for SMEs (WWW vaučeri za MSP-ove) to strengthen their market position and increase their competitiveness by supporting the use of digital marketing solutions such as business web sites, e-commerce solutions (network computer solutions intended for e-commerce) and m-commerce solutions (network mobile solutions intended for e-commerce). The main goal of the measure is to improve SMEs’ market presence and the visibility of their products and services.
3.5 Access to finance

While Croatia’s performance in this SBA policy area was around the EU average in 2017, it scores just below the EU average in the current reference period. However, since 2008, an upward trend can be observed. A possible explanation for this year’s result is Croatia’s declining performance on financial instruments for SMEs. Croatia has the lowest score in equity funding for new and growing firms, and the lowest ranking for SME financing by business angels. However, on access to public financial support, Croatia scores third best in the EU. Another area for improvement is Croatia’s banking sector. In comparison to 2017, Croatia’s banks are perceived as less willing to provide loans to SMEs, and rejected more loan applications and offered more unacceptable loan conditions (0% in 2017 to 5% in 2018). Over the same period, the related cost of borrowing for SMEs increased (from 19.6% in 2017 to 27.8% in 2018). However, the time taken to get paid has decreased since last year, from 42.7 days in 2017 to 38.3 days in 2018.

Since 2008, various ‘access to finance’ policy measures have been put in place, achieving moderate results. Several national annual programmes focused on SME financing were integrated into the ‘Entrepreneurial impulse’ national grant programme, thus contributing to the creation of a more stable and fruitful financial environment for SMEs. This enabled SMEs to navigate the available financial support policy measures more easily. Various financial programmes focused on the needs of different SME groups, while HAMAG-BICRO, the Croatian Agency for SMEs, Innovations and Investments, also implemented several measures for stimulating entrepreneurial innovations. In 2017, HAMAG-BICRO provided financial support for construction and for the manufacturing capacities of SMEs, as well as an individual guarantee programme of its own.

The Croatian Bank for Reconstruction and Development also provided different specialised loan programmes, guarantees and schemes. In 2017, they offered loans for growth and expansion, and implemented a special measure enabling the financing of family farms. Various policy measures focused on direct financing, financing through leasing and on extending the maturity of loans.

During the reference period no significant new policy measures were adopted on ‘access to finance’. However, the Ministry of Regional Development and EU Funds announced the forthcoming creation of a new venture capital fund. The Ministry promoted collaboration with the European Investment Fund by signing a financing agreement on the establishment of a new financial instrument, the ‘ESIF Venture Capital Fund’. This includes an accelerator component to improve venture capital investments in domestic small and medium-sized businesses with potential for rapid growth.
3.6 Single market

Croatia’s performance in the single market SBA policy area was below the EU average in the current reference period. However, the country’s performance has somewhat improved and is no longer among the three worst performing EU countries. The country has room for improvement on market access. While easy market access has decreased slightly since last year (2.37 in 2017 and 2 in 2018), the ‘market access for new and growing firms without being unfairly blocked by established firms’ indicator improved slightly from 1.73 in 2017 and to 1.89 in 2018. Nevertheless, both indicators score third weakest in the EU. Intra-EU imports and exports of goods have improved since 2015, although both score well below the EU average, while the proportion of online intra-EU exporters is around the EU average. On the other hand, Croatia performed very well on the implementation of single market legislation: the number of single market directives not yet transposed improved significantly, from 13 in 2017 to 3 in 2018, making Croatia the top performer in this indicator in the EU. At 7.6 months, the delay in transposing directives is shorter than the EU average (8.4 months). Finally, the number of single market-related infringement proceedings remained stable at 18, thus better than the EU average of 25 cases.

Overall, the single market principle has shown limited progress. Since Croatia’s accession to the EU in 2013, the progress is visible primarily through transposing single market directives.

The SOLVIT centre has been set up within the EU Internal Market Centre of the Ministry of Economy, Entrepreneurship and Crafts. The EU Internal Market Centre coordinates all single market tools and EU contact points (www.cut.hr). Additionally, the Croatian Chamber of Economy manages the Point of Single Contact web portal in coordination with the Ministry of Economy, Entrepreneurship and Crafts.

According to the national reform programme, the Ministry of Economy, Entrepreneurship and Crafts implements services market liberalisation as a part of regulatory reform efforts to enhance easier (single) market access for enterprises. By mid-2019, 230 concrete deregulatory measures had been implemented through changes to regulations in many sectors and professions.

Grants for exporters were offered mainly through the ‘Entrepreneurial Impulse’ national grant programme and similar initiatives. In addition, the Investment Promotion Act was adopted in 2015, implementing EU rules on declaring certain categories of aid compatible with the single market. Nevertheless, there is still plenty of room for improvement. Further comprehensive measures and initiatives are strongly needed to better address SMEs’ practical needs in the area of single market. There is an evident lack of specialised support from public advisory services to help SMEs better achieve their potential from the single market perspective.
The reference period saw the launch of the ‘Quality labels’ Znakovi kvalitete programme by the Ministry of Economy, Entrepreneurship and Crafts, which will contribute to the recognition of the quality of Croatian products and services by helping SMEs obtain quality labels for their products, services or activities. It is a national programme supporting SMEs’ efforts to obtain and use national quality labels (Croatian Quality, Croatian Creation, Traditional Crafts and Artistic Crafts). Consequently, it will provide the conditions for SMEs to increase revenues from sales and exports and boost overall competitiveness, thus strengthening Croatian market presence on the EU and global markets.

3.7 Skills & innovation

Croatia’s performance on skills & innovation remains below the EU average and has been experiencing a downward trend since 2008. However, the country improved its performance in the percentage of SMEs introducing product and process innovation, from 25.4% in 2014 to 30.8% in 2016, and in SMEs introducing marketing and organisational innovations, from 30.8% in 2014 to 37.6% in 2016. This could be one of the explanations for the improved percentage of turnover generated by new-to-market innovation sales, from 4.9% in 2014 to 8% in 2016, although this figure remains well below the EU average. The Croatian Government has significant room for improvement in terms of making R&D available to its SMEs; this indicator dropped from 2 in 2017 to 1.8 in 2018, making Croatia the weakest performing EU Member State in this area.

Since 2008, Croatia has made moderate progress on skills & innovation, having implemented policy measures that address several of the SBA recommendations in this area. The entrepreneurial training provider network was developed and continuously strengthened by the Ministry and other public institutions to provide various education and training programmes for SMEs. Several measures were also implemented to underpin the innovation processes among SMEs, but the results are still limited. The innovation support measures implemented over the past few years often focused on establishing collaboration between business and academia, but the expected outcomes are yet to materialise fully. One of the significant bottlenecks for achieving better results in this area is the noticeable lack of skilled labour force, especially for SMEs in the manufacturing sector. This labour shortage is due to the adult education system not being fully reflecting the market needs and this is compounded by the significant number of Croatian workers that went to work abroad in recent years. Specialised and precisely targeted support for SMEs’ specific needs in their growth and specialisation phases is still insufficient, while the intellectual property rights framework...
needs significant improvements, although there were some improvements on IPR in 2018 and 2019.

The following are the key policy measures implemented in the reference period.

- The Ministry of Economy, Entrepreneurship and Crafts introduced innovation vouchers for SMEs (Inovacijski vaučeri za MSP-ove), thus providing expert support by scientific research organisations in the form of contractual services delivered to SMEs for testing, demonstration activities, as well as the use of expert technical knowledge for innovative processes and commercialisation of innovation. The measure's main focus is on strengthening SMEs' RD&I capacities by fostering cooperation with scientific research organisations to develop new products, services or processes, followed by commercialisation of those products and services.

- 'Introduction of Business Process Management and Quality Management - ISO and similar standards' (Uvođenje sustava upravljanja poslovnim procesima i kvalitetom - ISO i slične norme) was launched by the Ministry of Economy, Entrepreneurship and Crafts to provide support for SMEs to increase their competitiveness on the market through introduction of respectable business process management systems, and through norm application and certification in line with the requirements of internationally accepted standards (e.g. ISO) or market-recognised certification schemes (e.g. FSC, PEFC, BRC, KOSHER, HALAL, etc.). The measure’s main set of goals is to achieve the applicable level of internationally recognised quality and safety standards in the exchange of goods and services through increased use of recognised standards that contribute to customer confidence. This also facilitates SMEs’ access to foreign markets in order to increase their competitiveness.

- The National Innovation Council (Nacionalno inovacijsko vijeće) was established by decision of the Croatian Government to coordinate the implementation of the smart specialisation strategy (S3) until 2020 and with the aim of making more effective use of RD&I potential. The Innovation Council’s work has created a common framework for overcoming divisions between different levels of responsibility, which will allow for a comprehensive review of the strategy’s implementation at national level. The Council is co-chaired by the ministers responsible for the Economy, Entrepreneurship and Crafts and Science and Education, each for a rotating six-month period.

- 'Thematic Councils for Innovation' were set up by the National Innovation Council (Osnivanje Tematskih vijeća za inovacije). This was the fruit of efforts by the Ministry of Economy, Entrepreneurship and Crafts to encourage innovation activities and participation by representatives of the SME sector. Thematic councils provide strategic management and guidance for the corresponding thematic priority area as well as operational support in the formulation of R&D strategies for the business sector for each of the selected sub-thematic priority areas. The aim is to create an effective and sustainable framework to support and encourage private-sector investment in R&D and to raise awareness of the importance of RD&I in the business sector. Such activities would be beneficial for identifying new industrial growth potential and job creation.

- 'Amendments to the Intellectual Property Rights Legislative Framework' (Izmjene i dopune legislativnog okvira o pravima intelektualnog vlasništva) were adopted to modernise and improve the coherence of the national IPR system. Better harmonisation of national IPR legislation is expected to increase legal certainty and to define rights more clearly. This can help reduce problems encountered by companies in IPR registration or protection processes.

- The 'Act on State aid for research and development projects' (Zakon o državnoj potpori za istraživačko-razvojne projekte) — for more on this measure see Section 3.4 'State aid & public procurement'.
3.8 Environment

In the SBA policy area of environment, Croatia performs above the EU average and has improved its performance in 4 out of the 5 indicators since 2015. Croatian SMEs generating at least half of their turnover from green products have increased from 21% in 2015 to 30% in 2017, which makes Croatia the third strongest performer for this indicator. In addition, the percentage of public support measures given to resource-efficiency actions scores third highest within the EU, jumping from 39% in 2015 to 63% in 2017. Public support given to SMEs for their green products has also risen, increasing by 6 percentage points since 2015.

Since 2008, Croatia has introduced a significant number of policy measures that promote environmentally friendly business and development. It has launched several financial measures to stimulate renewable energy usage and the uptake of energy-saving production technologies. Multiple measures are in place to offer financial support for SMEs in their development, including the obtaining of environmental management certificates. These measures have been beneficial both for SMEs and for ecological awareness, particularly in the manufacturing industry. The Environmental Protection and Energy Efficiency Fund introduced direct co-financing incentives in 2015, bringing significant improvements for entrepreneurs by offering them grants to finance projects on environmental protection, sustainable development, energy efficiency and use of renewable energy sources. Despite the significant number of measures and the improvements achieved in recent years, there is still a noticeable lack of measures geared towards supporting regulatory incentives to enable businesses and organisations to become EMAS certified or to support green public procurement.

During the reference period, the Ministry of Environment and Energy launched a measure entitled ‘Increasing energy efficiency and use of renewable energy sources in the service sector – tourism, trade (Povećanje energetske učinkovitosti i korištenja obnovljivih izvora energije u uslužnom sektoru – turizam, trgovina)’. The measure, which has a budget of €30 million, will help enterprises in the tourism and trade sectors to become more energy efficient and use renewable energy sources. The aim is to reduce total energy consumption in tourism and trade by at least 20%.
Croatia continues to be the third-best performing EU Member State on internationalisation. It is its strongest performing SBA principle, with all indicators scoring around or well above the EU average. In fact, for four out of five indicators Croatia is one of the top-scoring EU Member States, ranking first for trade community involvement, advance rulings, automation formalities and cooperation with the border agency. Additionally, there has been a slight improvement in the proportion of SMEs with extra-EU imports and exports, rising from 13.3% and 11% in 2015 to 13.4% and 11.1% in 2016 respectively.

Since 2008, policy progress in internationalisation has been moderate, despite multiple governmental activities mainly focused on several export-oriented measures. The measures, introduced by various ministries, took the form of grants for exporters. Although the previously adopted 2014-2015 action plan for export support contained measures and activities needed to provide continuous support to Croatian exporters, the overall achievements are not yet fully satisfying. Several measures were introduced in 2017 to support business internationalisation; there are already some improvements, although full results are yet to materialise. One of the reasons for limited success in previous years was the lack of a strategically targeted and coordinated approach to internationalisation as a policy area. While a comprehensive strategy specifically targeting SMEs’ internalisation needs and opportunities is still lacking, in previous years there was also a lack of continuity in the measures focused on internationalisation. Recent improvements in this area indicate that Croatia’s internationalisation potential will be better utilised in future. Nevertheless, to achieve this, there is a need for further highly specialised training and advisory support programmes oriented towards addressing the practical needs of exporting SMEs.

During the reference period, the key measure implemented by the Ministry of Economy, Entrepreneurship and Crafts was ‘Business internationalisation of SMEs – phase II’ (Internacionalizacija poslovanja MSP-ova – faza II). This focuses on strengthening the international competitiveness of SMEs by facilitating the presentation of their products/services, providing support for their international market cooperation with foreign partners and introducing products to new foreign markets. The general objective is to increase the Croatian economy’s ability to participate in global markets and to increase SMEs’ share of overall exports of goods and services by making it easier for them to operate in an international environment. Financial support is available for participation in international fairs or B2B meetings and for exploring foreign markets for potential product placement.
4. Interesting initiative

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

Amendments to the General Tax Act

At the beginning of 2019, the amendments to the General Tax Act entered into force. The amendments are intended to simplify the tax system and reduce the administrative burden for entrepreneurs, while also improving the transparency of the taxation process. This is to be achieved through:

- reduction of reporting requirements from four times a year to once a year, and only when submitting tax returns on income tax or profit tax;
- providing the possibility of submitting a complaint (appeal) electronically; and
- providing opportunities and better regulation for the conversion of accounting documents from paper to electronic format and vice versa.

The tax reform was part of the tax administration information system development strategy. The main goals of the reform, which will modernise the issuing of tax documents, are: (i) greater digitisation of the Tax Administration in its fullest sense; and (ii) further development of digital services for taxpayers — this is needed to reduce the volume of unnecessary paper documents submitted to tax administration offices. This in turn will reduce the costs involved in preparing and submitting tax documents. As such, this will fully accomplish two-way electronic communication between the Tax Administration and taxpayers.

A tax document (act) originally issued in electronic form is an electronic record that is legally valid even when printed on paper if there is an electronic validation process that can confirm the printed document.

Furthermore, accounting documents made on paper, such as invoices, will be considered as acceptable even if converted into electronic records if the authenticity of the origin and the integrity of the content are ensured from the moment of conversion to the end of the period prescribed as an obligation for keeping the document.

References:


https://www.zakon.hr/z/100/Opći-porezni-zakon

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 below 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 2017, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2016 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/


5 https://www.hnb.hr/statistika/statisticki-podaci/sektor-inozemstva/inozemna-izravna-ulaganja (see Tablica U3) (last accessed on 9.7.2019)


7 Ibid.

8 Ibid.
The national SME policy expert that 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 Commission Implementing Regulation (EU) No 439/2014, high-growth enterprises are defined as firms with at least 10 employees at the beginning of their growth and average annualised growth in number of employees greater than 10 % per annum, over a three-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 15.4.2019).

The 2019 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 policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2018 and the first quarter of 2019. The national SME policy expert that PwC (DG GROW’s lead contractor for the 2019 SBA fact sheets) contracted 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 fact sheets will be published alongside the fact sheets in the form of a policy database on the DG GROW website.

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. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2019. 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 2019. 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 share of high-growth enterprises is defined as firms with at least 10 employees at the beginning of their growth and average annualised growth in number of employees greater than 10 % per annum, over a three-year period. The complete range of measures the experts compiled in producing this year’s fact sheets will be published alongside the fact sheets in the form of a policy database on the DG GROW website.

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