

## **POLICY ENVIRONMENT FOR PROMOTING ENTREPRENEURSHIP IN CROATIA**

*by Slavica Singer*

### **Executive Summary**

Policy environment for promoting entrepreneurship in Croatia is fragmented, without links between existing parts. There is no clear understanding between the policies and programmes, what contributes to an overlap on one side (programmes) and a lack on the other side (policies). More importantly, there is no evidence of efforts to refresh existing documents (e.g. Programme for enhancing small and medium sized businesses 2004-08, developed by the MELE), despite some available inputs, like the Strategy Development Framework for 2006-13 which presents an umbrella type policy document, adopted in 2006. The paper starts with background information on the entrepreneurship capacity of Croatia, using the latest Global Entrepreneurship Monitor survey. The background information is structured around entrepreneurship activities in Croatia, measured by GEM indicators (TEA index, motivational index, presence of growing businesses) and entrepreneurial demography. Special emphasis was given to regional differences in entrepreneurial activities as well as to entrepreneurial culture. Quality of the framework of entrepreneurial conditions in Croatia (from financial support, education, transfer of I&D, openness of the market to government policies and programmes) was compared with all countries involved in the GEM survey. Government measures focused on enhancing the entrepreneurial capacity of Croatia were examined through policy activities, programmes and institutional arrangements for delivering policies and programmes. Conclusions were derived from the analysis and followed by suggestions for increasing the entrepreneurial capacity of Croatia, connecting entrepreneurship capacity with innovation and economic development at local level. Entrepreneurial activity in Croatia is increasing, judging by a rise in the number of new businesses, but this improvement is not visible in the growing business sector, according to the latest Global Entrepreneurship Monitor (GEM) survey<sup>1</sup>.

Intensification of entrepreneurial activity as observed in 2005 has continued in 2006, with Croatia ranked 18<sup>th</sup> out of 42 countries with a TEA index of 8.58, according to the GEM.

The Motivation Index (i.e. the TEA Opportunity to TEA Necessity ratio) is an important indicator of the entrepreneurial capacity of a country, indirectly indicating the level of optimism and long term expectations of entrepreneurs. In 2005 Croatia was the only GEM country with a motivation index below 1, indicating more businesses were born due to necessity rather than perceived opportunities by entrepreneurs. Croatia's 2006 motivation index was 1.16, indicating an improvement, but this is still well below the GEM average of 6.06.

---

<sup>1</sup> Singer et al (2007), *What Makes Croatia an Entrepreneurial Country, Results of GEM Croatia Research 2006*, Zagreb.

The “maturity” index, which refers to the status of “established” start-ups (entrepreneurial activity for more than 42 months), is still far from the GEM average (Croatia 0.48, GEM countries 0.81).

Comparing entrepreneurial activity in Croatia with European levels is useful for developing government policies and programmes. In comparison with the average of 16 European Union member countries involved in the GEM research, Croatia has the highest level of the TEA index and also the highest level of TEA Necessity, with only four countries with less established entrepreneurs.

The GEM survey describes growing enterprises by using: the level of innovation in new technologies, innovation in new product development, exposure to competition and the capacity for new employment. When compared to similar countries (according to GDP per capita), Croatia has more enterprises that invest in new technologies. This gives hope that investing in technology will soon pay off through the creation of new or innovative products, although this is not the case at the moment. 71% of new enterprises and 70% of established ones are producing products that are new to no-one, while in the group of medium developed countries, the average is 51% of new entrepreneurs and 63% of established entrepreneurs. While 2005 saw an increase in expectations for new employment in enterprises with 20 or more employees (15% in new entrepreneurs and 18% in established entrepreneurs), expectations remained unchanged in 2006.

In the 2002-06 period, regional differences in entrepreneurial activity have significantly decreased, due to the strengthening of entrepreneurial activity in Slavonia and Baranja, Lika and Banovina, and Northern Croatia. However, the difference in the motivation index still indicates that there are significant differences in entrepreneurial capacity, because Slavonia and Baranja and Lika and Banovina are the only two regions with a motivation index lower than 1.

In 2006, all components of the entrepreneurial environment received higher grades than in 2005, but only two received grades above 3:

- Access to physical infrastructure (3.75 in 2006, 3.35 in 2005).
- Openness of the internal market - speed of changes (3.47 in 2006, 3.05 in 2005).

The weakest points of Croatia’s entrepreneurial environment, placing the country at the back of the pack, are:

- Openness of the market – administrative barriers, 35<sup>th</sup> place out of 37 countries.
- Commercial and professional infrastructure, 31<sup>st</sup> place out of 37.
- Cultural and social norms, 30<sup>th</sup> place out of 37.
- Transfer of research and development, 24<sup>th</sup> place out of 37.

Based on these findings, it is evident that policy interventions should be focused on eliminating administrative barriers, developing high quality business development services (training, counselling), developing venture capital markets, building entrepreneurial culture through education and media and strengthening absorption capacity for transfer of R&D to SMEs.

In developing and implementing policies and programmes in these areas it is crucial to build awareness among all stakeholders, including:

- Government ministries (especially the Ministry of Economy, Labour and Entrepreneurship and the Ministry of Science, Education and Sport);
- Other agencies, e.g. HAMAG, vocational education, export;
- Different associations, e.g. Croatian Chamber of Economy, Croatian Chamber of Craft, Croatian Association of Employers; CEPOR - SMEs Policy Centre.

To make this effort workable, the Open Coordination Method should be introduced at all government levels (from central to local).

### **Background information on the entrepreneurship capacity of Croatia<sup>2</sup>**

#### *Entrepreneurship activities in Croatia, measured by GEM indicators*

For the purpose of this report, the following indicators have been used:

- Total Entrepreneurial Activity of those who have been active for less than 42 months (TEA index).
- Correlation between entrepreneurial activity (TEA index) and GDP per capita.
- Motivation for entrepreneurial activity (TEA Opportunity and TEA Necessity).
- Structure of the participants in entrepreneurial activity (either nascent, new business owner, or established entrepreneur).
- Transition rate of “maturity” of business ventures.
- Growing businesses.

Entrepreneurial activity, based on starting (“swarming”) new business ventures (expressed through the TEA index), is an important assumption of the vitality of the economic structure. New business ventures bring new ideas, new technologies and new products, enter new markets and thus contribute to the increase of business efficiency and competitiveness.

Systematic correlation between the level of entrepreneurial activity (TEA index) and GDP per capita confirmed by the GEM research obliges policymakers to include an entrepreneurial conditions framework when developing macroeconomic policies to achieve economic development goals. The GEM survey is based on the conceptual framework in which two principal mechanisms (general macroeconomic framework and entrepreneurial framework conditions) are interwoven. Specifically, entrepreneurial framework conditions are identified through the availability and access to financial support, government policies, government programmes, education, transfer of R&D, business and professional infrastructure, openness of the internal market and competitiveness, access to physical infrastructure and cultural and social norms.

---

<sup>2</sup> Based on Singer et al (2007), *What Makes Croatia an Entrepreneurial Country, Results of GEM Croatia Research 2006*, Zagreb.

New business start-ups are born due to either perceived opportunity (TEA Opportunity), or owing to circumstances (TEA Necessity). Entrepreneurs who start businesses because of a perceived business opportunity are, as a rule, more oriented towards business growth than those who became entrepreneurs because they were forced by the situation (lost their job, could not find a job, etc.). This difference in motivation for entrepreneurial activity is of importance for policymakers, as efficiency of support mechanisms (and thus of use of public resources) can be achieved only if support mechanisms are differentiated and aimed according to the needs of the different segments of entrepreneurial activity. Opportunity based entrepreneurs are more frequently candidates for support focused on business growth (innovations) while necessity based entrepreneurs need, at least in the beginning, more support for surviving (self-confidence, basic knowledge and skills in managing their business ventures).

Also important to policy and programme design is the status of the entrepreneurs themselves - whether nascent, new business owners or established entrepreneurs. Government policy needs to reflect these individual categories of entrepreneurs.

“Swarming” of entrepreneurial ventures without a strong transition rate to mature business ventures, is not sufficient. Being prepared for entrepreneurial activity at the individual and institutional level and the rate of surviving business ventures depends on a range of factors (motivation, knowledge and skills, effectiveness of the entrepreneurial environment and macroeconomic policy). The rate is calculated as the ratio between established entrepreneurs (over 42 months of entrepreneurial activity) and the number of nascent and new business owners, i.e., start-up entrepreneurs (less than 42 months of entrepreneurial activity).

#### More entrepreneurial activities in 2006

2005 was a year of progress for Croatia, as shown by the significant change of position from the lower end to the middle of the scale of GEM countries, with further progress in 2006 (Table 1).

**Table 1. TEA indices - Croatia and all GEM countries**

	2002	2003	2004	2005	2006
TEA	3.62	2.56	3.74	6.11	8.58
Rank	32/37	29/30	29/34	19/35	18/42
TEA Opportunity	2.18	1.74	2.04	2.92	4.41
Rank	35/37	29/30	32/34	32/35	28/42
TEA Necessity	0.85	0.59	1.57	3.09	3.81
Rank	25/37	22/30	12/34	6/35	9/42

Source: *What makes Croatia an entrepreneurial country? Results of GEM Croatia research 2006*, p.17.

Croatia was able to move from the bottom end of the scale in 2005 and progress was further confirmed by improvement towards the upper end of the scale in 2006. This is the result of intensified activity of both groups of entrepreneurs - those with perceived business opportunities and those who start businesses out of necessity. The improvement shown by the TEA Opportunity indicator is especially heartening, as this indicates more motivation for entrepreneurial activity.

However, these improvements will only translate into economic growth when entrepreneurial activity manages to create new value, which can be measured by growth in GDP per capita. GEM research has confirmed that countries with similar levels of GDP **per capita** have the tendency to

achieve similar levels of entrepreneurial activity, and that there are significant differences between countries with different levels of gross domestic product per capita. Three patterns appear:<sup>3</sup>

- Starting very small, less-costly business ventures are more intensive in countries with lower levels of GDP per capita (e.g. Peru, Columbia and Thailand).
- Early-stage entrepreneurial activity is relatively low in countries with high GDP per capita, (e.g. European Union countries and Japan).
- Countries with the highest levels of gross domestic product per capita show increasing early-stage entrepreneurial activity due to perceived opportunities (e.g. USA, Iceland and Australia).

Croatia has every right to be satisfied with its entrepreneurial activity of 8.58% (TEA index). However, it is still a long way from transferring this entrepreneurial activity into measurable economic growth, as measured by GDP per capita, because it still belongs to the large first group, as seen in Figure 1.

The ongoing process of Croatia's accession to the European Union obliges the country to perform continuous evaluation of its policies, programmes, regulatory frameworks and instruments which aim to increase the country's entrepreneurial capacity to make them comparable to the European Union. Using several selected indicators of entrepreneurial activity (TEA; percentage of entrepreneurs active for more than 42 months; motivation of entrepreneurs: TEA Opportunity and TEA Necessity; TEA in relation to gender), Croatia can be compared to European Union countries involved in the GEM research (Table 2).

**Table 2. Croatia in European perspective, selected indicators of entrepreneurial activity, 2006**

Indicator		Croatia		All GEM EU Countries		
		Rank	Value	Average	Highest	Lowest
TEA – entrepreneurs, active for less than 42 months		1 of 17	8.58	5.46	7.9 Greece	2.73 Belgium
Motivation	TEA Opportunity	10 of 17	4.41	4.25	6.2 Ireland	2.36 Belgium
	TEA Necessity	1 of 17	3.81	0.96	2.4 Czech	0.19 Denmark
Gender	TEA Male	1 of 17	12.35	7.42	11.12 Greece	3.87 Italy
	TEA Female	3 of 17	4.87	3.5	5.7 Spain	1.04 Belgium
Established entrepreneurs, active for more than 42 months, %		13 of 17	4.12	5.24	8.24 Greece	1.13 France
Business angels, %		10 of 17	2.12	2.59	5.29 Latvia	0.72 Hungary
Expect to start a business venture within 3 years, %		6 of 17	11.12	9.79	15.99 Latvia	5.64 Netherlands
Ceased business activity within last 12 months – sale of the business does not count, %		9 of 17	1.81	1.85	3.8 Czech	0.84 Netherlands

Source: *What makes Croatia an entrepreneurial country? Results of GEM Croatia research 2006*, p.26

<sup>3</sup> Bosma, N. and R. Harding, (2007), *Global Entrepreneurship Monitor: GEM 2006 Results*, London Business School and Babson College, 2007, pp. 12-13.

16 EU countries were involved in the GEM research in 2006: Czech Republic, Greece, Ireland, Latvia, France, Netherlands, United Kingdom, Hungary, Spain, Finland, Slovenia, Germany, Denmark, Italy, Sweden and Belgium. The average was calculated based on the values of these countries.

Croatia's rank within the group of EU countries involved in the GEM research clearly illustrates the weak points of Croatia's entrepreneurial capacity and can provide insights for government policies and programmes. Such insights include:

- Although Croatia is first based on the level of TEA index (nascent entrepreneurs and new enterprises), it also holds the 1st place based on the level of TEA Necessity.
- Croatia has a lower percentage of established entrepreneurs (active for more than 42 months) than the average of GEM EU countries, which points to a need to sustain the development of growing enterprises (e.g. through adequate knowledge, innovative activities, venture funds).
- Croatia has less business angels than the GEM EU countries average, which points to a need for the development of informal financial sources for supporting entrepreneurial activities.

Further homogenisation of the sample, using the cluster of countries that Croatia belongs to according to the level of GDP per capita, makes these comparisons even more useful (Table 3).

**Table 3. Differences in the entrepreneurial activity based on economic strength of the country, 2006**

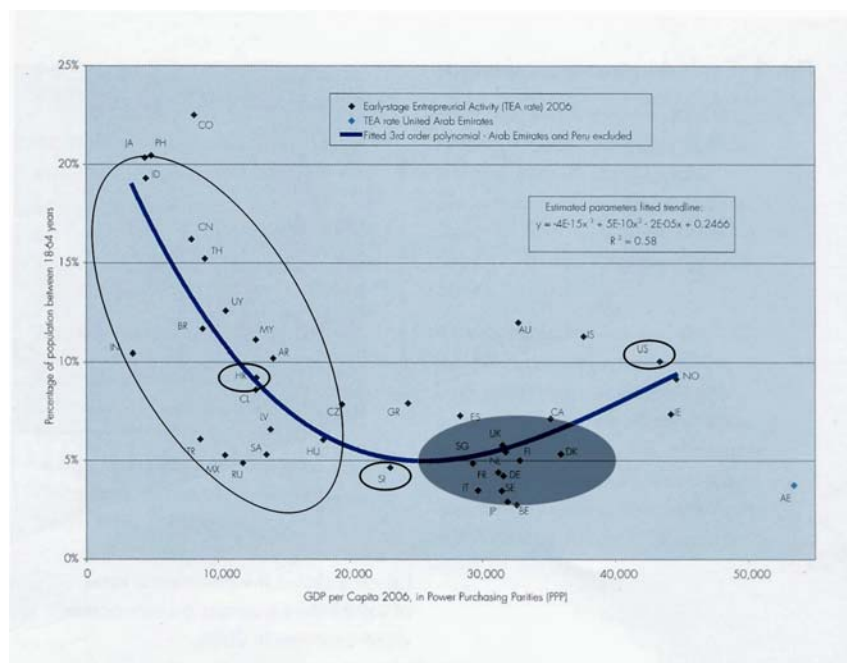
Country	Nascent entrepreneurs, active for up to 3 months	New business owners, active between 3 and 42 months	TEA index for nascent entrepreneurs and new business owners	Established entrepreneurs, active for more than 42 months	Total entrepreneurial activity
Cluster of EU countries involved in GEM with GDP < USD20 000 per capita	4.13	2.36	6.27	5.57	11.84
<b>Croatia</b>	<b>6.38</b>	<b>2.49</b>	<b>8.58</b>	<b>4.12</b>	<b>12.7</b>
Slovenia	2.91	1.79	4.63	4.44	9.07
Hungary	3.18	3	6.04	6.72	12.76
Latvia	4.03	2.65	6.57	5.69	12.26
All GEM countries	5.32	4.59	9.46	6.97	16.43

Source: *What makes Croatia an entrepreneurial country? Results of GEM Croatia research 2006*, p.27; for "All GEM countries", p.21.

It is interesting to note that Croatia and Slovenia are located on the opposite ends of the East European cluster (Figure 1). Croatia has a figure of 8.58% for entrepreneurial activity (TEA index) and USD 8 722 GDP per capita while Slovenia has 4.63% for entrepreneurial activity (TEA index) and USD 17 400 GDP per capita. Although Latvia and Hungary have lower levels of entrepreneurial activity, they have higher levels of GDP per capita<sup>4</sup>. Values of GDP per capita have been recalculated into purchasing power parity.

<sup>4</sup> Bosma, N. and R. Harding, (2007), *Global Entrepreneurship Monitor: GEM 2006 Results*, London Business School and Babson College, p. 13.

Figure 1. Start-up Entrepreneurial Activity (TEA index) and GDP per capita, 2006



Source: *What makes Croatia an entrepreneurial country? Results of GEM Croatia research 2006*, p.19

#### Motivation index and “maturity” index of Croatian businesses

Entrepreneurial capacity relates to the intensity with which business ventures are started and the vitality of such businesses. The intensity with which business ventures are started is measured using the level of TEA index and the motivation index (i.e. ratio between TEA Opportunity and TEA Necessity), while the vitality of business ventures is expressed by the “maturity” index and the share of growing enterprises in the structure of enterprises.

In 2006 a further increase of the TEA index was recorded (from TEA 6.11 in 2005 to TEA 8.58 in 2006), as well as an increase of the motivation index (from 0.95 to 1.16). Both these figures point to a greater share of entrepreneurs entering entrepreneurial activity because of perceived opportunities and not out of necessity. While the motivation index is still quite low, it shows signs of improvement. However, the “maturity” index has actually gone backwards since the previous year, i.e. 0.48 in 2006, 0.60 in 2005.

A low motivation index, which indicates circumstances have dictated entrepreneurial activity rather than free will, is connected to the ability to lead a business through transformation from a new to an established enterprise (older than 42 months). The relationship between the percentage of established enterprises and start-up enterprises can be used as a rough approximation of successful transition from the start-up to the maturity phase. A low transition ratio puts Croatia in 35<sup>th</sup> place in 2006, with a transition rate that is significantly lower than the average of GEM countries (Croatia 0.48, GEM countries 0.81).

Although Croatia was the only country with higher TEA Necessity than TEA Opportunity in 2005, motivation index is above 1 in 2006. Nevertheless, Croatia is still at the bottom of the scale, as it is similarly in terms of its maturity index (Table 4).

**Table 4. Motivation index and maturity index, 2006**

		2006
Motivation index	Croatia	1.16
	GEM	6.06
Maturity index	Croatia	0.48
	GEM	0.81

Source: *What makes Croatia an entrepreneurial country? Results of GEM Croatia research 2006*, p.29.

Slovenia ranked 9<sup>th</sup> based on its motivation index (8.62 times more TEA Opportunity than TEA Necessity) and 13<sup>th</sup> based on the ratio of established businesses to start-up businesses, so it can continue to serve as a good benchmark for Croatia in its search for policies and programmes that can change and strengthen these two components of its entrepreneurial capacity.

*Growing businesses - number of enterprises with growth potential remains low*

Growing businesses are the most important agents in the creation of new employment, as confirmed by various studies (e.g. Storey, 1994; Kirchoff, 1994). These studies concluded that such firms (usually below 10% of all businesses of a national economy) are responsible for more than 50% of employment. These earlier studies have been confirmed in the *GEM 2007 Global Report on High-Growth Entrepreneurship*<sup>5</sup>, in which Croatia participated, with the conclusion that high growth enterprises account for only 6% of all businesses, but provide 60% of employment.

In the GEM research in 2006, growing enterprises were observed based on the following four criteria:

- Innovation in using new technologies (categories: latest technologies - up to 1 year old; technologies from 1 to 5 years old; no new technologies).
- Innovation in the development of new products (categories: products are new to everyone; to some; to no-one).
- Exposure to competition (categories: the same product is offered by everyone; by some; by no-one)
- Capacity for new employment (categories: expected new employment in the period of 5 years: no new employees; 1-5; 6-19; more than 20 employees).

Assessing that the application of new technologies or the capacity for the creation of new products are principal assumptions for the creation of growing enterprises, Tables 5 to 8 describe the differences in the structure of enterprises in Croatia, in comparison with the cluster of medium developed and highly developed countries. The dividing line between these two clusters is GDP per capita, expressed through purchasing power parity at USD 20 000. Particularly highlighted are the

<sup>5</sup> Autio, E. (2007), *GEM 2007 Global Report on High-Growth Entrepreneurship*, London Business School, Babson College, Mazars.

differences between entrepreneurs who have been active for up to 3 months (start-up entrepreneurs) and those who have been entrepreneurially active for more than 42 months (established entrepreneurs).

**Table 5. New technologies, Croatia in international perspective, 2006 – start-up entrepreneurs, in % (How many start-up entrepreneurs use new technologies?)**

	Croatia	Medium developed countries	Highly developed countries
No new technologies	48	63	73
New technologies (1 to 5 years)	28	21	19
Latest technologies	24	16	8

Source: *What makes Croatia an entrepreneurial country? Results of GEM Croatia research 2006*, p.30.

**Table 6. New technologies, Croatia in international perspective, 2006 – established entrepreneurs, in % (How many established entrepreneurs use new technologies?)**

	Croatia	Medium developed countries	Highly developed countries
No new technologies	63	83	84
New technologies (1 to 5 years)	29	13	12
Latest technologies	8	4	2

Source: *What makes Croatia an entrepreneurial country? Results of GEM Croatia research 2006*, p.31.

**Table 7. Newness of products for customers, Croatia in international perspective, 2006 – start-up entrepreneurs, in % (For how many customers is the product new?)**

	Croatia	Medium developed countries	Highly developed countries
For no-one	71	51	54
For some	16	30	30
For everyone	13	19	16

Source: *What makes Croatia an entrepreneurial country? Results of GEM Croatia research 2006*, p.31.

**Table 8. Newness of products for customers, Croatia in international perspective, 2006 – established entrepreneurs, in % (For how many customers is the product new?)**

	Croatia	Medium developed countries	Highly developed countries
For no-one	70	63	70
For some	13	21	20
For everyone	17	16	10

Source: *What makes Croatia an entrepreneurial country? Results of GEM Croatia research 2006*, p.32.

In 2006, start-up entrepreneurs used new technologies more often than established entrepreneurs (Table 5 and Table 6), but the promising fact is that both categories of entrepreneurs in Croatia invest more in new technologies than such businesses in competing medium developed, or even highly developed nations. 24% of Croatian start-up and 8% of established enterprises have the latest technologies, while in the cluster of medium developed countries there are 16% of new entrepreneurs and 4% of established ones. This gives hope that investment in technology will soon pay off through the creation of new or innovative products, because that is still not the case: no less than 71% of start-up enterprises and 70% of established enterprises have products that are not new to anyone, while in the cluster of medium developed countries this figure is 51% of start-up entrepreneurs and 63% of established entrepreneurs (Table 7 and Table 8).

**Comment [S1]:** I KNOW THAT INNOVATION GENERALLY REFERS TO BROADER ASPECT OF INNOVATING PRODUCTS, PROCESSES, ORGANIZATION..., BUT GEM PROJECT – AS IT IS VERY CLEARLY SAID – LOOKS SPECIFICALLY ONLY ON INNOVATION OF PRODUCTS AND TECHNOLOGIES.

**Comment [p2]:** A bit confusing. Here innovation seems to be related only to the development of new products, but innovation refers to products, management, services, etc.

The low level of new products develops severe competition among entrepreneurs and does not help to strengthen the export orientation of small businesses in Croatia. New product development is the visible outcome of innovation activity, which is an important baseline for building overall competitiveness on internal and international markets.

In a high unemployment country like Croatia, growing businesses are important because of their potential in creating new jobs. 2005 was the year in which the expectation of new employment in enterprises with 20 or more employees grew significantly in relation to previous years (to 15% at start-up entrepreneurs and 18% at established entrepreneurs), although there were no similar improvements in 2006 (Table 9).

**Table 9. Growth expectation through employment, 2006, in % (How many new employees you expect in 5 years?)**

	Start-up entrepreneurs %	Established entrepreneurs %
None	10.7	14.5
1-5	45.5	41.0
6-19	28.7	27.0
20 and more	15	17.5

Source: *What makes Croatia an entrepreneurial country? Results of GEM Croatia research 2006*, p.33.

#### **Entrepreneurial demography in Croatia**

Data referring to individual entrepreneurs also provides an answer of sorts to the challenge of transferring entrepreneurial activity into GDP growth. A higher rate of “maturity” of business ventures and stronger participation of growing enterprises needs to follow from the strong level of entrepreneurial activity in the start-up sphere. Croatia is particularly lagging in the rate of entrepreneurial activity of established entrepreneurs (4.12% compared to 6.97% in all GEM countries). Observing the rates of entrepreneurial activity according to individual categories of entrepreneurs, Croatia’s greatest deviation from the average rates of all GEM countries is in the category of established entrepreneurs (only 59%), whereas the rate of entrepreneurial activity of nascent entrepreneurs and new business owners is at 90% of the GEM average (calculated from Table 3).

In strengthening the entrepreneurial capacity of a country it is important to ensure equal opportunities for individuals to decide whether to undertake entrepreneurial activity. GEM research monitors and analyses the differences in the entrepreneurial activity of men and women. The involvement of women in entrepreneurial activity depends on cultural issues as well as access to education, financial resources, family assistance services, etc. Croatia is in the lowest group of GEM countries according to the gap between the involvement of women and men in entrepreneurial activity (37<sup>th</sup> place out of 42 countries) (Table 10).

**Table 10. Gender gap in entrepreneurial activity**

	In Croatia	In GEM countries
TEA index for women	4.87	7.51
TEA index for men	12.35	11.38

Source: *Croatia GEM 2006 survey*, calculated from the database.

The ratio is thus calculated as 2.54 more men than women in entrepreneurial activities in Croatia, comparing with 1.52 in GEM countries. This indicates that there are huge reserves for strengthening

entrepreneurial capacity by making access to entrepreneurial opportunities more equal for women and men.

### **Regional differences in entrepreneurial activities**

Differences in regional economic activity within a country are generally connected with the differences in regional development– this is also true for Croatia. Therefore, TEA indices by region in Croatia<sup>6</sup> are complementary with the “hard” indicators of the general (non) development of these areas as measured by GDP per capita, efficiency of the use of intellectual capital (ICE), level of unemployment and data on the educational structure of the population<sup>7</sup>.

For the purposes of the GEM survey, Croatian counties and the City of Zagreb are grouped into six “regions”:

1. Zagreb and surroundings
2. Slavonia and Baranja
3. Northern Croatia
4. Lika and Banovina
5. Istria, Primorje and Gorski Kotar
6. Dalmatia

In the 2002-06 period, entrepreneurial activity shows positive changes in all regions, primarily in Slavonia and Baranja, in Lika and Banovina, and in Northern Croatia, which leads to a decrease of differences between regions (Table 11).

**Table 11. Regional dimension of entrepreneurial capacity of Croatia – TEA indexes, 2002-06**

Region	2002	2003	2004	2005	2006
Zagreb and surroundings	4.89	4.30	4.42	8.43	7.77
Slavonia and Baranja	2.11	1.00	4.44	4.91	8.84
Northern Croatia	2.83	1.99	3.00	4.40	9.15
Lika and Banovina	2.71	1.78	3.99	5.11	8.69
Istria, Primorje and Gorski Kotar	4.47	3.05	5.29	5.74	7.10
Dalmatia	3.95	2.43	1.68	6.34	9.85
Croatia (national)	3.62	2.56	3.74	6.11	8.58

Source: *What makes Croatia an entrepreneurial country? Results of GEM Croatia research 2006*, p.43.

This regional picture of entrepreneurial activity is different if complemented by information on the reasons for starting entrepreneurial ventures, i.e. the motivation index, which is the result of the relationship between TEA Opportunity and TEA Necessity (Table 12).

<sup>6</sup> For the needs of the GEM project, Croatian counties were grouped into regions, according to the criteria of geographic-historical comprehension of regional structure of Croatia.

<sup>7</sup> Sources of data: for gross domestic product per capita and ICE: Centre for Intellectual Capital: *Intellectual Capital - 2005 Report*; for unemployment rate: CES: *Yearbook 2005*, Zagreb; for population data: Census 2001.

**Table 12. Motivation index, regional differences, 2006**

Region	TEA	Motivation index (TEA Opportunity/TEA Necessity)
Zagreb and surroundings	7.77	1.74
Slavonia and Baranja	8.84	0.5
Northern Croatia	9.15	1.32
Lika and Banovina	8.69	0.57
Istria, Primorje and Gorski Kotar	7.10	3.2
Dalmatia	9.85	1.14
Croatia (national)	8.58	1.16

Source: *What makes Croatia an entrepreneurial country? Results of GEM Croatia research 2006*, p.44.

Using the motivation index, the rank of the entrepreneurial capacity of Croatian regions based on “hard” data (GDP per capita, unemployment, ICE) has remained roughly steady. The first two positions are held by Istria, Primorje and Gorski Kotar, and Zagreb and surroundings, followed by Slavonia and Baranja and Lika and Banovina.

A motivation index of less than 1, which is present in the two poorest “regions” (Lika and Banovina, Slavonia and Baranja), suggests a significant majority of entrepreneurs who start business activity because of necessity, as they have no other choice. This results in lower expectations of venture development. Regional differences in entrepreneurial activity are very visible, using gender criteria, as seen in Table 13.

**Table 13. Differences in entrepreneurial activity, by regions and gender, TEA indices, 2006.**

Region	Men	Women
Zagreb and surroundings	9.89	5.85
Slavonia and Baranja	11	6.32
Northern Croatia	16	1.85
Lika and Banovina	12	4.82
Istria, Primorje and Gorski Kotar	8.97	5.28
Dalmatia	16	4.64

Source: *Croatia GEM 2006 survey*, calculated from the database.

Information on entrepreneurial demography (Table 14) is useful for understanding the regional differences in entrepreneurial activity. In the most developed “regions” (Zagreb and surroundings; Istria, Primorje and Gorski Kotar) the differences between men and women are smallest, there are more entrepreneurially active highly educated people, they most often belong to the 25-34 age group and there are more people with a high monthly income. In the poorest “regions”, people who are entrepreneurially active more often have only elementary education and much lower monthly income.

**Table 14. Entrepreneurial demography by regions, 2006 (for nascent entrepreneurs and new business owners, entrepreneurially active up to 42 months), structure in %**

		Zagreb	Slavonia and Baranja	Northern Croatia	Lika and Banovina	Istria, Primorje and Gorski Kotar	Dalmatia
Gender	Female	38.7	37.5	11.5	27.3	38.5	25
	Male	61.3	62.5	88.5	72.7	61.5	75
Education	Less than secondary school	6.3	17.4	12	10	0	0
	Secondary school	50	73.9	76	80	69.2	71.4
	University or higher	43.8	4.3	8	10	30.8	28.6
	No answer	0	4.3	4	0	0	0
Age	18 – 24	12.9	13	30.8	27.3	42.9	10.7
	25 – 34	38.7	30.4	30.8	27.3	35.7	35.7
	35 – 44	25.8	30.4	23.1	18.2	14.3	17.9
	45 – 54	16.1	21.7	7.7	9.1	7.1	21.4
	55 – 64	6.5	4.3	7.7	18.2	0	14.3
Monthly income in kunas	No income	0	20.8	3.7	27.3	0	10
	up to 1000	6.7	9	0	0	0	3.3
	1001 to 2000	3.3	12.5	11.1	27.3	7.1	6.7
	2001 to 3001	3.3	25	11.1	9.1	28.6	13.3
	3001 to 4000	6.7	12.5	33.3	9.1	14	10
	4001 to 5000	20	8.3	14.8	18.2	14.3	10
	over 5000	50	11.9	14.9	9	36	36.7
	No answer	10	0	11.1	0	0	10

Source: *What makes Croatia an entrepreneurial country? Results of GEM Croatia research 2006*, p.46.

Regional differences in entrepreneurial activities are connected with regional development imbalances which should be addressed by coordinated policies and programmes between central and local government. A variety of institutions (like centres for entrepreneurship, business incubators, entrepreneurial zones, regional development agencies) should participate in the design and implementation of these policies and programmes. There are no visible joint activities on designing policies and programmes between national and local levels. At the local level, there are huge differences how local authorities understand their responsibility for economic development: good examples are local governments in Varazdin, Bjelovar, Cakovec, and Pula. Only in 2006 and 2007, were local governments engaged in developing regional operating programmes (at county level), in which economic development issues were addressed. The MELE supported the building of the institutional support infrastructure (centres for entrepreneurship and business incubators), but only few regional development agencies are fully grounded in regional development activities (like the Istrian Development Agency, REDEA, DAN). As GEM surveys suggest, the quality of services provided by support institutions should be improved and standardised.

### ***Entrepreneurial culture in Croatia***

The perception of an entrepreneurial environment is based on value attitudes, which form the foundation of entrepreneurial culture. GEM research has developed a framework that consists of four questions which evaluate the system of values in individual countries and which are based on the evaluation of value attitudes on egalitarianism, entrepreneurial careers, the entrepreneur's social status, and the role of the media in the creation of an entrepreneurial culture.

While substantial differences between entrepreneurs and non-entrepreneurs are visible in the evaluation of business opportunities and the attitude towards risk, there are no significant differences

in attitudes towards entrepreneurial culture between start-up entrepreneurs (those who are entrepreneurially active for less than 42 months) and non-entrepreneurs (Table 15). This leads to the conclusion that the system of values which shape entrepreneurial culture is still evolving.

**Table 15. System of values, 2006, structure in %**

In Croatia, majority of people would like it better if everyone had a similar standard of living	Entrepreneurs, active for up to 42 months	Non-entrepreneurs
Yes	77.4	70
No	12.8	21.2
Don't know	9.8	8.8
In Croatia, majority of people believe that starting a business venture is a desirable career choice	Entrepreneurs, active for up to 42 months	Non-entrepreneurs
Yes	68.4	65.9
No	26.4	23
Don't know	5.3	11.1
In Croatia, it is believed that those who have successfully started a business venture have high social status	Entrepreneurs, active for up to 42 months	Non-entrepreneurs
Yes	44.4	48.7
No	45.1	38.6
Don't know	10.5	12.6
In Croatian media, there are often stories about successful business ventures	Entrepreneurs, active for up to 42 months	Non-entrepreneurs
Yes	58.6	53.5
No	36.8	37.1
Don't know	4.5	9.5

Source: *What makes Croatia an entrepreneurial country? Results of GEM Croatia research 2006*, p.51.

Having adequate knowledge and skills, as well as being in touch with the experience of others contributes substantially to the decision on entrepreneurial activity and the development of an entrepreneurial culture. Among those who have adequate knowledge and skills, substantially more are entrepreneurially active (TEA 20) than among those who do not possess such knowledge (TEA 2.62). Those who personally know an entrepreneur who has started his/her own business in the last two years have more often started their own business venture (TEA 20) than those who do not have such a contact (TEA 6.59).

**Table 16. Entrepreneurial activity depends on knowledge, TEA indices, 2006**

Have required knowledge and skills to start a business venture	Entrepreneurs, active for up to 42 months
Yes	20
No	2.62
Personally know an entrepreneur who has started his/her own business in the last two years	Entrepreneurs, active for up to 42 months
Yes	20
No	6.59

Source: *What makes Croatia an entrepreneurial country? Results of GEM Croatia research 2006*, p.50.

### **Quality of the framework of entrepreneurial conditions in Croatia**

The availability and quality of the entrepreneurial environment within the GEM research is evaluated by experts, chosen based on their knowledge of a specific component of the entrepreneurial environment. The sample of experts is selected from entrepreneurs, scientists who research entrepreneurship, experts in professional infrastructure and government institutions and non-

*Policy environment for promoting entrepreneurship in Croatia*

government organisations who deal with entrepreneurship. In 2006, 36 experts evaluated the quality of entrepreneurial framework conditions in Croatia.

By means of a standardised questionnaire of about 80 statements, experts evaluate components of the entrepreneurial environment (generally, one component is described by 4 to 7 statements). They express their agreement/disagreement with these statements by means of grades from 1 to 5, 1 being total disagreement and 5 total agreement.

Table 17 shows grades of all components of entrepreneurial environment and value norms, compared with the GEM average in 2006. The rank is based on comparison of evaluated components of entrepreneurial environment among 37 countries.

**Table 17. Components of entrepreneurial environment and value norms in Croatia – comparison with the GEM average, 2006**

Components of entrepreneurial environment	Croatia		GEM countries
	Grade	Rank	Average
Financial support	2.68	19	2.67
Government policies – grants	2.41	22	2.61
Government policies – regulations	2.17	22	2.39
Government programmes	2.64	16	2.6
Primary and secondary education	2.21	15	2.15
Tertiary education	2.86	19	2.87
Transfer of research and development	2.19	24	2.42
Commercial and professional infrastructure	2.92	31	3.25
Openness of the market - dynamics of changes	3.47	5	2.86
Openness of the market – barriers	2.3	35	2.76
Access to physical infrastructure	3.75	19	3.76
Cultural and social norms	2.45	30	2.84
Recognising business opportunities	3.43	20	3.43
Entrepreneurial capacity – potential	2.49	26	2.69
Entrepreneurial capacity – motivation	3.1	31	3.44
Protection of intellectual property	2.63	22	2.97
Relation towards women in entrepreneurship	3	31	3.31
Attitude towards growing enterprises	2.82	22	3.02

Source: *What makes Croatia an entrepreneurial country? Results of GEM Croatia research 2006*, p.54.

Croatia's 19<sup>th</sup> place in quality of financial support reflects a significant move forward in 2006 in relation to 2005, but insufficient presence of financial angels still remains among the worst graded aspects of financial support (among lowest graded statements– ki06a04, Table 19). There is still no appropriate regulatory framework, which together with almost complete ignorance of the significance of this type of financing of entrepreneurial ventures hinders further informal investing.<sup>8</sup>

<sup>8</sup> In 2003, in Cooperation with CDVCA – Community Development Venture Capital Alliance, USA and Professor Colin Mason from Strathclyde University, Glasgow, an expert on business angels, CEPOR organised a round table titled "Investment of "patient" capital", which was attended by representatives of the Ministry of Finance, representatives of venture capital funds in Croatia, and entrepreneurs' associations. The goal was to familiarise the attendants with strategies of development of venture capital funds as form of support for development of growing small enterprises, and the role of informal forms of financing in establishment of new ventures and support for growing enterprises. An

In 2006, government policies for grants and regulations took the same 22<sup>nd</sup> place in their respective categories. There was a significant jump in the perception of quality of government policies (from 1.76 in 2005 to 2.17 in 2006) most likely due to a range of activities directed at eliminating administrative barriers and facilitating communication between entrepreneurs and state administration (HITRO.HR and the regulatory guillotine project).<sup>9</sup> However, within the ten highest graded statements about entrepreneurial environment, there were still none related to government policies, and among the ten lowest graded statements (as in 2005), there were three statements related to government policies, which sends a signal of urgency for change and requires adequate policy intervention.

Croatia was ranked even higher according to the government programmes criterion (16<sup>th</sup> position) in 2006, which evaluates the availability of programmes for the support of development of entrepreneurial capacity in the country.

The difference in Croatia's ranking according to the quality of primary and secondary education (15<sup>th</sup> place) in relation to the tertiary level of education (19<sup>th</sup> place) still indicated a gap, but in relation to 2006 this gap in perception of quality is decreasing (in 2005 these two held 22<sup>nd</sup> and 29<sup>th</sup> place, respectively).

However, also in 2006, primary and secondary education insufficiently contributed to the development of entrepreneurial capacity of youth, which is shown in experts' extremely low evaluation of primary and secondary education within the ten lowest graded statements (ki06d03, Table 19). Ongoing reforms in the field of education in Croatia (such as cataloguing of knowledge and skills and the Bologna higher education reform) indicate the existence of political will, but the efficiency with which these mechanisms are applied depends on the consistency and successful implementation of education policy.

In 2006, same as in 2005, quality of the transfer of research and development from universities and research centres to economic practice was among the lowest graded components of entrepreneurial environment in Croatia. It is especially significant that among the lowest graded statements there are two that indicate there is a considerable problem of transfer of R&D to the business sector. Experts believe that there is no adequate support available to engineers and scientists which would facilitate commercialisation of their ideas through new and growing enterprises (ki06e06, Table 19), and that new and growing enterprises do not have the same access to new technology and research as large enterprises (ki06e02, Table 19). Although perceptions of quality of protection of intellectual property significantly improved in 2006 in relation to 2005, this field is still a significant low point of entrepreneurial environment in Croatia.

Considering that the business and professional infrastructure component was significantly represented in government programmes, the fact that in 2006 Croatia was positioned at the rear (31<sup>st</sup> place out of 37 countries) according to quality of business and professional infrastructure could be viewed as disappointing. In the GEM research this component is described through existence of a

---

initiative for creation of regulatory framework for the development of informal financing was started then, but nothing has happened so far.

<sup>9</sup> HITRO.HR is a service provided by FINA from 2005. It is based on the one-stop-shop concept of providing more services in one place and from one place for entrepreneurs. It was also recognized by the report *SME Policy Index 2007: Report on the Implementation of the European Charter for Small Enterprises in the Western Balkans*, p. 173. In 2006 the Government of Croatia started the project HITRO.REZ as the first phase of cleaning regulatory framework. HITRO.REZ ended in June 2007 identifying the list of unnecessary procedures and permits and should be followed by guillotine approach aiming to simplify regulatory framework, for what a parliamentary decision is needed.

network of business and professional infrastructure, but also with the level to which enterprises can afford such services and whether they are of high quality. Business and professional infrastructure exists (e.g. entrepreneurial zones, centres for entrepreneurship, incubators), but the problem lies in the adequacy and quality of services. Also among the ten lowest graded statements is the statement which warns that both future and existing entrepreneurs feel they lack the knowledge to start a business venture with growth potential and manage a fast growing enterprise.

Market mechanisms are viewed through the dynamism of change and the existence of entry barriers in the internal market. In 2006, experts perceived an increasing gap between these two components. According to the speed of changes in the internal market, Croatia holds a high 5<sup>th</sup> place, while it is second last (35<sup>th</sup> place) according to the presence of barriers. These are consistent conclusions found not only in GEM research but also in research carried out by the World Bank (*Doing Business*) and the Croatian National Competitiveness Council<sup>10</sup> within the World Economic Forum's framework for competitiveness research. Persistent presence of barriers and non-existence of consistent and decisive policies for their elimination paves the way for corruption, which additionally increases the government's responsibility to eliminate them. Even beside the positive experience with HITRO.HR, this is not enough, because procedures need to be simplified and made more transparent. Among the ten lowest graded statements there are still three statements that indicate the existence of strong administrative barriers (ki06b04 – obtaining licenses and permits within one week; ki06b07 – it is difficult for enterprises to deal with bureaucracy, legal and regulatory demands; ki06g04 – new and growing enterprises do not have enough money to break market entry barriers, Table 19).

However, in order to enter a market, information on trends and risks are needed. Large enterprises can afford constant flows of such information, while small enterprises cannot. Therefore it is extremely important to have publicly available information as the basis for decision making for entry into a certain industry and on growth prospects. The statement that new and growing enterprises do not have the same access to new technology and research as large enterprises (ki06e02, Table 19) is also among the ten lowest graded in the research.

Cultural and social norms are the starting point of all the activities that support the development of entrepreneurial activity in GEM research, described through self-sufficiency, initiative, risk taking, creativity and individual responsibility. From the last place in 2005, Croatia has moved to 33<sup>rd</sup> place out of 37 countries. Changes in cultural and social norms are the most difficult to make and require the greatest amount of time, which emphasises that cooperation is necessary between different policies, programmes and a range of institutions, from education to the media. Since 2002, when the grade of cultural and social norms in the sense of supporting entrepreneurial culture was 2.17, in 2006 it managed to “climb” to 2.67. The GEM countries average was 2.84, while score of the USA was 4.47.

Entrepreneurial efficiency arises from the ability to recognise business opportunities, from entrepreneurial capacity, and from attitudes towards growing entrepreneurial ventures, which represents a sort of a synergy effect of all the components of entrepreneurial environment.

The “recognising business opportunities” component is described in the GEM research as the presence of business opportunities, availability of information about such opportunities and the capacity to turn the recognised opportunity into a business venture.

---

<sup>10</sup> The World Bank started the Doing Business Project in 2004, resulting in annual reports focusing on quality of administrative environment. Croatia is included in all surveys and its low rankings in many aspects of the quality of administrative environment only confirmed findings of both GEM Croatia and Croatian Competitiveness Council's surveys. Bibliographic information about Doing Business surveys as well as Croatian Competitiveness annual reports are presented under References.

Two dimensions describe entrepreneurial capacity:

- The **potential** dimension includes simple procedures regarding starting a business venture, existence of knowledge and skills about how to do so, and the speed with which one reacts to opportunities.
- The **motivation** dimension includes value norms towards entrepreneurship as a desirable career, high social status of an entrepreneur and the perception that entrepreneurs are competent people.

The “attitude towards growing enterprises” component is described through the awareness of policymakers towards the importance of growing business ventures, through the existence of numerous supports for fast growing enterprises and through availability of adequate competencies.

In 2006, positive advances were achieved in evaluating all of these components of entrepreneurial efficiency. However, the gap that exists between dynamism of changes in the market (according to which Croatia is at 5<sup>th</sup> place out of 37 GEM countries) and the capacity for “recognising business opportunities”, which involves converting perceived opportunities to ventures (20<sup>th</sup> place, out of 37 countries) is still not closing. The “opportunity window” which is opened by the dynamism of changes in the market is not going to stay open forever; opportunities must be seized when they appear. The responsibility for non-utilisation of opportunities lies with the non-removal of entry barriers and the low level of entrepreneurial capacity. According to both dimensions of entrepreneurial capacity (i.e. potential, motivation), Croatia is in the bottom group of GEM countries: 26<sup>th</sup> place according to potential and 31<sup>st</sup> place according to motivation.

This bad image is improved by significant change in the attitude towards growing enterprises, as from the 31<sup>st</sup> place out of 33 countries in 2005, Croatia climbed to the 22<sup>nd</sup> place out of 37 countries in 2006 (reaching the value of 2.82, which indicates coming closer to turn point of value of 3, at which obstructive character of this component of entrepreneurial environment will turn to a supportive one). Good benchmark can be Ireland where the average rating of attitude towards this elitist group of enterprises, which are the most important ones that significantly create new jobs and new value, is 4.11! It would be worthwhile to investigate how they reached such level of awareness of the importance of growing businesses for national economy among different stakeholders.

Entrepreneurial efficiency is an overall measurement of all the components of entrepreneurial environment and thus can be changed through change of these components. Whether this process of improving entrepreneurial efficiency will be faster or slower depends on the consistency of all interventions in space and time (i.e. between different bearers of responsibility).

Each of the twelve components of entrepreneurial environment is described by several statements, which experts grade with grades from 1 to 5. In order to conduct a close analysis of the situation as well as determine areas for action, it is necessary to find out why an individual component has received a good or a poor grade. Table 18 shows the ten highest graded statements about the entrepreneurial environment in Croatia, and Table 19 shows the ten lowest graded statements.

**Table 18. Ten highest graded statements about entrepreneurial environment in Croatia, 2006**

	Code	Grade
In Croatia, there are numerous opportunities for creation of new enterprises.	ki06k01	3.42
In Croatia a new or a growing enterprise can get all utility connections in about one month (access to gas, water, electrical and sewage network).	ki06h05	3.48
In Croatia, a new or a growing enterprise can withstand the expenses of basic utility services (gas, water, electric power, and sewage).	ki06h04	3.54
In Croatia, market of goods and services intended for end consumers dramatically changes from year to year.	ki06g01	3.57
In Croatia, it is easy for new and growing enterprises to get good banking services (current accounts, foreign currency transactions, letters of credit, etc.).	ki06f05	3.58
In Croatia, there are more favourable opportunities for creation of new enterprises, than people who can take advantage of those opportunities.	ki06k02	3.61
In Croatia, physical infrastructure (roads, utility services, communication, and waste disposal) ensures good support to new and growing enterprises.	ki06h01	3.63
In Croatia, it is not too expensive for a new or a growing enterprise to get good access to the communication network (telephone, Internet, etc.)	ki06h02	3.69
In Croatia, favourable opportunities for starting new enterprises have significantly increased in the last five years.	ki06k03	3.89
In Croatia, a new or a growing enterprise can open a telephone line or get Internet access in about a week.	ki06h03	4.12

Source: *What makes Croatia an entrepreneurial country? Results of GEM Croatia research 2006*, p.57.

**Table 19. Ten lowest graded statements in Croatia, 2006**

	Code	Grade
In Croatia, government measures and policies (public procurement, for example) systematically give advantage to new enterprises.	ki06b01	1.85
In Croatia, there is adequate support available to engineers and scientists, which facilitates commercialisation of their ideas through new and growing enterprises.	ki06e06	1.94
In Croatia, new enterprises can get all the required licenses and permits within one week.	ki06b04	2
In Croatia, illegal sales of "pirated" software, videotapes, CDs and other products protected with copyrights or registered trademarks are not widespread.	ki06n03	2.03
In Croatia, it is not overly difficult for new and growing enterprises to deal with bureaucracy, legal and regulatory demands.	ki06b07	2.06
In Croatia, primary and secondary school system devotes adequate attention to entrepreneurship and start-up of new enterprises.	ki06d03	2.09
In Croatia, new and growing enterprises have the same access to new technology and research as the large enterprises.	ki06e02	2.09
In Croatia, physical persons (except owners) are an important source of financial aid for new enterprises and growing enterprises.	ki06a04	2.12
In Croatia, many people know how to start and manage a fast growing enterprise.	ki06i01	2.14
In Croatia, new and growing enterprises have enough money to break market entry barriers.	ki06g04	2.17

Source: *What makes Croatia an entrepreneurial country? Results of GEM Croatia research 2006*, p.57.

The grades of individual components of entrepreneurial environment (table 17) point to a similar pattern in the quality of entrepreneurial environment in Croatia and GEM countries. Grades in Croatia are generally lower than the average of GEM countries, but tend to be approaching the GEM average. In 2006, Croatia has several components graded at the average level of GEM countries for the first time: financial support, government programmes, primary and secondary education, tertiary education, access to physical infrastructure, while openness of the market – dynamics of change is graded significantly better than the GEM average. Three components have received significantly lower grades (government policies - regulations; openness of the market – administrative barriers; transfer of research and development).

In 2006, all the components of entrepreneurial environment received higher grades than in 2005. As in 2005, only two components received grades above 3, but they have improved:

- Access to physical infrastructure (3.75 in 2006, 3.35 in 2005).
- Openness of the internal market - speed of changes (3.47 in 2006, 3.05 in 2005).

The lowest graded components of entrepreneurial environment, which still place Croatia towards the bottom, are:

- Openness of the market – administrative barriers, 35<sup>th</sup> place out of 37 countries.
- Commercial and professional infrastructure, 31<sup>st</sup> place out of 37 countries.
- Cultural and social norms, 30<sup>th</sup> place out of 37 countries.
- Transfer of research and development, 24<sup>th</sup> place out of 37 countries.

The ten lowest graded statements on entrepreneurial environment in Croatia in 2006 warn about the need for urgent intervention, especially since some of the statements were also on the lowest graded statements list in 2005. These include government measures and policies which do not provide systematic support to new enterprises in the sphere of public procurement, the problem of administrative barriers, non-existence of alternative financial instruments for financing the growth of enterprises, etc. The introduction of the HITRO.HR project in 2006 is a good example of how to start solving the problem of inadequate regulatory entrepreneurial framework conditions and the barriers that hinder the start up of entrepreneurial activity.

### **Government measures focused on enhancing entrepreneurial capacity of Croatia**

Before interpreting current government measures focused on enhancing the entrepreneurial capacity of Croatia, some definitions<sup>11</sup> should be established regarding policy, programmes and institutional arrangements:

- Policy – set of long range goals and principles framing the territory of actions and identifying major stakeholders;
- Programmes – set of actions, based on identified policy, with identification of actors, time bound information and performance measures;

---

<sup>11</sup> Those definitions were developed for the purpose of this paper using Webster definitions of policy as a starting point – “a definite course or method of action selected (as by a government, institution, group or individual) from among alternatives and in the light of given conditions to guide and determine the present and future decisions; high-level overall plan embracing the general goals and acceptable procedures, especially of a governmental body” (Merriam-Webster On-line [www.m-w.com](http://www.m-w.com), Sept.16, 2007). Supporting evidence for identified definitions were also found in other sources, like The Brookings Institute (<http://www.brookings.edu>) as well as in approaches of certain governments which try to make their activities more transparent and easier to communicate with the public (like the Government of British Columbia: Freedom of Information and Protection of Privacy in which a list of notions is explicitly defined – [www.msar.gov.bc.ca/privacyaccess/manual/other/def.htm](http://www.msar.gov.bc.ca/privacyaccess/manual/other/def.htm), Sept.16, 2007).

### *Policy environment for promoting entrepreneurship in Croatia*

- Institutional arrangements – organisational and financial aspect of delivering policies and programmes.

Based on analysis of government measures focused on enhancing the entrepreneurial capacity of Croatia, the following observations can be made:

- There is confusion among ministerial officials and staff about policies versus programmes (programmes are often seen as policies);
- Many programmes exist, but are not well connected, are too fragmented, overlapping, and lack performance measures;
- Institutional arrangements in delivering policies and programmes are complicated, not transparent and usually ministry-centred.

#### ***Policy activities***

There are three policy oriented documents relevant for enhancing entrepreneurship, one coming from the government (Strategic Development Framework 2006-13), one coming from the body established by the government (National Competitiveness Council) and one from an NGO (CEPOR, Policy Centre for SMEs and Entrepreneurship).

##### 1. Strategic Development Framework for 2006-2013 (Government), 2006

The main objective of the Strategic Development Framework for 2006-13 is to provide overall guidance for policy makers, by identifying ten strategic areas for the realisation of the main strategic goal identified as: “growth and employment in a competitive market economy acting within a European welfare state of the 21<sup>st</sup> century”. Ten strategic areas are: people, knowledge and education; transport and energy infrastructure; science and IT technology; social cohesion and justice; macroeconomic stability and openness; integrated financial services; environmental protection and balanced regional development; entrepreneurial climate; privatisation and restructuring and new role of the state. It is explicitly stated that the application of policies from this Strategic Development Framework will result in an average increase of about 5% in the rate of economic growth in the period up to 2010, and above 7% after 2010. The major expectation is 75% of the average EU-25 GDP at purchasing power parity per capita, but it is emphasised that only simultaneous and harmonised actions in the ten identified strategic areas can provide it.

In chapter IX The Entrepreneurial Climate (pp. 58-62), using the GEM Croatia survey and incorporating the majority of its recommendations, the following goals are identified:

- Affirm entrepreneurship as the key activity on which social dynamics and integrity rely.
- Increase the TEA index to at least 25% above the global average by 2013.
- Promote the development of entrepreneurship as the main instrument of regional development.
- Establish an integrated and consistent set of government policies aimed at stimulating entrepreneurship.

- Develop lifelong learning for entrepreneurship.
- Evaluate all government policies from the viewpoint of how they affect entrepreneurship.

Suggesting specific instruments and actions, the Strategic Development Framework gives important input to whole array of institutions which should identify specific policies, programmes and projects in order to contribute to the realisation of identified goals. The following measures and instruments are suggested:

- To strengthen the efficiency of, and coordination between the current incentive measures and the current entrepreneurial infrastructure to achieve maximum synergy between money, the efficiency of the entrepreneurial infrastructure, and the needs of enterprises;
- To form a central register of measures and incentives for entrepreneurship in order to improve the efficiency of funds at state level. In cooperation with regional development agencies, this would serve to create a coordinated and well branched network serving entrepreneurs' needs;
- To introduce a system of evaluation of the effects of legislation on entrepreneurial climate;
- To intensify activities aimed at the social affirmation of entrepreneurial values and activities, at Government and local level;
- To strengthen the role of regional development agencies in encouraging entrepreneurship and inter-regional transfer of know-how;
- To create legal opportunities to allow the state to invest in risk capital funds (especially regional and industry-specialised ones);
- To promote clusters as a critical link for the creation of competitive products based on innovation; and
- To work intensively on making Croatia an attractive place for FDIs, by coordinating the activities of the Trade and Investment Promotion Agency and regional development agencies.

The Strategic Development Framework for 2006-13 incorporated most of the 55 Policy recommendations for raising Croatia's competitiveness (2004) as well as 15 recommendations developed by the Croatia GEM survey (2005),

2. 55 Policy recommendations for raising Croatia's competitiveness (National Competitiveness Council), 2004

In 2004 the National Competitiveness Council, after a broad discussion between its four main stakeholders (business sector, unions, government, academia), presented its 55 Policy recommendations for raising Croatia's competitiveness, directed towards four key national strategic objectives within a ten year timeframe:

*Policy environment for promoting entrepreneurship in Croatia*

- Enabling sustainable GDP growth (doubling per capita GDP at purchasing power parity per capita by 2014, to achieve 55-60% of average EU per capita);
- Reducing unemployment (to a sustainable rate under 8%, by 2014);
- Improving the quality of life (measured by educational level, employment and per capita income); and
- Enhancing social inclusion (further enhancements of social inclusion are education, state efficiency – greater access to public services, control of corruption and the rule of law).

55 Policy recommendations are grouped into seven major areas of necessary intervention:

- Education for growth and development;
- Rule of law in compliance with EU standards;
- Cost and price competitiveness;
- Development of innovation and technology;
- Strengthening small and medium-size enterprises;
- Regional development and cluster development; and
- Creation of positive mindset and leadership.

Recommendations focused on strengthening small and medium-size enterprises were based on GEM Croatia surveys in 2002 and 2003, and were identified as:

- Enhancing entrepreneurial culture (#34);
- Activities toward achieving consistency of government policies and instruments for enhancing entrepreneurial activities (#35);
- Eliminating administrative barriers (#36);
- Development of financial market (#37);
- Development of the institutional infrastructure for supporting SMEs (#38);
- Identifying productivity benchmarks (#39);
- Stimulating “export mentality” among SMEs (#40); and
- Decreasing regional development imbalances – clusters (#41).

3. Global Entrepreneurship Monitor survey results with policy recommendations (CEPOR – Policy centre for SMEs and entrepreneurship)

CEPOR – Policy centre for SMEs and entrepreneurship was established in 2001 as an NGO by ten institutional founders (Croatian Chamber of Economy, Croatian Chamber of Crafts, Economics Institute, Institute for International Relations, Open Society Institute-Croatia, Centre for Entrepreneurship Osijek, Medjimurje Centre for Entrepreneurship, J.J. Strossmayer University in Osijek – Faculty of Economics, Istrian Development Agency, Association of Support Institutions – UHIPP). CEPOR's mission is to focus on the entrepreneurial climate of Croatia and the SME sector. Jointly, with a research team from the J.J. Strossmayer University in Osijek, CEPOR participates in Global Entrepreneurship Monitor surveys and presents the surveys' results to the government and the public. Croatia has been included in GEM surveys since 2002, through the joint initiative of the CEPOR and the research team from the J.J. Strossmayer University in Osijek. The following publications are available:

- What makes Croatia a(n) (non) entrepreneurial country?, GEM 2002;
- What makes Croatia an entrepreneurial country?, GEM 2002-05; and
- What makes Croatia an entrepreneurial country?, GEM 2006.

All surveys confirmed the following issues as major obstacles in developing the entrepreneurial climate in Croatia:

- Inconsistency of government policies;
- Presence of administrative barriers; and
- Lack of entrepreneurship education on all educational levels.

The latest survey, in 2006, confirmed that the following recommendations are still valid and important in solving identified issues:

- Issue: consistency of government policies
  - Recommendation #1: implement Open Coordination Method on ministerial level, with PM leading the group
  - Recommendation #2: urgently simplify regulatory framework
- Issue: from fragmented programmes to priorities
  - Recommendation #3: programmes focused on gaps identified by GEM survey
  - Recommendation #4: to develop a statistical model for identifying changes in SMEs based on Eurostat
  - Recommendation #5: to develop a transparent system of evaluation of government programmes
- Issue: low I&D transfer

### *Policy environment for promoting entrepreneurship in Croatia*

- Recommendation #6: to establish a government venture fund to enhance transfer of I&D into SMEs
- Recommendation #7: to evaluate higher education institutions on their contribution to solving regional development problems, through public-private partnership
- Issue: from banking loans to variety of financial instruments
  - Recommendation #8: to develop regulatory framework for starting guarantee funds
  - Recommendation #9: to develop regulatory framework for informal investors (business angels...)
- Issue: business infrastructure – from quantity to quality
  - Recommendation #10: selective financial support for new services and up-grading quality of existing ones
  - Recommendation #11: through selective financial support to profile business support institutions and enhance their cooperation
- Issue: to strengthen HR dimension of entrepreneurial capacity of the country
  - Recommendation #12: introduce entrepreneurship education in all levels of education
  - Recommendation #13: at tertiary educational level, provide ALL students with necessary knowledge and skills for an entrepreneurial career (“entrepreneurship across campus”)
  - Recommendation #14: introduce voucher system for all who want to use Business Development Services
  - Recommendation #15: continually work on increasing the percentage of women in entrepreneurial activities

### ***Programmes***

Despite the Government document on Strategic Development Framework for 2006-2013 and the legitimised majority of policy recommendations from the National Competitiveness Council and CEPOR (based on GEM survey), which demonstrate that the Government is heading towards better coordination and communication between the different players (government, para-government organisations like the Croatian Competitiveness Council and NGOs i.e. CEPOR), there are no visible changes in structure and focuses of programmes related to entrepreneurship and SMEs. This means that there are no connections among documents, which is obvious from the operating plan for 2007 developed by the MELE, based on the 2004 Government Programme for Enhancing SMEs and Entrepreneurship. The Strategic Development Framework for 2006-13 as a major policy document in Croatia did not impact the MELE Operating plan for 2007, or provoke anyone to revise the 2004 Government Programme for Enhancing SMEs and Entrepreneurship. This indicates that there is no

connection between policy documents and programmes, and that there is no actual understanding of the difference between those two notions.

The Operating plan for 2007 identifies 30 projects for supporting SMEs (it is not clear why they are called projects and not programmes) classified under 9 groupings, with four other “projects” in which SMEs can be involved, but which are projects of other departments in the MELE. Among those additional “projects” are: entrepreneurial zones, enhancing export, and restructuring & development of certain industries, like the textile industry. With the Ministry of Sea, Tourism, Transport and Development there are three additional “projects” open to SMEs: enhancing entrepreneurship in tourism, supporting employers on islands to preserve jobs, building and reconstruction of a fleet of small ships for Croatian private, small ship-owners.

Instead of listing all “projects” from the MELE Operating plan for 2007, the problem of fragmentation and overlapping will be emphasised using three examples, based on information from the Operating plan. In all three examples, “projects” are promoted by the MELE and the MELE is in charge of them, all of them are national “projects” (actually programmes) and all of them have the same source of funding (government). Only loan programmes are co-funded with local governments (counties and/or municipalities).

**Example 1:** Two “projects” mutually connected and overlapping:

- Innovations and innovative-manufacturing cluster (goal: supporting innovations and commercialisation of innovations; partnering institutions: Ministry of Science, Education and Sport, Croatian Chamber of Economy, Croatian Chamber of Crafts, HAMAG, Croatian Employers Association, National Association of Innovators, scientific institutions, BICRO, Technological Council);
- Competitive manufacturing (goal: supporting new technologies and improvement of existing ones; partnering institutions: Ministry of Science, Education and Sport, Croatian Chamber of Economy, Croatian Chamber of Crafts, HAMAG and Croatian Employers Association).

What is the difference between supporting innovations and supporting new technologies and improving existing ones? And why, for example in the Competitive Manufacturing project, do scientific institutions or BICRO not take part? Or why was the Technological Council specifically mentioned as a partnering institution, because it is a body of the National Council for Science, which is part of the Ministry of Science, Education and Sport? It is only an example how partner institutions are just listed without any real role in implementing the “projects”.

**Example 2:** Two overlapping “projects”:

- Entrepreneurship of targeted groups (young people, start-ups, disabled people)
- Women entrepreneurship (goal: to increase the involvement of women in entrepreneurship)

What about a young disabled woman wanting to start a new business, in which group does she belong?

**Example 3:** Two overlapping “projects”:

- New cooperative (goal: to develop cooperative entrepreneurship and a qualitative increase in the number of cooperatives)
- Competitive cooperative (goal: to support the connection of small manufacturers into cooperatives and developing a cooperative product)

What is the difference and does it mean that new cooperatives should not be competitive ones?

### ***Institutional arrangements for delivering policy and programmes***

Using definitions of policy and programmes, the only policy document is the Strategic Development Framework for 2006-13, in which entrepreneurial climate (Ch. IX), regional development (Ch. VI) and the new role of the state (Ch. XI) are specifically identified as areas of special policy interests. The document was developed by the Central Office for Development Strategy and Coordination of EU Funds, using contributions from several ministries (among others the Ministry of Economy, Labour and Entrepreneurship). The draft document was discussed with several stakeholders, for example the Croatian Competitiveness Council, Croatian Chamber of Economy, Economic and Social Council, Croatian Employers' Association, Confederation of Trade Unions; Government Office for Social Partnership, National Foundation for Civil Society Development, Government Office for Cooperation with NGOs, Association of Innovators, Association of Small and Medium Enterprises, Association of the Unemployed of Croatia and many others. Regional voices were not heard in this process. Nevertheless, it is a good example of how to build ownership of such policy documents, but it also raises the expectation that all those stakeholders will act on developing, revising or connecting their policy documents/activities with this master document. In the case of building policy environment for promoting entrepreneurship in Croatia it is not yet visible (specifically looking at the documents of the MELE and Ministry of Science, Education and Sport).

“Projects” (programmes) planned in the MELE’s Operational plan 2007 are result of the MELE’s activities. The majority of them will be delivered through the MELE, while only three will be delivered through HAMAG.

Over the last few years, there have been several occasions which discussed institutional arrangements for delivering policy and programmes focused on entrepreneurship and SMEs, especially at annual monitoring meetings focused on the implementation of the European Charter for Small Enterprises, as well as at presentations of GEM survey results. Also, the survey of Small and Medium-sized Enterprises Development (2004)<sup>12</sup> confirmed the lack of institutional infrastructure for policy design and too much implementation of activities on the side of the MELE. In all those situations, it was emphasised that MELE should be more focused on policies, and HAMAG and other agencies including regional development agencies on programmes, but still there are no visible results. The questions raised were if the MELE has capacity to deal with policy issues or not, and if the HAMAG has capacity to deal with programmes or not. Lack of political will, leadership and qualified staff could be reasons as to why such profiling has not yet happened. There are some indications which can be used to justify this conclusion:

- There is no enterprise policy or industrial policy in Croatia. This was also identified by the working group for preparing negotiations with the EU regarding the Chapter 20 Entrepreneurship and Industrial Policy (October 2006);

---

<sup>12</sup> Singer, S. and B. Lauc (2004), *Small and medium-sized enterprises development: Croatia*, under the specific grant agreement RELEX I-2 190202 REG 4-14, CEPOR.

- The Programme for promoting SMEs for 2004-2008 is considered as a basic strategic document for enhancing the entrepreneurship capacity of the country and SME sector in Croatia, but it was never up-dated using inputs from a variety of documents available in the same period. These documents include the Croatian Strategic Development Framework 2006-2013 as well as many EU documents, like Entrepreneurship in Europe (green paper) and EU Financial Framework 2007-2013, as well as inputs from surveys like Doing Business (administrative framework), Croatian Competitiveness Council (competitiveness), International Transparency (corruption), and Global Entrepreneurship Monitor (entrepreneurial environment);
- HAMAG was established as an implementing agency in 2002, as a result of transforming the former Croatian Guarantee Agency, which was established in 1994. But, HAMAG still only operates programmes for the certification of consultants and guarantee programmes for government loan programmes.<sup>13</sup>

## **Conclusions**<sup>14</sup>

Before developing conclusions related to policy environment for promoting entrepreneurship in Croatia, especially in light of strengthening entrepreneurship, innovation and economic development at local level, a summary of selected findings from the GEM survey will be presented:

### *Croatia is better in an international context*

There are four important conclusions about the entrepreneurial activity of Croatia in 2006:

1. There is good news about moving away from the lower end of the scale of GEM countries, with 2005 progress regarding the TEA index reinforced in 2006. Further intensification of entrepreneurial activity has continued in 2006 and Croatia was ranked 18<sup>th</sup> out of 42 countries, with a TEA index of 8.58.
2. The motivation index, i.e. the TEA Opportunity to TEA Necessity ratio, is an important indicator of the entrepreneurial capacity of a country. While in 2005 Croatia was the only GEM country with a motivation index below 1 (which shows that there are more entrepreneurs who have started entrepreneurial activity out of necessity and not because it had been their choice based on a perceived opportunity), the motivation index was 1.16 in 2006, which shows a significant reversal, but is still way below the GEM average of 6.06.
3. Rate of “maturity”, which concerns the transition to the status of established entrepreneur, with entrepreneurial activity longer than 42 months, is still far from the GEM average (Croatia 0.48; GEM countries 0.81).
4. Entrepreneurial activity in Croatia as compared to other European nations provides important data for policymakers designing policies and programmes. In comparison with the average of the 16 European Union member countries involved in GEM research,

---

<sup>13</sup> According to the web-site [www.hamag.hr](http://www.hamag.hr) (19.09.2007) the last and only report is for the year 2003. The web-site is not a sign of a vibrant implementation agency.

<sup>14</sup> Based on *Croatia GEM 2006 Report*.

## *Policy environment for promoting entrepreneurship in Croatia*

Croatia has the highest level of the TEA index but also the highest level of TEA Necessity and only four countries have less “established” entrepreneurs.

### *Number of enterprises with growth potential remains low*

GEM research describes growing enterprises and their use of new technologies, innovation in new product development, exposure to competition, and capacity for new employment. Compared to similar medium level economies (in terms of GDP per capita), Croatia has more enterprises that invest in new technologies. This gives hope that investing in technology will soon pay off through the creation of new or innovative products, although this is not the case as yet. 71% of new enterprises and 70% of established ones have products that are new to no-one, while in the cluster of medium developed countries, this is the case for 51% of new entrepreneurs and 63% of established entrepreneurs. While 2005 was the year in which expectation of new employment grew strongly in relation to previous years, in the category of enterprises with 20 and more employees expectations remained unchanged in 2006.

### *Regional distribution of entrepreneurial activity in Croatia*

In the 2002-06 period, regional differences in entrepreneurial activity significantly decreased, due to the strengthening of entrepreneurial activity in Slavonia and Baranja, Lika and Banovina, and Northern Croatia. However, the difference in the motivation index still indicates significant differences in entrepreneurial capacity, because Slavonia and Baranja and Lika and Banovina are the only two regions with a motivation index lower than 1.

### *Entrepreneurial environment in Croatia is becoming better*

In 2006, all the components of entrepreneurial environment received higher grades than in 2005. As in 2005, only two components received grades above 3, but at least these grades are higher than the previous year:

- Access to physical infrastructure (3.75 in 2006, 3.35 in 2005).
- Openness of the internal market - speed of changes (3.47 in 2006, 3.05 in 2005).

*The lowest graded components of entrepreneurial environment, which still place Croatia at the rear, are:*

- Openness of the market – administrative barriers, 35<sup>th</sup> place out of 37 countries.
- Commercial and professional infrastructure, 31<sup>st</sup> place out of 37 countries.
- Cultural and social norms, 30<sup>th</sup> place out of 37 countries.
- Transfer of research and development, 24<sup>th</sup> place out of 37 countries.

### *Policies and programmes enhancing entrepreneurship are still not consistent*

- Government policies are not consistent and not linked to each other.
- There are many fragmented programmes, without priorities.

- There are no systematic and transparent evaluation mechanisms for programmes and policies.

Bearing in mind that these findings are consistent with many others (Croatian Competitiveness Council, Doing Business etc.), and also repeating themselves over the last few years, conclusions should be focused on WHY identified obstacles have not been addressed more efficiently. Following this, suggestions should be made on political will, leadership and qualified (knowledgeable and skilful) staff throughout all institutional structures (ministerial level, national implementing agencies, local governments and regional development agencies, institutional support infrastructure).

The reason why policies enhancing entrepreneurship are still not consistent and not linked to each other probably lies in the traditional vertical structure of the government, where horizontal communication is not efficient. However, a more substantial reason for inconsistent policies is lack of knowledge on what policies are and how to develop them. Too much politicisation instead of professionalisation prevents opening the process of developing policies to different stakeholders. On the other side, a lack of policy activities in the MELE is compensated with being too busy with many overlapping programmes. This contributed to the situation whereby HAMAG could not profile itself, because the majority of activities for implementing programmes stayed with the MELE. In situations where policy does not exist, all programmes have the same priority. As a result, programmes focused on enhancing innovation, for example, were lost among 30-40 other programmes.

### **Suggestions for increasing the entrepreneurial capacity of Croatia**

There are only two suggestions, based on the surveys and documents analysed:

- To focus on blank spots and missing links identified by Global Entrepreneurship Monitor surveys, especially on education, transfer of research and development into the business sector (improving capacity to deliver R&D and absorption capacity of business sector), elimination of administrative barriers, development of high quality business development services and better profiling of commercial and professional infrastructure supporting the SME sector to enable its actors to cooperate in delivering the high quality services needed by SMEs.
- To implement an Open Coordination Method on all levels, from central to local government. In order to make this feasible, executive programmes for participants in this process would need to be organised. These should focus on two issues: understanding special features of SMEs and being more comfortable with the differences between policy and programmatic activities. This would help in building the necessary institutional infrastructure at central government level (ministries, agencies) as well as at local government level (local government, regional development agencies, implementers: centres for entrepreneurship, business incubators, business zones).

## Bibliography

- Autio, E. (2007), *GEM 2007 Global Report on High-Growth Entrepreneurship*, London Business School, Babson College, Mazars.
- Bosma, N. and R. Harding, (2007), *Global Entrepreneurship Monitor: GEM 2006 Results*, London Business School and Babson College.
- Doing Business in 2007 – How to Reform* (2006), The International Bank for Reconstruction and Development / The World Bank.
- Doing Business in 2006 – Creating Jobs* (2005), The International Bank for Reconstruction and Development / The World Bank.
- Doing Business in 2005 – Removing Obstacles to Growth* (2004), The International Bank for Reconstruction and Development / The World Bank.
- Doing Business in 2004 – Understanding Regulations* (2003), The International Bank for Reconstruction and Development / The World Bank.
- Godisnje izvjesce o konkurentnosti 2004* (2005), Nacionalno vijece za konkurentnost, Zagreb.
- Godisnje izvjesce o konkurentnosti 2002* (2003), Nacionalno vijece za konkurentnost, Zagreb.
- Hrvatska na putu prema cetdeset najkonkurentnijih zemalja? - Godisnje izvjesce o konkurentnosti 2006* (2007), Nacionalno vijece za konkurentnost, Zagreb.
- Kirchhoff, B. (1994), *Entrepreneurship and Dynamic Capitalism*, Westport, CT: Greenwood Publishing, Quorum Books.
- Operativni plan poticanja malog i srednjeg poduzetništva za 2007* (2007), Ministarstvo gospodarstva, rada i poduzetništva.
- Program poticaja malog i srednjeg poduzetništva 2004-2008* (2004), Ministarstvo gospodarstva, rada i poduzetništva.
- 55 Recommendations for raising Croatia's competitiveness* (2004), National Competitiveness Council, Zagreb.
- Singer, S. et al (2007), *What makes Croatia an entrepreneurial country? Results of GEM Croatia research 2006*, CEPOR – SMEs and Entrepreneurship Policy Centre, Zagreb.
- Singer, S. and B. Lauc (2004), *Small and medium-sized enterprises development: Croatia, under the specific grant agreement RELEX I-2 190202 REG 4-14*, CEPOR.
- SME Policy Index 2007: Enterprise Policy Development in the Western Balkans- Report on the Implementation of the European Charter for Small Enterprises in the Western Balkans* (2007), Stability Pact, Investment Compact for South East Europe, OECD, European Commission – DG for Enterprise and Industry.

*Policy environment for promoting entrepreneurship in Croatia*

Storey, D.J. (1994), *Understanding the Small Business Sector*, London, UK: Routledge.

*Strategic Development Framework for 2006-2013* (2006), Central Office for Development Strategy and Coordination of EU Funds, Zagreb.