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FINANCING OF ENTREPRENEURSHIP AND AGRICULTURE - CHALLENGES OF CROATIA

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Abstract

It is abundantly clear that entrepreneurship is important for economic growth, productivity, innovation and employment, and many EU countries have made entrepreneurship an explicit policy priority. As globalization reshapes the international economic landscape and technological change creates greater uncertainty in the world economy, entrepreneurship is believed to offer ways to help to meet new economic, social and environmental challenges. This paper presents the research conducted in Croatia during 2012. We analyzed the state aid and available EU funds to identify the financing capacities of target groups in the field of entrepreneurship and agriculture. We also conducted a survey among 253 entrepreneurs and agriculture producers to determine the main obstacles and problems in financing their development. The results revealed the main directions that we need to pursue to achieve a higher rate of absorption of non-refundable financial aid.

Key words: *Entrepreneurship, agriculture, development, state aid, EU funds*

1. INTRODUCTION

Entrepreneurship is increasingly recognized as an important driver of economic growth, productivity, innovation and employment, and it is widely accepted as a key aspect of economic dynamism: the birth and death of firms and their growth and downsizing. As firms enter and exit the market, theory suggests that the new arrivals will be more efficient than those they displace. Existing firms that are not driven out are forced to innovate and become more productive in order to compete. Governments increasingly consider entrepreneurship and innovation to be the cornerstones of a competitive national economy, and in most countries entrepreneurship policies are in fact closely connected to innovation policies, with which they share many characteristics and challenges. Both are associated with "doing something new" and, designed correctly, they can be mutually reinforcing. The dynamic process of new firm creation introduces and disperses innovative products, processes and organizational structures throughout the economy. Entrepreneurship objectives and policies nevertheless differ considerably among countries, owing to different policy needs and diverse perspectives on what is meant by entrepreneurship. In some countries, entrepreneurship is linked to regional development programmes and the creation of new firms is stimulated to boost employment and output in depressed regions. In others, entrepreneurship is a key element of strategies designed to facilitate the participation of certain target groups, such as women or minorities, in the economy. Some countries simply seek to increase firm creation as such, while others set out to support high-growth firms. While many countries are making serious efforts to support entrepreneurship, results appear to vary. Countries want to understand the determinants of and obstacles to entrepreneurship, and they need to analyze the effectiveness of different policy approaches. The lack of internationally comparable empirical evidence has however constrained our understanding of entrepreneurship and many

questions remain unanswered. Ultimately, policy making must be guided, as far as possible, by evidence and facts.

In conditions of the global crisis and growing globalization, the European economy is facing moments of transformation. Europe 2020: the EU Strategy for smart, sustainable and inclusive growth sets out a vision of Europe's social market economy for the 21st century. Micro, small and medium-sized enterprises (SMEs) play a central role in the European economy. They are a major source of entrepreneurial skills, innovation and employment and account for a large proportion of Europe's economic and professional activity. The European Union has recognized the importance and the potential of SMEs adopting the Charter for Small Enterprises pledging its commitment for creation of environment crucial for SME development.

For small countries such as Croatia, market competitive and viable entrepreneurs, with value added products are the prerequisite for new markets' penetration. Market selection is predetermined by the level of market competitiveness and products' demand. Therefore it is obvious that technological competency and product competitiveness are the key areas of concerns for overall SME competitiveness. In recent years, Croatia has put major effort on adopting the principles of the Charter in its strategic national documents such as the Strategic Development Framework for 2006-2013 and Strategic Coherence Framework 2007-2013 that set the goals for development and improved competitiveness of the Croatian economy in the context of EU accession process by fostering improvement of production capacity, increasing the quality of the products and strengthening of human resources in SMEs. This is to be achieved through productive investments into innovative technologies, new product development, higher quality production, production with high added value and production less demanding on the consumption of energy and raw materials. Difficulties regarding access to finance represent an important barrier both in establishing new firms and in the further development of existing ones. As a country which will soon join the EU, Croatia's main concern is to ensure that its enterprises remain competitive within the Single and global market, thus contributing to competitive EU economy. One of the very important ways to increase the competitiveness will be achieved through energy efficiency introduction and ecological product protection, as well as through establishment of systems for quality management, environment management, and product compatibility with International and EU standards. In order to do so, Croatian companies need to invest in new processes and new technologies including green and energy efficient technologies, in ICT development and in the development of new products including testing and certification to ensure their compliance with international quality standards.

2. SITUATION IN THE ENTERPRISE AND AGRICULTURE SECTOR

Performance of the small and medium enterprise sector in Croatia is always important, because these enterprises make up a significant part of the economy (through participation in employment, in creation of gross domestic product and exports). The issue of performance of this part of economy is now more important than ever – due to prolonged long-term unemployment in Croatia and Croatia's forthcoming accession to European Union whose economic policy gives special importance to small and medium enterprises. The ability of Croatian small and medium enterprises to compete successfully and respond to the challenges set by the demanding market, new regulations and tough competition in the EU will be of key significance for their survival and development in the European Union's single market.

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Table 1. Criteria of classification of small business entities

Type of business entity	Number of employees	Annual revenue In million EUR	Assets In million EUR
	EU/Croatia	EU/Croatia	EU/Croatia
Micro	0-9	2	2
Small	10-49	10	10
Medium	50-249	50	43

Source: Narodne Novine JSC, 2012.

Small Business Development Promotion Act in Croatia distinguishes micro, small and medium small business entities. Micro entities are physical and legal entities that annually on average employ less than 10 employees and achieve total annual revenue equivalent up to 2,000,000.00 EUR, i.e. have value of long-term assets equivalent up to 2,000,000.00 EUR. Small entities are physical and legal entities that annually on average employ less than 50 employees. Achieve total annual revenue equivalent up to 10,000,000.00 EUR or have balance sum if they are profit tax payers, i.e., have long-term assets equivalent up to 10,000,000.00 EUR if they are income tax payers. Medium entities are physical and legal entities that annually on average employ more than 50 and less than 250 employees. Achieve total annual revenue equivalent from 10,000,000.00 EUR to 50,000,000.00 EUR or have balance sum if they are profit tax payers, i.e., have long-term assets equivalent from 10,000,000.00 EUR to 43,000,000.00 EUR if they are income tax payers.

Table 2. Enterprise structure regarding enterprise size in 2001, 2010 and 2011

	2001		2010		2011	
	Number of entities	%	Number of entities	%	Number of entities	%
Small	54,416	95	95,004	98	89,539	98
Medium	2,203	4	1,379	1,5	1,292	1,5
Large	571	1	375	0,5	359	0,5
Total	56,987	100	96,758	100	91,190	100

Source: Croatian Chamber of Economy, 2012

In 2011, as a result of adverse conditions in the environment and general negative economic trends, a decline in the number of business entities was recorded, but the structure of economy with regard to enterprise size remained the same. The biggest drop was in the category of medium enterprises (6.3%), followed by small enterprises (5.7%), while decline in the category of large enterprises was 4.3%.

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Table 3. Employee structure regarding enterprise size in 2001, 2010 and 2011

	2001		2010		2011	
	Number of employees	%	Number of employees	%	Number of employees	%
Small	247.340	34,0	415.320	48,3	386.692	46,4
Medium	161.426	22,2	157.147	18,3	159.616	19,1
Large	318.467	43,8	287.341	33,4	287.035	34,5
Total	727.233	100,00	859.808	100,00	833.343	100,00

Source: Croatian Chamber of Economy, 2012

Asymmetry of changes in employment, depending on enterprise size, is visible in comparison with 2001 (although in 2011 there are certain changes in relation to 2010, the global conclusion is valid): employment in the category of small enterprises is significantly increasing, employment in large enterprises is significantly decreasing, while level of employment in medium enterprises is the most stable.

For many years, numerous worldwide studies in which Croatia is included point to the same obstacles to the development of entrepreneurship in Croatia such as long and expensive procedures for start-up and termination of an enterprise, inefficiency of the judiciary, long ownership registration procedures, low focus on entrepreneurial education, underdevelopment of non-formal forms of financing of start-up of business ventures.

Table 4. Global competitiveness results for 2011 – Croatia and reference countries

	Ranking 2012	Ranking 2011	Change
Czech Republic	39.	38.	-1
Poland	41.	41.	0
Slovenia	56.	57.	+1
Hungary	60.	48.	-12
Bulgaria	62.	74.	+12
Slovakia	71.	69.	-2
Montenegro	72.	60.	-12
Romania	78.	77.	-1
Macedonia	80.	79.	-1
Croatia	81.	76.	-5
Bosnia and Herzegovina	88.	100.	+12
Albania	89.	78.	-11
Serbia	95.	95.	0

Source: World Economic Forum / NCC, 2012

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As the most problematic factors for doing business in Croatia the Global Competitiveness Report identifies: low efficiency of public administration, corruption, instability of policies, tax rates, restrictive labour legislation, access to financial resources, tax policy, and poor work ethic of the national workforce. According to results of the Global Competitiveness Report for 2011, Croatia is still situated among the countries of Southeastern Europe – Montenegro (72nd), Romania (78th), Bosnia and Herzegovina (88th) and Albania (89th), while Macedonia (80th place) is ahead of Croatia for the first time.

3. ACCESS TO FINANCING FOR ENTERPRISE AND AGRICULTURE SECTOR

Access to funding depends largely on private businesses and its business indicators in the last few years. There are many possibilities for financing enterprise and agriculture, and the most dominant are banks and financial institutions, state aid and EU funds.

3.1. Banks and financial institutions

The market of banking loans and services intended for small and medium enterprises is highly developed in Croatia. Almost all banks offer loans to small and medium enterprises in a wide range of products and services: loans for tourism services, agriculture, for young people, for women, for new technologies, for Croatian war veterans, for export, for investments, for working capital, for start-ups, etc.

Table 5. Terms of financing of enterprises according to the offer of largest banks in Croatia

	Zagrebačka banka JSC	**Privredna banka Zagreb JSC and HBOR**	**Erste Steiermarkische Bank JSC**	**Hypo-Alpe-Adria Bank JSC**
Long-term loans				
Amount EUR	5.000-250.000	75% of investment, up to 1.050.000	depending on creditworthiness	Up to 70% of total investment value
Own participation	at least 25%	-	-	-
Duration	up to 25 years	up to 10 years	3-15 years	10-15 years
Grace period	up to 12 months	up to 2 years	12-24 months	1-3 years
Interest %	consensual	annual fixed 2, 4, 6	consensual	depending
Insurance	1:1,5	1:1,5, other instruments according to Bank's and HBOR's assessment	1:1-1:1,5	Promissory notes, debentures, deposits, land registry certificate, deed, property valuation
Short-term loans				
Amount EUR	Depending on client's credit standings	-	depending on creditworthiness	depending on creditworthiness

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Duration	up to 12 months	up to 12 months	up to 12 months	up to 12 months
Interest	consensual	consensual	consensual	consensual
Insurance	1:1	1:1,5, other instruments according to Bank's and HBOR's assessment	Deposit, pledge of commission disbursement, pledge of securities	Promissory notes, debentures, deposits, land registry certificate, deed, property valuation

Source: Zagrebačka Banka JSC et al, 2012

Table 5 shows the terms for allocation of long-term and short-term financing to small and medium enterprises according to the offer of largest banks in Croatia (Zagrebačka Banka JSC, Privredna Banka Zagreb JSC and HBOR, Erste Steiermarkische Bank JSC and Hypo-Alpe-Adria Bank JSC).

3.2. State aid for development

Current national and regional policies and programs that regulate and stimulate the small and medium enterprise sector in Croatia are:

- SME Promotion Programme 2008-2012, from 2008, which contains an overview of guidelines for the implementation of incentives for SME development, and determines goals, measures and assignments including mechanisms for implementation and monitoring of activities and projects;
- SME Promotion Operational Plan for 2011, from February 2011, which includes projects, beneficiaries, measures and incentive funds on the annual level with the aim of implementation of the SME Promotion Programme 2008-2012;
- Strategy for Regional Development of the Republic of Croatia 2011-2013, from May 2010, which determines the development goals aimed at socio-economic development of the Republic of Croatia, and reducing regional development disparities;
- Strategy for Development of Women Entrepreneurship in the Republic of Croatia 2010-2013, from 2010;
- National Strategy for Entrepreneurial Learning 2010-2014, from 2010;
- Cluster Development Strategy in the Republic of Croatia 2011-2020, from 2011;
- Program of measures for simplification of business of small business entities, from 2010, goals of which are protection of the market from unfair competition and imports of goods of unknown origin, fight against the grey economy, and improvement of e-commerce;
- Guidelines for short-term development crafts 2011-2012, from 2010.

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Table 6. Aids of the Ministry of Economy, Labour and Entrepreneurship approved within the SME Promotion Operational Plan for 2011

	Number of awarded aids	Amount of awarded aids EUR
Competitiveness and innovation	3021	12.858.580
Entrepreneurial infrastructure	162	7.413.733
Education for entrepreneurship	174	586.573
Craftsmanship	1805	2.025.274
Promotion of entrepreneurship	67	252.946
Promotion of international competitiveness and internationalization	171	3.375.966
Total	**5400**	**26.513.072**

Source: Ministry of Entrepreneurship and Crafts, 2012

In 2011, a total of 5,400 aids were approved within the following projects: Strengthening small business competitiveness; Competitiveness through innovation; Competitiveness of the most successful "Gazelles"; Women entrepreneurship; Entrepreneurship of young people, start-ups and disabled people; Entrepreneurship in culture; Cooperative entrepreneurship; Clusters; Construction of entrepreneurial zones; Business support institutions; Education for entrepreneurship; Promotion of development of crafts; Additional training and retraining in crafts; Development of traditional and artistic crafts; Promotion of entrepreneurship; Internationalization of Croatian economy and Strengthening international competitiveness.

3.3. EU funds as an external financial contribution

Since the entry of new members from Central and Eastern Europe contributed to the creation of gaps in development within the European Union, it was necessary to develop programs which will help to encourage development in these countries. In this purpose, the European Union has provided structural support for countries that are not yet EU members, candidate countries. By accessing the system joining, opened the doors of many financial instruments that the country can use, or compete in competitions for them. Here, then, is a so-called assistance programs. Pre-accession programs. To meet the minimum criteria for the management of funds to help the European Union pre-accession funds, the beneficiary must: define a system of fund management, internal rules of procedure on procurement and payment and clear institutional and personal responsibilities; respect the principle of separation of powers over the process of procurement and disbursement, management System to help equip the European Union personnel who possess appropriate qualifications and experience in the field of language, revision and implementation of the Union (Frkić & Rek, 2004). In the periods of financial crisis, the main efforts must go in direction of raising regional competitiveness of specific country by investing in development. While it is important to introduce structural changes to adapt the international system to prevent future crises, this cannot be achieved without significant immediate measures to promote recovery from the current crisis. It is essential that governments undertake reforms that address the underlying factors that contributed to the current economic crisis if the world is to emerge from the crisis into sustainable, balanced growth (Stiglitz, 2010).

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One of the measures is made through regional policy of the government. Croatia has on its disposal various granting shames on the national level for regional development as well as EU funds on the level of the European Union. Croatia is used exclusively humanitarian aid. Since 1996 to 2000 she was the beneficiary of RECONSTRUCTION, the first EU program that Croatian institutions provided technical assistance for the process of European integration. This support continued through the CARDS program, which is used by Croatia in the period since 2001 to 2004. After acquiring the status of candidate country for EU membership, Croatia has on its disposal three pre-accession programs- Phare, ISPA and SAPARD - during the fiscal year 2005 and 2006. The establishment of the Single Instrument for Pre-Accession Assistance in 2007, Croatia became and remains his beneficiary until the date of accession (Central Office for Development Strategy and Coordination of EU Funds, 2006).

Table 7. Allocated and used IPA until mid 2012 in million of EUR- Croatia

	IPA I	**IPA II**	**IPA III**
Allocated financial resources	201.434.016	10.319.302	257.350.000
Contracted financial resources	121.740.691	5.899.059	126.779.475
Allocated/Contracted	60.44 %	57.17 %	49,68 %
Received financial resources from the European Commission	94.648.780	5.315.556	78.026.901
Paid grant users	80.318.224	4.139.551	44.565.792
Paid/Contracted	65.04 %	63.82 %	40,58 %
	IPA IV	**IPA V**	**-**
Allocated financial resources	69.977.000	129.400.000	-
Contracted financial resources	35.698.679	38 171 461	-
Allocated/Contracted	51.01 %	29.50 %	-
Received financial resources from the European Commission	26.167.666	25.776.144	-
Paid grant users	27.119.648	4 416 817	-
Paid/Contracted	72.62 %	10.58 %	-

Source: Grčić, 2012.

As we can see in table 7, the rate of utilization of IPA fund is very unsatisfactory. The most used, component IV has rate of 72.62%, while the rate of utilization of component V.- Rural Development (IPARD) is shameful with only 10.58%. After the process of accession into the European Union, Croatia will have on its disposal Structural and Cohesion funds in order to develop enterprises and agriculture as well as whole regions.

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4. CHALLENGES IN FINANCING ENTERPRISE AND AGRICULTURE SECTOR

The globalization process is characterized by stronger competition and ever-stricter marketing conditions. Therefore, quality management and quality assurance have become a necessity in the struggle for a market and buyers resulting in continuous work in this field (Lacković, Andrlić, and Lacković, 2009). Entrepreneurs and agriculture producers play a significant role in all economies and are the key generators of employment and income, and drivers of innovation and growth. Entrepreneurs have been directly involved in building the U.S. economy since before the American Revolution. As artisans, shopkeepers, and early industrialists, many of whom introduced innovations and grew their businesses around them, they anchored and developed that economy. Their individual business decisions and their active participation in local governance constituted early economic development (Lichtenstein & Lyons, 2010).

The research was conducted through a questionnaire among 253 entrepreneurs and agriculture producers in order to identify key barriers and constraints on the achievement of EU funds. The conducted research led us to the following conclusions, which are the main problems in attracting financial aid for enterprises and agriculture producers:

1. Entrepreneurs are not familiar with the available funding options;

2. Entrepreneurs do not have accurate and timely information;

3. Entrepreneurs are skeptical about possible aid;

4. Entrepreneurs are not educated enough;

5. Entrepreneurs do not have enough qualified personnel;

6. Entrepreneurs haven't got ideas for developing projects;

7. Businesses do not meet the conditions and criteria's of tender,

8. Bureaucracy and long procedures for obtaining the necessary permits.

One of the major problems limiting the absorption of the EU funds is human resources. Insufficient number of trained people for the preparation and implementation of projects, insufficient information and lack of experience are the main reasons why countries are not successful enough in attracting funds.

In the EU there is a need for strengthening the absorption capacities of the countries, with emphasis on increasing financial resources for the preparation and implementation of projects, increasing the number of employees involved in projects, improving cooperation with state bodies, increasing cooperation with scientific and research institutions, increasing employee training, improving cooperation with European partners, improving cooperation with business sector, improving cooperation with other regions, improving cooperation with NGOs, improving internal organization and management, improving the availability of information on tenders, improving technical conditions for work (Puljiz, 2011). Most challenges of regional development in the context of absorption of EU funds are complex rules for the implementation of all programs, the need for a significant improvement of strategic planning, lack of information and awareness about the importance of successful implementation of projects financed from the EU funds, establishment of new and consolidating existing institutions and their accreditation by the European Commission, the need to recruit new staff, while simultaneously reducing the required number of employees in public administration, requested the experts who are deficient in the management occupations (engineers with specific knowledge, etc.), the importance of maintaining the system of specially trained, high

quality, and at the same relatively low-paid workers, according to their value on the labor market (Pejčinović, 2010).

5. CONCLUSION

Entrepreneurs and agriculture producers are an important part of all economies and they are essential for the economic growth. For the regional development of Croatia, it is essential to invest in project preparation and implementation on all levels, especially in development of entrepreneurs and agriculture producers. There are many support programs on the national level but the main direction should be support of EU and its available funds. The European Union provides support to European entrepreneurs and agriculture producers in different forms such as grants, loans and, in some cases, guarantees. Support is available either directly or through programmes managed at national or regional level, such as the European Union's Structural Funds. Entrepreneurs and agriculture producers can also benefit from a series of non-financial assistance measures in the form of programmes and business support services. Croatian entrepreneurs and agriculture producers will have on its disposal structural funds when Croatia became the EU full member. In the meanwhile, Croatia can use Instrument for pre-accession assistance (IPA) for various granting sectors.

Based on our research, the conclusion is that the main problem in Croatia is lack of quality human resources; lack of knowledge, inertness, lack of information, information in delay, instant consultants, political influence and other limiting factors in project preparation and granting process. The only solution is that every entrepreneurs and agriculture producers have inside their organization person educated for project preparation or to engage in preparation external expert for that. It is also needed to reduce factors for rejecting projects from the contracting authority and to inform entrepreneurs and agriculture producers with right information in the right time. Entrepreneurs and agriculture producers should present both positive and negative sides and give them instructions for the timely response. All that problems should be solved through regional policy of Croatia, and measures that will insure that mistakes don't happen in the future. Croatian entrepreneurs and agriculture producers must be prepared for the EU funds that are coming in the future to have competitiveness power on the European market.

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