

Enterprise and Industry

2014 SBA Fact Sheet

CROATIA



In a nutshell

Croatia's economy continued to suffer from the economic crisis in 2013, with GDP decreasing further for the fifth year in a row. Employment and added value in the SME sector also decreased. Croatia's joining the EU significantly changed its international trade pattern. It left the Central European Free Trade Agreement to become part of the single market.

Croatia's joining the EU also means that the government needs to upgrade its SME policy by taking EU standards as its benchmark. Croatia's 2013 SBA profile shows below-average performance in most areas. Its main priority should be improving the business environment by tackling administrative and judicial weaknesses. Cumbersome framework conditions for entrepreneurial activity and the lack of stability and predictability of the legislative framework make it difficult to do business in Croatia. The SME test needs to be done for all upcoming legislative changes. Cumbersome administrative procedures need to be simplified. The SME development strategy for the period 2013–20 has been adopted. Its priorities reflect the EU's SME policy priority areas (SBA priorities). It has not yet been translated into policy measures however.

About the SBA Fact Sheets¹

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 the Act called for improved monitoring. The SBA Fact Sheets are published annually and aim to improve understanding of recent trends and national policies affecting SMEs.

1. SMEs in Croatia — basic figures

	Number of enterprises			Number of employees			Value added		
	Croatia		EU-28	Croatia		EU-28	Croatia		EU-28
	Number	Proportion	Proportion	Number	Proportion	Proportion	Billion €	Proportion	Proportion
Micro	134 091	91.7%	92.4%	302 795	30.4%	29.1%	3	17.2%	21.6%
Small	10 091	6.9%	6.4%	193 449	19.4%	20.6%	3	17.9%	18.2%
Medium-sized	1 722	1.2%	1.0%	180 239	18.1%	17.2%	4	19.0%	18.3%
SMEs	145 904	99.7%	99.8%	676 483	67.9%	66.9%	10	54.1%	58.1%
Large	388	0.3%	0.2%	319 945	32.1%	33.1%	9	45.9%	41.9%
Total	146 292	100.0%	100.0%	996 428	100.0%	100.0%	19	100.0%	100.0%

These are estimates for 2013 produced by DIW Econ, based on 2008–11 figures from the Structural Business Statistics Database (Eurostat). The data cover the 'business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.

SMEs are an important part of Croatia's economic development. There are no major differences between it and the rest of the EU in terms of size classes or employment. However, the added value of Croatian SMEs in 2013 was 54%, four percentage points below the EU average. This could be because microbusinesses contribute less to added value, since the contribution of small and medium-sized enterprises is proportionate to the values for all EU Member States taken together.

The service sector is the biggest, with the greatest number of businesses, the most employment and the highest added value. The trade sector is the next biggest, closely followed by manufacturing. The construction sector accounts for approximately 13% of businesses, 13% of employment and 10% of added value.

The construction and trade sectors have a similar number of businesses and similar levels of employment and added value as in the rest of the EU. Compared to the rest of the EU however, Croatia's manufacturing sector has proportionately more businesses, accounts for more jobs and provides more added value, while the inverse is the case for the service sector.

The overall economic situation in 2013 remained fragile. Between 2009 and 2012 real GDP decreased by 11%, private consumption by 35%, investments by 11%, and industrial production by 16%. In 2013 GDP decreased by approximately 1.0%² and industrial production decreased by 2.0%³. This augurs well for the near future.

Such economic performance is partly the result of a deterioration in trade conditions and of weak demand

during the crisis. It could also be due to insufficient privatisation and labour market flexibility before 2012. Large-scale privatisation was completed only in the run-up to joining the EU in July 2013, mainly in the shipbuilding, railway, mail, telecommunication and energy sectors. Weak external demand in the euro area did not help recovery. This particularly affected the machinery and electrical engineering, pharmaceutical and chemical and food manufacturing sectors.

Against this background unemployment has been on the increase since 2009, reaching 17.2% in December 2013⁴. SMEs have reduced employment by 15%, although proportionately less so than big businesses (19%). Decreases in added value affected small businesses more than large ones. SMEs kept relatively more employees than the decrease in added value made necessary. This had a negative effect on labour productivity figures.

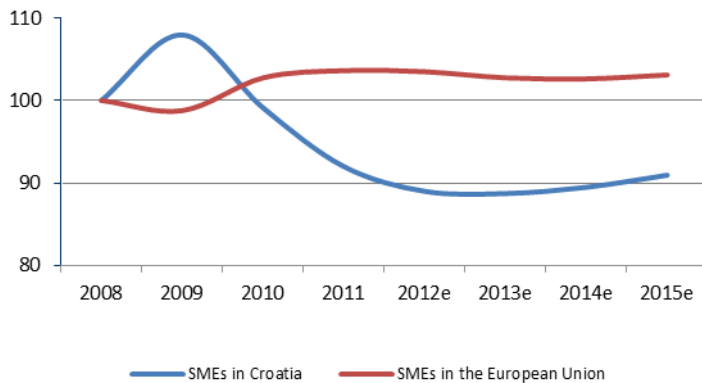
Manufacturing SMEs came out of the crisis in a better condition than big businesses in terms of decreases in added value and employment. SMEs in the ICT sector also performed well. Between 2008 and 2013 their added value increased by 20% while that of big businesses decreased by 25%. SME employment increased by 6% but decreased by 24% in big businesses. Such good performance might be partly due to the high-quality, flexible human resources Croatia has in this area.

Over the past few years, more companies have been set up than disbanded. In 2012, 7980 new companies were set up and 556 disbanded. In 2011 7099 new companies were set up and 1573 disbanded. The same positive trend seems to have continued in 2013.

SME trends in Croatia¹⁰

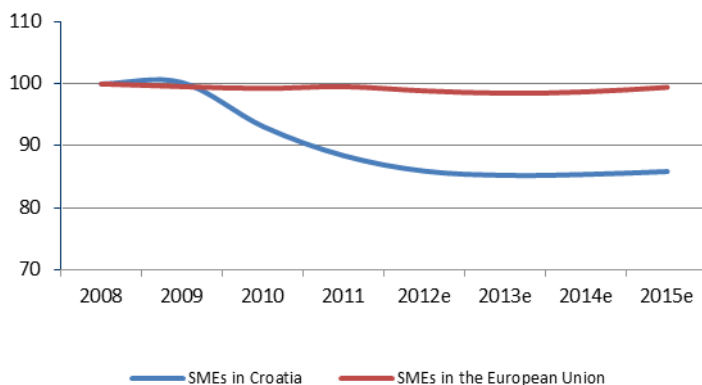
Number of SMEs

(Index: 2008=100, estimates from 2012 onwards)



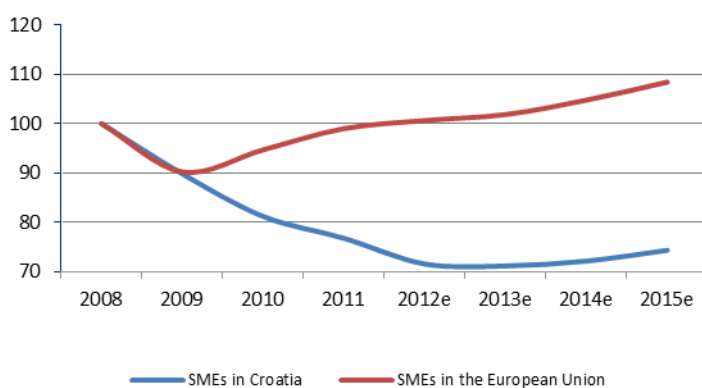
Employment in SMEs

(Index: 2008=100, estimates from 2012 onwards)



Value added of SMEs

(Index: 2008=100, estimates from 2012 onwards)

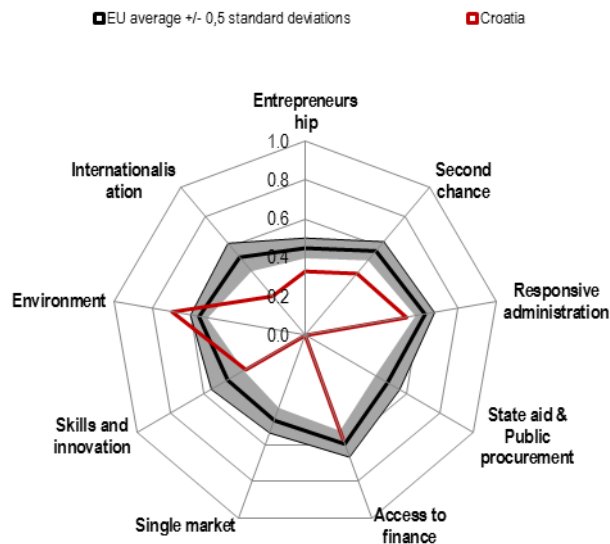


Croatia's joining the EU in 2013 led to significant changes in its international trade patterns. In 2012 exports increased by 1.6%⁵ (year-on-year) but decreased by 5.9% in 2013⁶. One reason for this is that Croatia had to leave the Central European Free Trade Agreement, covering a number of non-EU countries in south-eastern Europe, because it joined the EU. This may indicate the need for in-depth restructuring of selected export sectors (such as the shipbuilding, petroleum and chemical industries⁷) to give Croatian products the competitive advantage they need in their new markets.

Croatian SMEs play an important role in international trade, accounting for 44% of all Croatian exports⁸ in 2012.

The economy is expected to return to growth in 2014 and to grow by 0.7%⁹, mainly driven by exports and investments by the public sector. However, businesses do not expect a significant change in 2014 compared to 2013.

2. Croatia's SBA profile¹¹

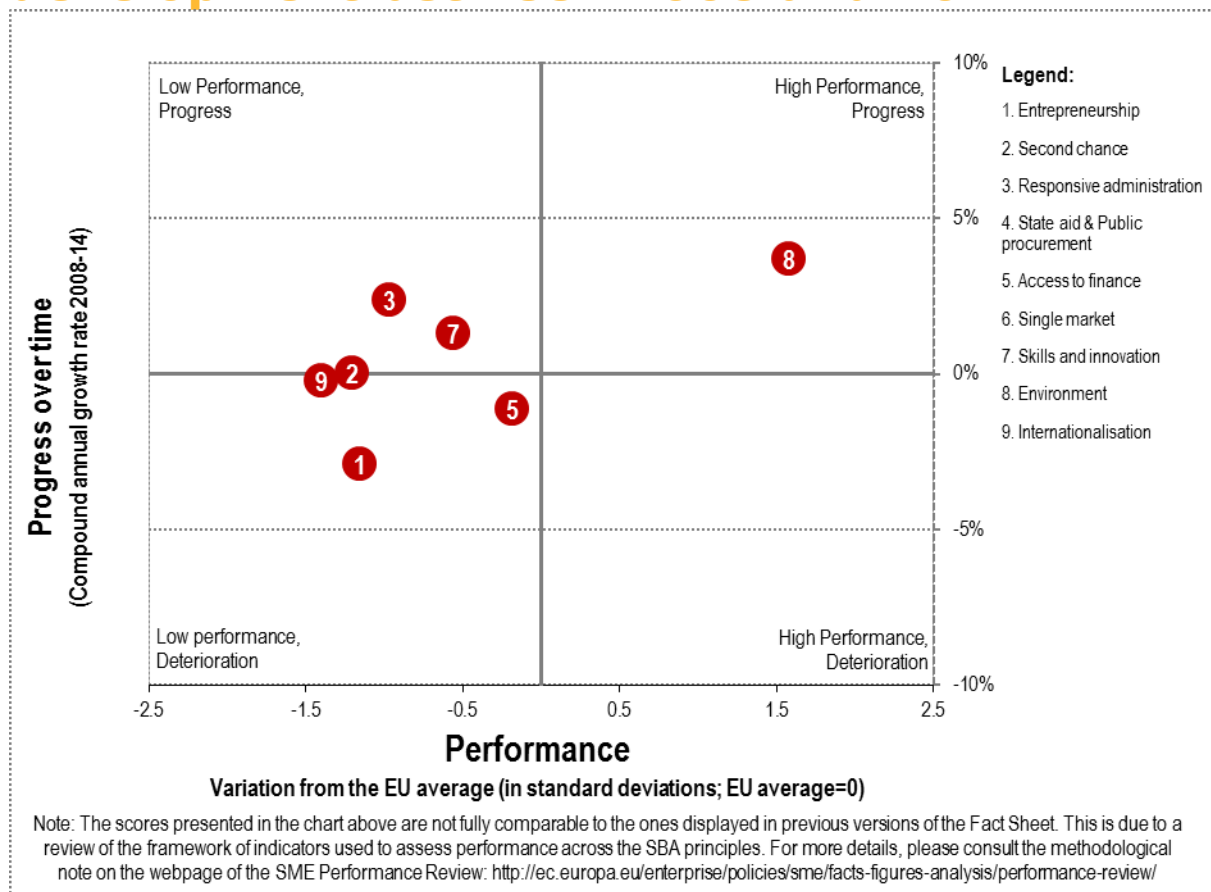


Croatia's SBA profile is incomplete because there is a lack of data on state aid and public procurement and the single market. Performance is below average in most other areas, requiring more focused policy measures to catch up with the performance of other EU countries. These areas include entrepreneurship, second chance, responsive administration and internationalisation.

Croatia's performance is average in access to finance and skills and innovation. The available data for the environment show performance that is above the EU average, mainly because SMEs are better able to use public support for resource-efficiency measures and green products and services.

In 2013, Croatia implemented policy measures aimed at entrepreneurship and access to finance (out of 10 SBA areas). As a result, overall progress in the policy areas the SBA covers has been relatively modest.

Croatia's SBA performance: status quo and development between 2008 and 2014¹²



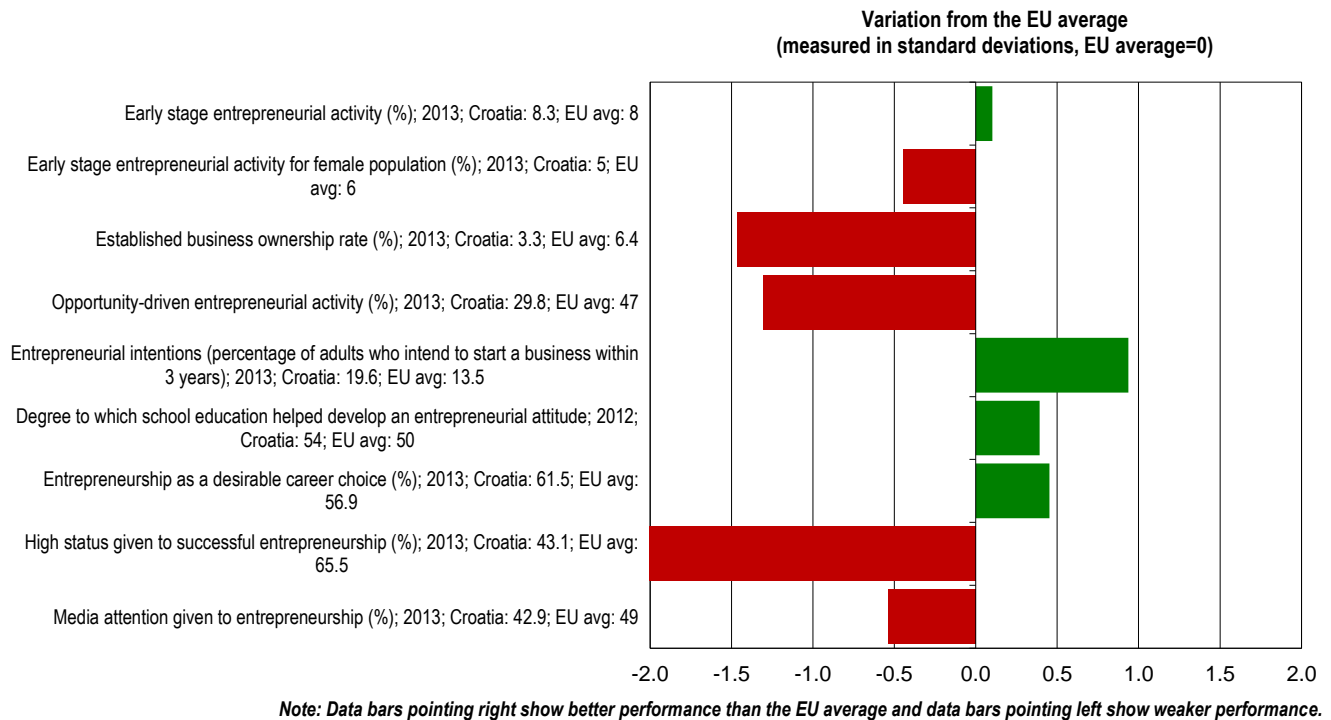
'Think small first' principle

The 'think small first' principle is implemented in Croatia only to a limited degree. In general SMEs' interests are not taken into account when drafting new legislation. Their views are most often collected through a general consultation process, which does not lend itself to comprehensive analysis of proposed legislation from an SME perspective. There are no specific consultations with SME stakeholders.

The approach to evaluating the impact of proposed legislation has also been developed only to a limited degree and the SME test is not done systematically. The Act on Regulatory Impact Assessments, which came into force in 2012, and the Strategy for Regulatory Impact Assessments for the period 2013–15 constitute the legal framework for impact assessments, but they have not yet been implemented. Regulatory impact assessments are not done for all proposed regulatory changes and they usually do not focus enough on the economic impact of the proposed changes or on SMEs.

The SME test is not fully implemented, although the Strategy for the Development of Entrepreneurship stipulates its introduction as a strategic objective. The BIZimpact II project is expected to result in the implementation of the SME test. Its implementation will be monitored under the requirements for regional funding (ex-ante conditionalities).

Entrepreneurship



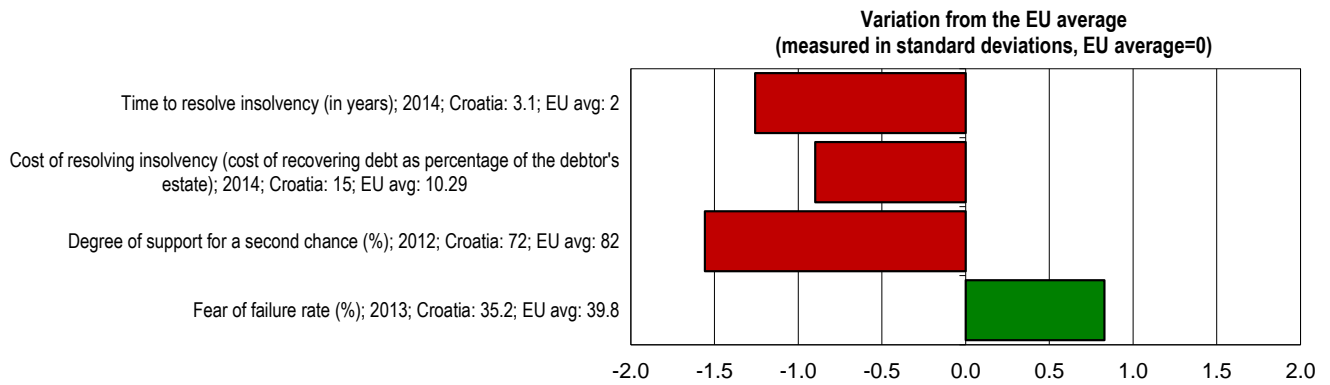
Overall, Croatia's performance in this area is slightly below the EU average. Six out of 10 respondents considered entrepreneurship a desirable career choice. This is slightly more than in the EU-28, at 57%. At about 8%, the proportion of the population involved in early stage entrepreneurial activity is in line with the EU average. This is also the case for female entrepreneurship. Much more than elsewhere in the EU, most entrepreneurial activity is the result of necessity. That partly explains why many adults intend to start their own business soon and why

successful entrepreneurship is not a passport to social recognition or high social status.

The SME Support Act has set up a central information system for small businesses.

Measures the results of which will only be visible in the future include the Act on Improving Entrepreneurial Infrastructure and the Strategy for Developing Entrepreneurship 2013–20 (adopted under Croatia's economic programme), aimed at strengthening entrepreneurial potential and fostering an entrepreneurial culture.

Second chance



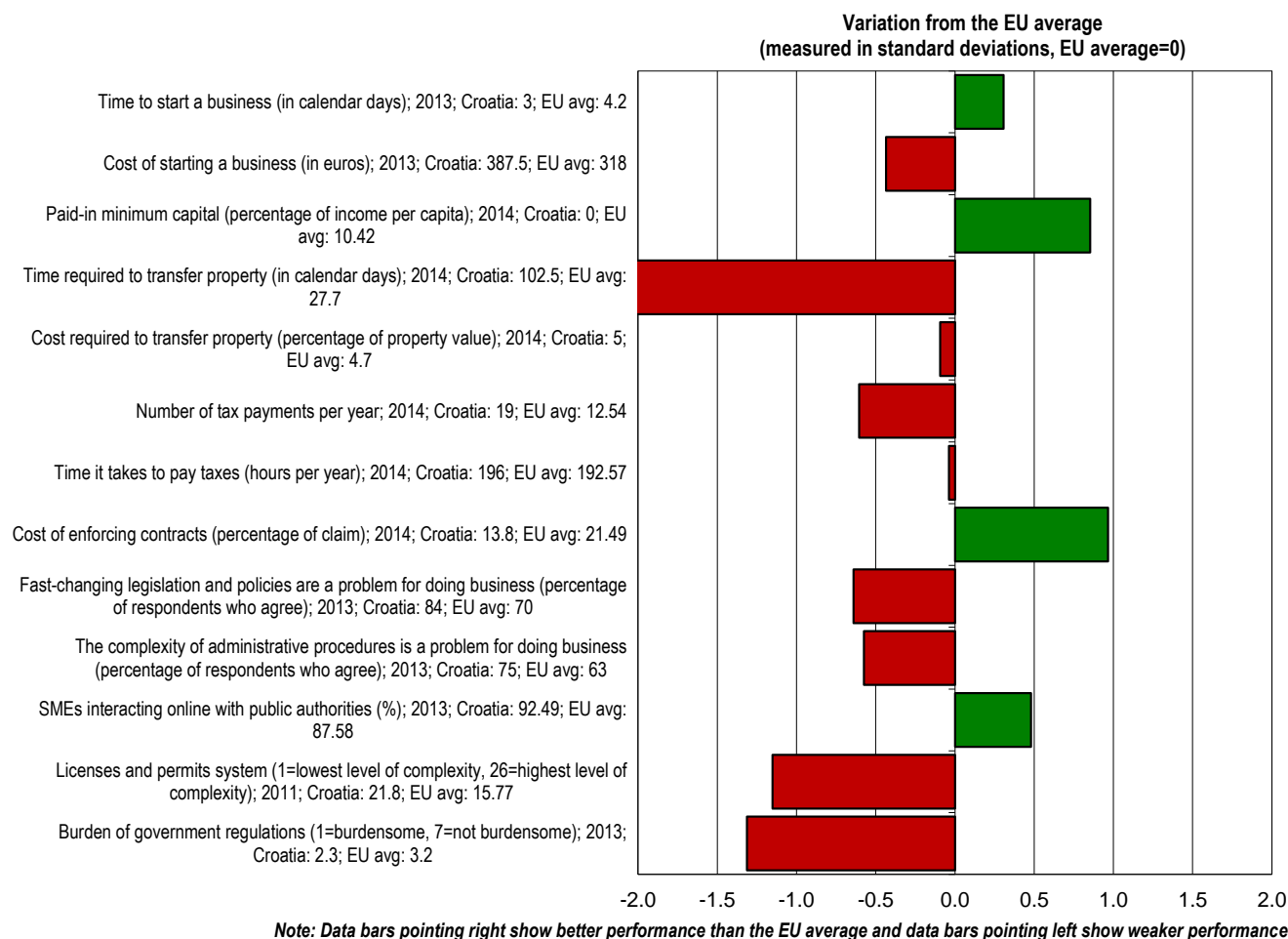
Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Croatia's performance in this area is significantly below the EU average, without any significant change from the previous year. The time it takes to close a business and the cost of doing so exceed their EU average by approximately 50%. It takes more than three years and 15% of the debtor's estate to bring

insolvency proceedings to an end. The degree of popular support for giving entrepreneurs a second chance is below the EU average by 10 percentage points.

No significant policy measures were announced or implemented in 2013 and the first quarter of 2014.

Responsive administration



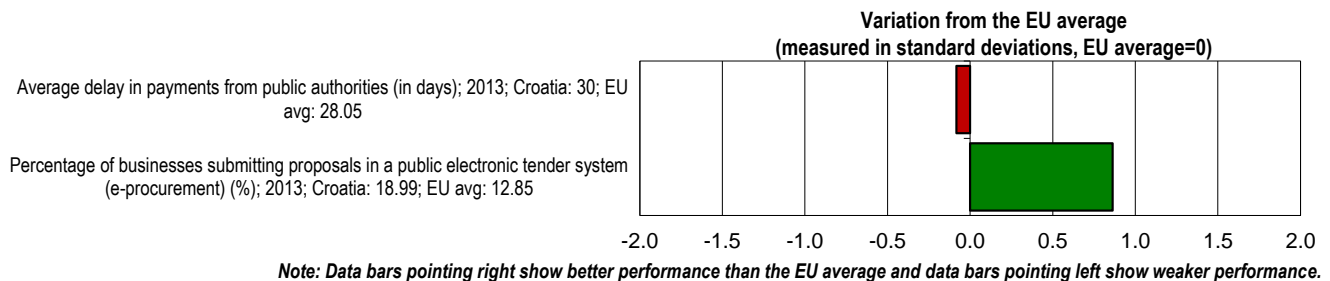
Responsive administration remains problematic for Croatia because most procedures and government regulations are complex and cumbersome. The legal framework tends to change at a pace companies find it hard to keep up with. More than four out of five respondents agree that changes to legislation make it difficult to do business. More than 400 new regulations or amendments were adopted in 2013. Complicated licensing arrangements could be greatly simplified to bring Croatia into line with the EU average. It takes more than three times as long to transfer property as it does in the rest of the EU on average and Croatian SMEs have to make approximately 50% more annual tax payments than their EU counterparts. The effect of this is mitigated by the fact that the cost of transferring property is in line with the EU average (at 5%), as is the time it takes to administratively deal with fiscal obligations (a little less than 200 hours).

Starting a business is a fairly efficient procedure. It takes three days to do so and the minimum capital requirement is negligible, although the cost exceeds the EU average of EUR 318 by 22%. Another advantage of doing business in Croatia is the cost of enforcing contracts (14% versus 21% EU-wide), although there are not enough data to comment on the time and effort required to complete enforcement.

At 92%, the proportion of SMEs that interact with public authorities online exceeds the EU average by five percentage points.

The recently adopted Crafts Act aims to foster the development of crafts and put craftsmen on a level footing with companies. This is crucial for structurally harmonising business conditions and enabling SMEs and the whole economy to develop better.

State aid and public procurement



Croatia's performance in this area is monitored by two of the current four indicators. It is therefore impossible to draw general conclusions based on the available data.

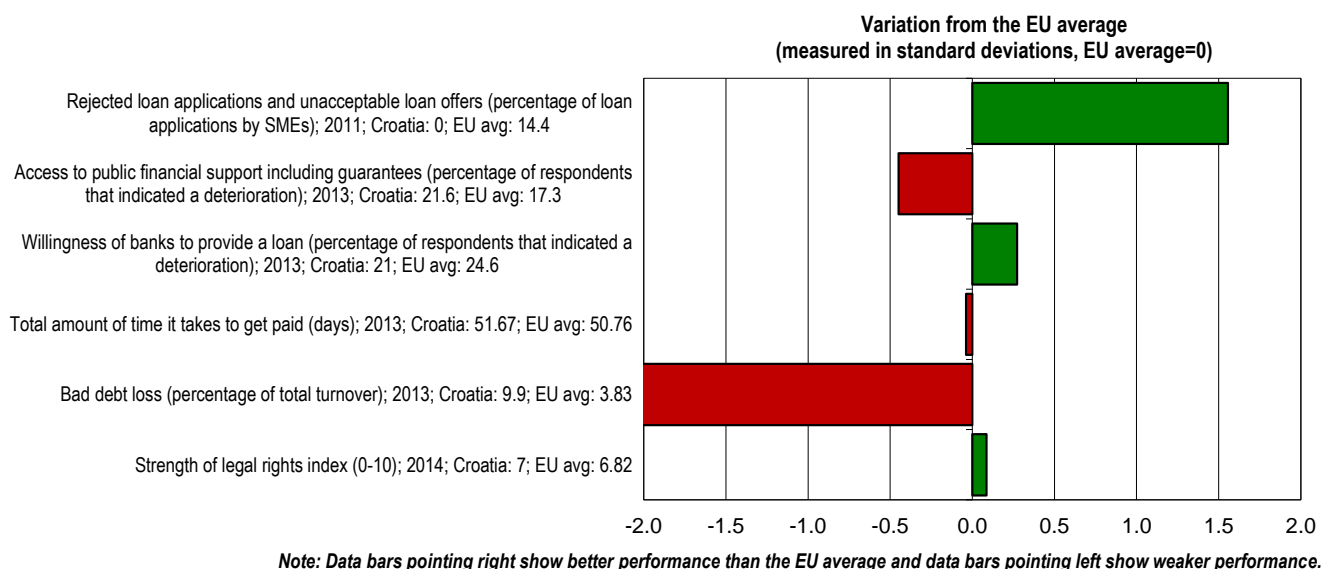
Approximately 50% more SMEs than the EU average use e-procurement services.

On average, it takes public authorities 30 days (in addition to the amount of time specified in the terms of the contract) to pay providers of works and services. Although this is more or less in line with the EU average of 28 days, it shows that policy measures are

needed not only in Croatia, but EU-wide, to enforce the Late Payments Directive.

The Act on Improving Entrepreneurial Infrastructure, adopted in July 2013, has implications for this SBA area. It defines entrepreneurial infrastructure, entrepreneurial zones, and business support institutions. It also sets up a database register for entrepreneurial zones and business support institutions. It aims to better regulate initiatives aimed at supporting SMEs and clearly sets out the conditions and criteria for helping SMEs.

Access to finance



The available indicators show average performance in this area. The number of rejected loan applications is higher than the EU average, insofar as very few applications are accepted for the entire amount asked. Anecdotal evidence however shows that SMEs are generally discouraged from applying for bank financing. Banks' willingness to provide loans is

average. This may be a sign of rigorous initial screening of potential applicants and that their applications are rejected at preliminary stages.

The availability of public financial support (including guarantees) deteriorated compared to the previous year, but remains roughly in line with the EU average.

Legal rights are considered as strong as in the rest of the EU and the time it takes to get paid under business contracts (52 days) does not differ very much from the average of 51 days.

The Entrepreneurial Impulse 2013 programme — the biggest national programme supporting SMEs — is described in more detail in section 3.

The Croatian Bank for Reconstruction and Development runs two credit programmes; a loan programme for developing private, small and medium-

sized businesses and a loan programme for financing female entrepreneurship. Both offer preferential financing of fixed assets or working capital, mainly for established businesses. The interest rate may depend on whether other specific policy objectives are fulfilled (e.g. the business' being based in a region of special state concern, employing refugees, etc.).

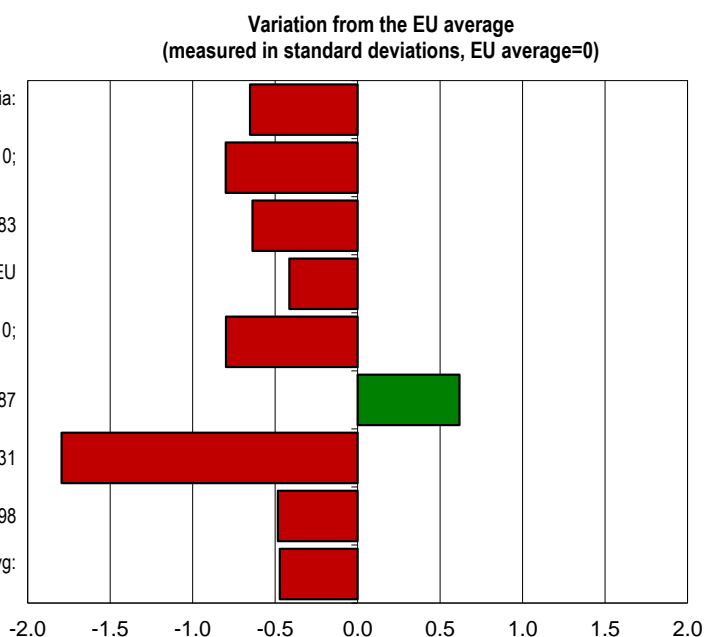
Single market

There are no data available to monitor Croatia's performance in this area and no new significant policy

measures were announced or implemented in the reference period.

Skills and innovation

Percentage of SMEs introducing product or process innovations; 2010; Croatia: 30.4; EU avg: 38.44
Percentage of SMEs introducing marketing or organisational innovations ; 2010; Croatia: 31.91; EU avg: 40.3
Percentage of SMEs innovating in-house; 2010; Croatia: 25.08; EU avg: 31.83
Percentage of innovative SMEs collaborating with others; 2010; Croatia: 9.26; EU avg: 11.69
Sales of new-to-market and new-to-firm innovations (percentage of turnover); 2010; Croatia: 10.54; EU avg: 14.37
Percentage of SMEs selling online; 2013; Croatia: 17.95; EU avg: 13.87
Percentage of SMEs purchasing online; 2011; Croatia: 0; EU avg: 26.31
Turnover from e-commerce; 2013; Croatia: 10.86; EU avg: 13.98
Percentage of all enterprises that train their employees; 2010; Croatia: 57; EU avg: 66



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Croatia's performance in this area is below the EU average for almost all indicators. Only the indicator for the online sales of SMEs shows performance that is above the average. Compared to their EU counterparts, Croatian SMEs excel at selling online (18%, EU: 14%), but don't purchase online (0%, EU: 16%). This asymmetry continues from the previous year.

Investment in skills is lower than the EU average (57% compared to 66% in the EU-28) and innovative SMEs are slightly less interested in working together than elsewhere in Europe.

It is mainly in all activities related to introducing innovation that Croatian SMEs do not keep up with their European counterparts. Fewer sales come from new-to-market products and new-to-firm innovations than in SMEs in the rest of the EU. The potential of e-

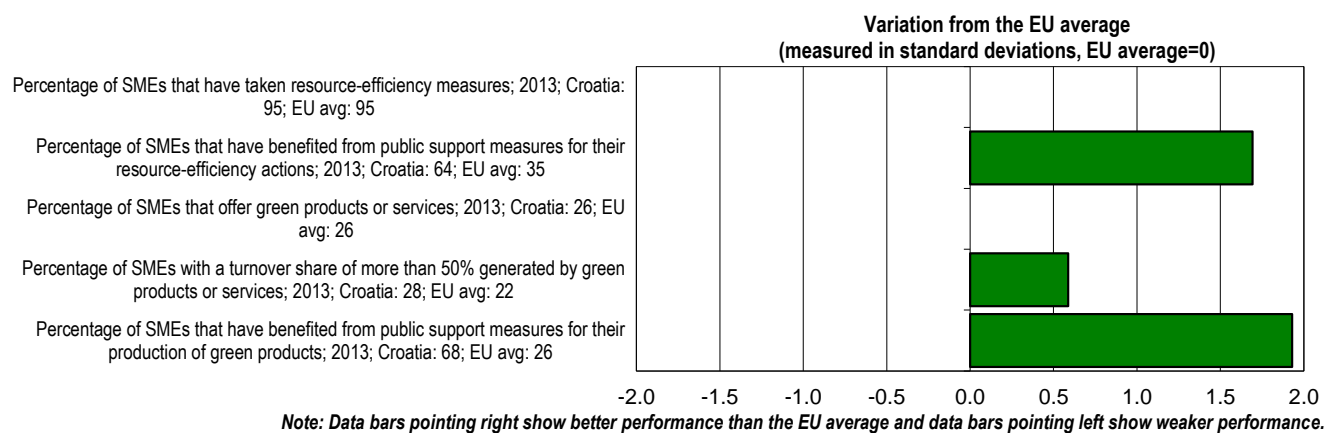
commerce is also exploited less than in the rest of the EU, as reflected in the proportion of turnover e-sales account for (11% in Croatia compared to the EU average of 14%).

A pilot measure aimed at supporting start-ups and commercialising innovative products and services

early on was implemented in 2013 under the Entrepreneurial Impulse 2013 programme. It will be continued in 2014.

Apart from that no significant policy measures were announced or implemented in 2013 or the first quarter of 2014.

Environment

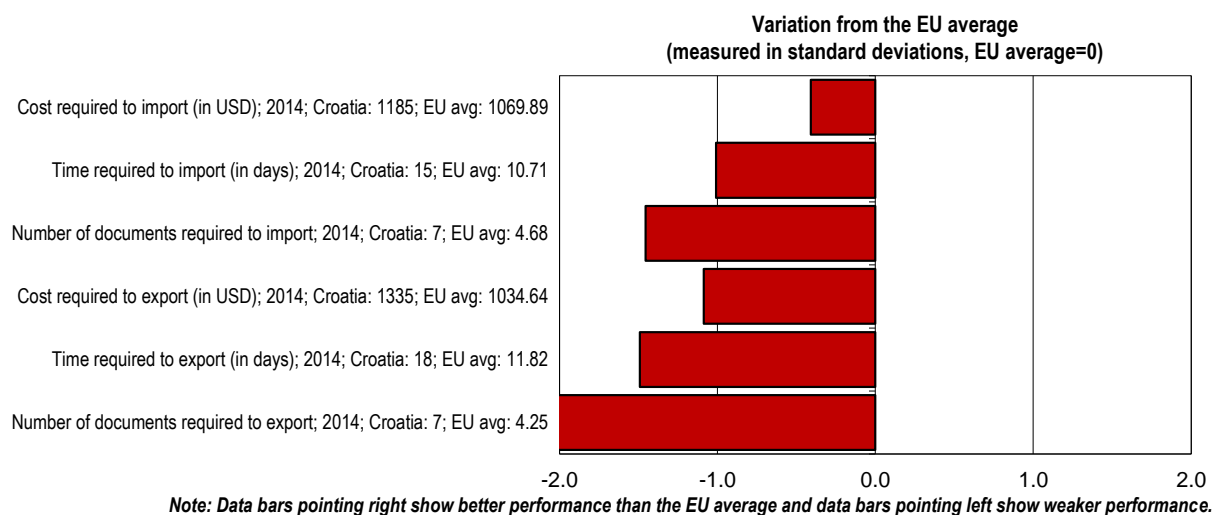


Although Croatian SMEs introduce exactly as many resource-efficiency measures as their European counterparts do, they appear to benefit less from public support. The same applies to SMEs offering green products or services (26% of Croatian small

businesses) that benefited from public support to do so.

No significant policy measures were introduced in 2013 and the first quarter of 2014.

Internationalisation



Overall, Croatia's performance in this area lags behind the EU average. Framework conditions have

remained stable compared to previous years. Import and export procedures are more cumbersome than on

average in the EU. Other Member States' experience shows that documentary requirements could be simplified, the time it takes to complete the procedures reduced and the related costs scaled down. Nonetheless, Croatian SMEs play an important role in the country's international trade, accounting for 44 % of all exports in 2012.

In 2012 exports increased by 1.6 % (year-on-year) but decreased by 5.9 % in 2013. A major reason for this is that Croatia had to leave the Central European Free Trade Agreement, covering a number of non-EU

countries in south-eastern Europe, because it joined the EU. It therefore not only lost some of the advantages it had acquired in trading with its previous partners, but also had to contend with strong long-standing competition in the single market. As a result, certain export sectors may need in-depth restructuring (such as the shipbuilding, petroleum and chemical sectors) to give Croatian products the competitive advantage they need in their new markets.

No new significant policy measures were announced or implemented in 2013 or the first quarter of 2014.

3. Good practice

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

Entrepreneurial Impulse 2013

This is a set of measures aimed at strengthening entrepreneurship and SMEs. Its major objectives are (1) to help develop microbusinesses and crafts businesses; (2) to make entrepreneurs and craftspeople more competitive; (3) to help develop business infrastructure and the business environment and (4) provide education for entrepreneurship and crafts. Support is provided in the form of grants (in 2013 the average amount varied greatly by objective, reaching EUR 24 000, EUR 64 000, EUR 58 000 and EUR 1 000).

The procedures have been made relatively simpler and more transparent, and more aligned with procedures followed for EU funding.

Out of 4357 applications, 1815 (42%) were successful. Measures aimed at making entrepreneurs and craftspeople more competitive resulted in the highest value of all awarded grants: EUR 10.5 million, while EUR 3 million was spent on developing microbusinesses and craft businesses.

References: <http://www.minpo.hr/UserDocsImages///73.%20-%2011.pdf>

<http://www.minpo.hr/UserDocsImages/Poduzetni%C4%8Dki%20impuls%202014..pdf>

http://www.minpo.hr/UserDocsImages/PREZENTACIJA_IMPULS_KONACNA.pdf

<http://www.minpo.hr/UserDocsImages/Audiozapis%20%20konferencije%20za%20medije%20ministra%20Marasa.mp3>

Important remarks

The Small Business Act (SBA) Fact Sheets are produced by DG Enterprise and Industry as part of the SME Performance Review (SPR), which is its main vehicle for economic analysis of SME issues. They combine the latest available statistical and policy information for the 28 EU Member States and nine non-EU countries which also contribute to the EU's Competitiveness and Innovation Framework Programme (CIP). Produced annually, the Fact Sheets 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 States' policies but should be regarded as an additional source of information designed to improve evidence-based policy-making. For example, the Fact Sheets cite only those policy measures deemed relevant by local SME policy experts. They do not, and cannot, reflect all measures taken by the government over the reference period. More policy information can be found on a database accessible from the SPR website. Please also see the end notes overleaf.

For more information

SME Performance Review:

http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm

Small Business Act:

http://ec.europa.eu/enterprise/policies/sme/small-business-act/index_en.htm

The European Small Business Portal:

http://ec.europa.eu/small-business/index_en.htm

Entr-SPR@ec.europa.eu

¹ The 2014 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.

² DZS, <http://www.dzs.hr/>; accessed: 03.03.2014.

³ DZS, Industrial production volume index and indices of stocks, the number of people employed and labour productivity in industry, December 2013, first results, http://www.dzs.hr/Hrv_Eng/publication/2013/02-01-03_12_2013.htm; accessed: 03.03.2014.

⁴ Eurostat, <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&language=en&pcode=teilm020&tableSelection=1&plugin=1>.

⁵ DZS, Statistical Yearbook 2013, http://www.dzs.hr/Hrv_Eng/ljetopis/2013/sljh2013.pdf, accessed: 03.03.2014.

⁶ DZS, First Results, http://www.dzs.hr/Hrv/system/first_results.htm, accessed: 03.03.2014.

⁷ HNB Financial Stability Report, <http://hnb.hr/publikac/financijska%20stabilnost/h-fs-12-2014.pdf> accessed: 03.03.2014.

⁸ CEPOR Report on SME 2013 http://cepor.hr/lzvjesce%20o%20malim%20i%20srednjim%20poduzecima%202013_CEPOR.pdf, accessed: 25.02.2014.

⁹ HNB Financial Stability Report, <http://hnb.hr/publikac/financijska%20stabilnost/h-fs-12-2014.pdf> accessed: 03.03.2014.

¹⁰ The three graphs below present the trend over time for the variables. They consist of index values for 2008 to 2015, with the base year 2008 set at a value of 100. As from 2012, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008–11 figures from the Structural Business Statistics Database (Eurostat). The data cover the '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 the financial sector, 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/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm.

¹¹ The policy measures presented in this SBA Fact Sheet represent only a selection of the measures taken by the government in 2013 and the first quarter of 2014. The selection was made by the national SME policy expert contracted by CARSA Spain (DG Enterprise's lead contractor for the 2014 Fact Sheets). The experts were asked to select only those measures that, in their view, were the most important, i.e. were expected to have the highest impact in the specific SBA area. The complete range of measures that 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 Enterprise website.

¹² The quadrant chart combines two sets of information. Firstly, it shows the status quo 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 reveals progress over time, i.e. the average annual growth rates for 2008–14. The growth rates 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 rest of the EU at a given point in time, but also about the extent of progress made in 2008–14.