



**GLOBAL ENTREPRENEURSHIP MONITOR
CROATIA 2002**

What Makes Croatia a(n) (Non) Entrepreneurial Country?

GEM 2002 Results for Croatia

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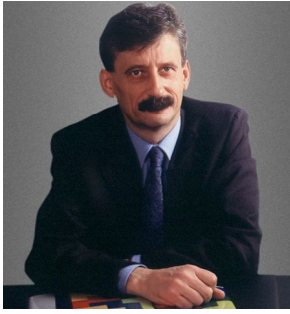
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ŽELJKO PECEK, Minister of Crafts and SMEs

At the time when Croatia is facing numerous challenges associated with the globalisation process, we are well aware that the development of small and medium entrepreneurship represents the driving force of the economic progress.

Globalisation is a fact that needs to be taken into account in the long-term view of the economy. Due to its operation, the world economy is losing its former regional, national or rival characteristics. Studies have shown that this match is being played on the level of networked propulsive and productive manufacturing and service units. In the process, a significant contribution is made by the development of new technologies, new products, the development of innovative processes, education, culture and integration processes. The current trends of integration move toward networking through international institutions and regional association.

The entrepreneurial awareness has been gaining strength in Croatia with each new day. It is becoming a philosophy of progress, and the entrepreneurs who introduce new technologies and create new values primarily create new jobs, thus enabling an all-round social, cultural, social welfare and personal growth. In other words, they build a welfare state and economy.

Research and analyses of relations between entrepreneurship and economic growth all point to that fact.

The GEM Project – an international project for research and measurement of entrepreneurial activities in different countries was initiated in 1998, comprising 37 countries which, as of year 2002, include Croatia, and conducting analysis of entrepreneurial activities in each of those countries on the annual basis. GEM emphasises excellent opportunities for entrepreneurship in Croatia.

It is precisely the policy of our Ministry that envisages a successful, competitive and flexible Croatian economy, and a country of educated and motivated entrepreneurs who, at the same time, generate economic growth and development.

The ability to create new jobs and the kind of prosperity that we require lie in small and medium entrepreneurship. Increased investments in know-how and development of technologies, as well as a systematic approach to the establishment of conditions for the development of entrepreneurial sector that would guarantee a long-term, stable economic growth and productivity, represent the global goal of the Ministry.

It is our intention to develop competitive and innovative capacities of Croatian businesses that will prepare them for successful performance in the domestic and international markets, increased new domestic and foreign investments, development of high-quality products, higher flow of foreign investments, joint presentation and networking of Croatian entrepreneurs with their international counterparts.

The role of entrepreneurship is clear: “The growth of small, innovative businesses leads to a faster transfer of knowledge, to development, reconstruction and better living standards.”

There is evidence in support of the claim about the contribution of entrepreneurship to the regeneration of the economy. We must eliminate all remaining obstacles. The number of women starting their own businesses remains insufficient, and there are still significant differences among various regions. Bridging that gap between men and women entrepreneurs represents one of the preconditions of development and expansion of small and medium entrepreneurship. It has been established that, if women were to start their own businesses at the same rate as men, there would be more than 100,000 new entrepreneurs.

Furthermore, in every area and in every region an adequate support must be made available to entrepreneurs. Our mission is clear: to decentralise, to show to the local and regional self-government units at the lower level how to recognise their own importance, their own capacities, and how to accept responsibility for their own growth.

There are excellent new start-up businesses in our country, but regional differences remain excessive.

The GEM Study – a study of entrepreneurship, the largest such study in the world, so far produced fascinating data in the last year. The GEM researchers have concluded

that the greatest entrepreneurial opportunities are offered in the United States, and very little in Denmark, Finland, Japan and France.

The implementation of the GEM Project in Croatia, and the results of the comparison between Croatia and other countries, represent an important element and will be used by the Ministry of Crafts, Small and Medium Entrepreneurship in its policy-making processes aimed at the development of small and medium enterprises.

People with a developed entrepreneurial awareness are convinced that possibilities still exceed the number of entrepreneurs who would know how to seize them.

If we want to capitalise on these opportunities, we must have entrepreneurial abilities and motivation. Entrepreneurship thrives on the “meeting” of opportunities and entrepreneurs who are motivated and capable of taking advantage of them. Such opportunities by themselves have no value if there is no one to “pluck” them.

Our goal is to create such entrepreneurial culture, which will make it easy for the people of different age, gender and prior experience to start their own business.

It is with great pleasure that I welcome the expansion of the GEM team research, which will be, I am convinced, of great assistance in bringing about a successful Croatian entrepreneurial story in this region.

A handwritten signature in black ink, appearing to read "A.P. FEN". The letters are stylized and connected, with a horizontal line above the "A".



SLAVICA SINGER, CEPOR Director

“Entrepreneurship is understood as any attempt of starting-up a new business venture, in the form of self-employment, a new business organization or the expansion of an existing business, either by an individual, teams or already existing

organizations.” This definition was the starting point for Global Entrepreneurship Monitor, a unique international research project, which in 2002 involved 37 countries, among which, Croatia for the first time.

Entrepreneurship is a way of life, a way of understanding the reality. Entrepreneurship is a global and integrative phenomenon, the understanding of which calls for a holistic way of thinking. Croatia has experienced significant shifts concerning the ways in which entrepreneurship is understood, practiced and stimulated, although many are still not quite sure how to evaluate entrepreneurs: as heroes (because they were brave enough to engage in the fight with institutional obstacles), or as people who want to get rich easily and quickly. This study is the first national study of the entrepreneurial phenomenon in Croatia, and aims at identifying the key characteristics of entrepreneurial behavior in Croatia.

It is important what we think about ourselves and about our entrepreneurial activity on all levels, not only national and regional, but also on the level of the local community in which we live. We should also consider our activities in all segments of life, from social and business to personal. If we believe we are good, this means that we are self-confident. However, if we are self-confident, but do not have a foothold either in a consistent and meaningful approach, or in the results, then the situation advises us that any endeavor (political, business or personal) can be too risky, and the transaction costs of change too high.

A sense of measure in understanding one’s strengths is developed through the comparison with others. One such opportunity emerged when in 2002 Croatia took part in the huge international research project Global Entrepreneurship Monitor (GEM). The results of the research pose a challenge to scholars, government, entrepreneur associations, trade unions, and entrepreneurs themselves to determine what needs to be done so that we could be better next year.

A handwritten signature in cursive script that reads "Singer".

Global Entrepreneurship Monitor

Global Entrepreneurship Monitor is a unique international research project launched in 1999 as an initiative of scholars from the London Business School and Boston-based Babson College. The reason for the launch of this project is the lack of reliable and internationally comparable information on the interconnectedness of entrepreneurship and economic growth, which are of great value to both scholars and those who are responsible for designing government policies directed to the creation of the framework for the economic growth. The project aims at answering the following questions:

- Does the level of entrepreneurial activity differ from one country to another, and if so, how big are the differences?
- Are the differences in entrepreneurial activity related to the overall economic growth of a country?
- What do these differences depend on?

In 2002 the project involved 37 countries, for the first time Croatia.

The research confirmed entrepreneurship as a global phenomenon: according to conservative estimates of the research team, around 450 million individuals around the world are included in entrepreneurial activities; 98,000 of them in Croatia.

Differences in the entrepreneurial activity of a country depend on the following crucial factors:

1. The following entrepreneurial framework conditions have the biggest influence on the entrepreneurial activity index:

- The availability of financial resources and professional infrastructure (training, consulting, as well as other services for new business ventures and enterprises with the potential of growth) are most important and positively correlated with the entrepreneurial activity index.
- The lack of education focused on entrepreneurship is the most important factor which negatively affects this index.

- Greater participation of entrepreneurs who became entrepreneurs because they seized the opportunity (rather than out of necessity, i.e. because they had no other alternative) has a positive impact on the level of entrepreneurship.

2. Some of the general national framework condition, such as tax incidence and the labor market, have a strong impact on the creation of the conditions for the entrepreneurial activity:

- Countries that had a higher entrepreneurial activity index had lower tax revenues, measured as a percentage of the gross domestic product.
- Countries with high entrepreneurial activity index have low costs of adapting labor force to the demands of business operations, indicative of the concern and effectiveness of country's system of education for preparing labor force for entrepreneurship.

The level of entrepreneurial activity in Croatia expressed by TEA index of 3.36 puts Croatia very low compared with other countries, but close to the countries which share the similar socio-cultural heritage (such as Slovenia and Hungary). The TEA index varies significantly depending on different entrepreneur characteristics (sex, age, education, income, attitude towards risk....). An entrepreneur in Croatia is three times more often a man than a woman, between 25 and 34 years old, with secondary school qualifications and a higher than average income. Furthermore, he knows other entrepreneurs well, recognizes business opportunities, possesses the skills necessary for running the business, does not fear business failures, and is most often from the regions of Istra and Primorje.

The entrepreneurial climate in Croatia is significantly characterized by the lack of education for entrepreneurship, inconsistent government programs, as well as socio-cultural values which insufficiently sustain the entrepreneurial orientation. These are, at the same time, directions for further research and recommendations for policy decision-makers for elimination of barriers and creation of a consistent framework for entrepreneurship in Croatia.

1. Introduction

1.1. Project Objectives

The Global Entrepreneurship Monitor is a unique international research effort, which was launched in 1999 as an initiative of researchers from the London Business School and Boston-based Babson College, with a view to studying the relation between entrepreneurship and economic growth. Although many theoreticians of economic growth have, for no less than one hundred years, advocated entrepreneurship as one of the most important forces on which economic growth of a country depends,¹ the connection between the causes and effects of entrepreneurs' activities is still not sufficiently known, and neither is the contribution of entrepreneurship to economic growth.

The project proposes to answer the following questions:

- Does the level of entrepreneurial activities differ from one country to another, and if so, what are the differences?
- Are the differences in entrepreneurial activities related to the overall economic growth of a country?
- What do those differences depend on?

The uniqueness of the project consists in its international dimension, which ensures comparability of the level of entrepreneurial activities in different countries, and in the used model and database of the data "filling" the model. The international dimension of the project is seen in the fact that approximately 150 researchers from project member countries have been engaged for the project, who, in cooperation with the coordination team led by Professor Paul Reynolds, develop the conceptual framework and methodology of the research, and contribute to the formation of theoretical model and policy recommendations for the improvement of entrepreneurial activities.

¹ Schumpeter, J.A. (1996), *The Theory of Economic Development*, Transaction Publishers, London, United Kingdom; Hayek, F.A. (1948), *Individualism and Economic Order*, Routledge and Kegan Paul, London, United Kingdom; Kirzner, I. (2000), *The Driving Force of the Market*, Routledge, London, New York.

1.2. Conceptual Framework and Methodology of the Research

The GEM project enables the establishment of the level of entrepreneurial activity (Total Entrepreneurial Activity – TEA) of a country. The Total Entrepreneurial Activity (TEA) Index expresses the ratio of the number of people per each 100 adults (between 18 and 64 years of age) who are trying to start their own business or are owners/managers in an active enterprise not older than 42 months. For the purpose of analytical precision, the conceptual framework of the research differentiates between an entrepreneurial activity (TEA Index) which is the result of an activity of entrepreneurs who became entrepreneurs out of necessity (because they had no other choice) and entrepreneurs who became entrepreneurs because they recognized a business opportunity.

The establishment of the level of entrepreneurial activity is based on a conceptual framework which presupposes the complementarity of two basic mechanisms on which the national economic growth depends:

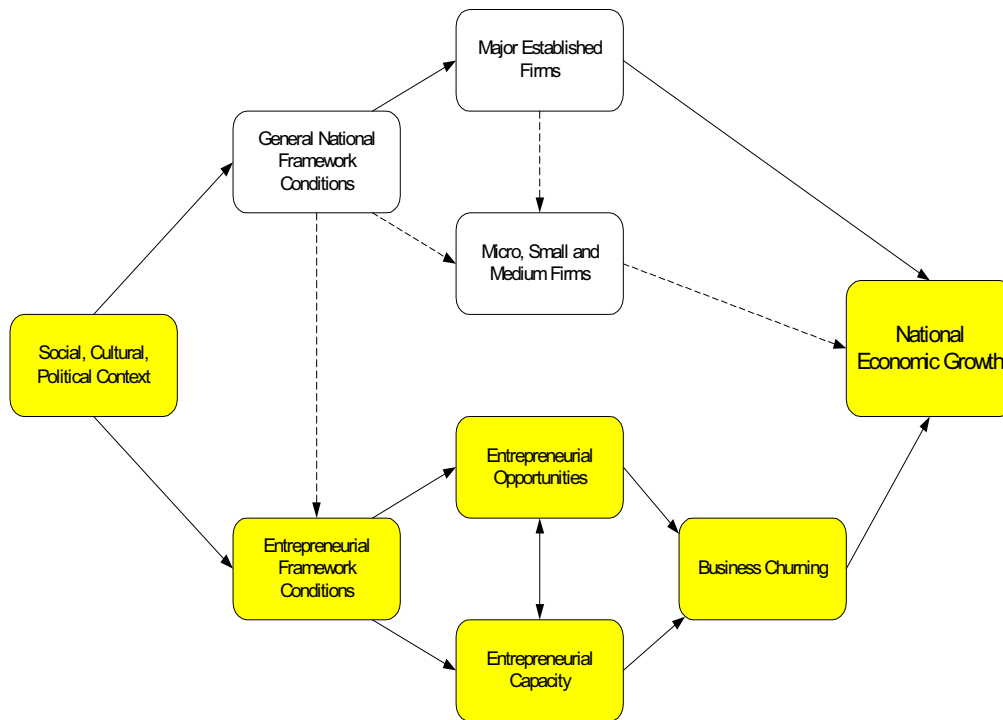
- Enterprise structure (large, medium, small), with an accent on the role of large enterprises in the creation of international competitiveness
- The structure of conditions on which the entrepreneurial process of the start-up of new enterprises depends (entrepreneurial opportunities for starting business undertakings and entrepreneurial capacity, i.e., the motivation and skills of people to start new business undertakings)

The conceptual framework presupposes that all economic processes develop in a relatively stable political, social, and historical context.

The NEW DIMENSION AWARD - The best town, 2002

Samobor, despite the fierce competition in this category, has gained advantage due to the efficient implementation of the credit programs. This is how it reached the leading position. Reiffeisen bank Austria, which has contributed significantly to this success, was chosen as a joint bank. The town has allocated 500,000 kunas from its budget for entrepreneurs, the same amount as the Ministry, allowing the entrepreneurs access to a credit potential in the amount of 5 million kuna. In the program "The Snowball" 11 credit claims have been processed, which made use of the full credit potential. One of the particularities of this local unit is that it was the first to introduce exemptions for local entrepreneur in terms of their compulsory payments to the unit of the local government.

Figure 1 - The GEM Conceptual Model



Source: Global Entrepreneurship Monitor, 2002 Executive Report, by Paul D. Reynolds, William D. Bygrave, Erkkko Autio, Larry W. Cox, Michael Hay, 2002

The political, social, and historical context includes the group of factors which have been established as having an important role in shaping the general living conditions in a country (investment into education, social norms, and behaviours related to personal independence – the level of democratisation of countries, perceptions of the entrepreneurs).

General conditions include the role of the government and financial institutions, the level of investment into research and development, the quality and strength of the physical infrastructure in the country, the efficiency of the labour market, and the efficiency of legal and social institutions.

The entrepreneurial framework conditions include the availability of financial resources for starting new business ventures, government policies, and programs to support new business ventures, the level of education and training for those who wish to be or already are entrepreneurs, access to professional support services and physical infrastructure, internal market openness, as well as cultural and social norms.

Entrepreneurial opportunities refer to the existence and perception of market opportunities.

Entrepreneurial capacity refers to the motivation of individuals to starting new business ventures and how many of the skills to implement them they possess.

Business churning represents the processes of birth, growth, and demise of enterprises.

National economic growth is measured by the level of gross domestic product and employment.

The research especially tests the links among different components of the models and importance of those links for national economic growth: the relation between general macroeconomic conditions and entrepreneurial framework conditions; the relation between general macroeconomic conditions and the structure of enterprises (micro, small, medium, and large); the connection between large enterprises and micro, small, and medium enterprises; the importance of the structure of enterprises and business flux for the economic growth of countries.

The results of the research contribute to the quantifying of the assumed links and the development of a model which can explain the link between economic growth and entrepreneurship. In this way, a higher quality basis is developed for decision-making on necessary interventions on the level of institutions and individuals interested in and responsible for the process.

1.3. Data

Four basic data types are used in the GEM project, three of which have been specially developed for this research:

- First, data are obtained by surveying a representative sample of adult population in each GEM country, by using a specially developed questionnaire on the establishment of entrepreneurial activities of the respondents and their attitudes towards entrepreneurial activities. In 2002 in all 37 GEM project participating countries 113,282 people were surveyed, out of whom in spring 2002 PULS surveyed 2001 persons in Croatia.

- Second, data obtained through interviews with selected experts in each GEM country, by using a specially developed semi-structured checklist for the interview. The selection of experts was based on references and reputation in an attempt to cover evenly the following nine dimensions: financial support, government policies, government programmes, education, technology transfer, legal and market infrastructure, openness of the domestic market, access to physical infrastructure, and cultural and social norms. The experts expressed their own opinions about the status of entrepreneurship in their country, identifying 3 of the most important strengths, 3 of the most important weaknesses, and 3 recommendations for the improvement of entrepreneurial activities. In the participating countries of the GEM project, a total of 969 experts were interviewed, out of whom 37 experts were interviewed in Croatia in spring 2002 by a specially trained group of graduate students of entrepreneurship from the Faculty of Economics in Osijek. The list of all interviewed experts is attached in Annex 1.
- Third, after the interview, the interviewed experts filled out a specially designed standardized questionnaire, which consisted of 73 statements related to the nine dimensions of entrepreneurial activities. The experts were required to assess, by using appropriate scales, if their respective country has the appropriate framework for entrepreneurial activities.
- In addition to these three specially designed data for the GEM project, the international coordination team of the project also used the data from standard international sources to provide a harmonized description of a number of characteristics of the conceptual model, such as data on economic growth, population structure, educational level, institutional and technical infrastructure, etc. Special effort was made in collecting data on *venture* capital in each GEM project participating country. Such data for Croatia in 2002 from international sources were not available.

1.4. The GEM 2002 Project Participating Countries

The project was first implemented in 1999 in the G7 countries (Canada, France, Germany, Italy, Japan, Great Britain, and the USA), to which Denmark, Finland, and Israel were added. Since then, the project has been implemented each year in a growing number of countries, so that in 2002 the project included 37 countries (Portugal was not included in 2002):

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1999	2000	2001	2002
Denmark	Argentina	Hungary	Chile
Finland	Australia	Mexico	Hong Kong
France	Belgium	The Netherlands	Croatia
Israel	Brazil	New Zealand	Iceland
Italy	India	Poland	China
Japan	Ireland	Portugal	Slovenia
Canada	Korea	Russia	Switzerland
Germany	Norway	Republic of South Africa	Taiwan
USA	Singapore		Thailand
Great Britain	Spain		
	Sweden		
	Great Britain – Scotland		
	Great Britain – Wales		

Countries covered by the GEM project in 2002 represent 62% of the world population and 92% of the world gross domestic product. Approximately 286 million people (or 12% of 2.4 billion adults aged 18 to 64) were entrepreneurs (actively engaged in starting a business or who managed/owned a firm younger than 42 months old) in the spring of 2002 in the mentioned 37 countries included in the GEM 2002 project.

1.5. The GEM Project Research Team

The GEM project is led by Professor Paul Reynolds and his team from London Business School (London) and Babson College (Boston). This coordination team is responsible for the project as a whole and the logistics of project implementation, as well as the collection of standardized data from international sources and the

preparation of the summary report with a comparison of the levels of entrepreneurial activities among the project participating countries.

A national research team operates in each project participating country, conducts interviews with experts and prepares the national report. In Croatia, the national team is a group of researchers from Josip Juraj Strossmayer University in Osijek: Slavica Singer, team leader, and team members: Sanja Pfeifer, Đula Borožan, Nataša Šarlija, and Sunčica Oberman. A group of students from the graduate study ENTREPRENEURSHIP of the Faculty of Economics in Osijek, trained for conducting interviews with experts, also participated in the project: Mirna Balkić, Božena Brkić, Mirta Matešić, Davor Mioković, Mirela Pavošević, Saša Uranjek, and Sandra Zbodulja. Logistical support for the project is provided by the SME Policy Centre – CEPOR in Zagreb.

1.6. Financing of the GEM 2002 Project

The GEM project is an international project in the full sense of the word, because national teams provide 60% of the financial resources, and the remainder is provided by the international coordination team. In 2002, the inclusion of Croatia in the GEM project was financed by the Ministry of Crafts and SMEs and the Open Society Institute – Croatia, with small participation of the J.J. Strossmayer University of Osijek (through the project Entrepreneurship Paradigm and Praxis), whereas international co-financing of the project was provided by the USA-based Ewing Marion Kauffman Foundation.

The NEW DIMENSION AWARD - The best entrepreneur center, 2002

The Medjimurski Entrepreneur Center, Ltd (MPC) was founded in 1997 and the founders are The County Medjimurska and the town Čakovec. From the very beginning, MPC has been actively involved in the programs for the stimulation of small businesses, promotion of entrepreneurship in Medjimurje, linking entrepreneurs, as well as providing consulting services and advising on business plans and investment programs.

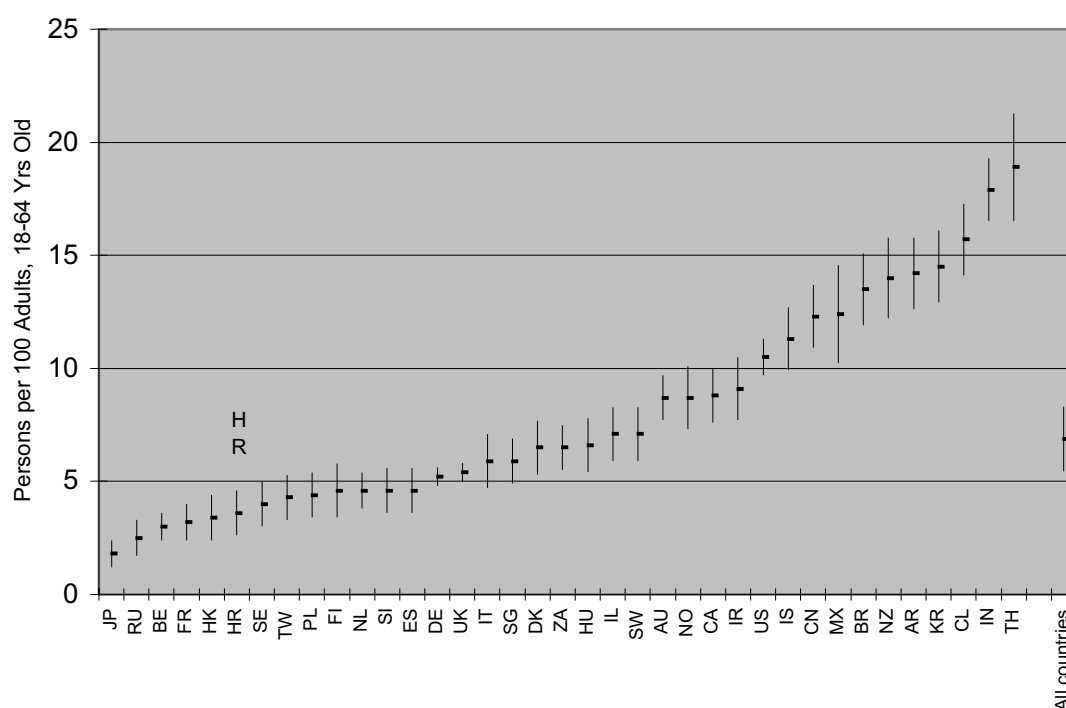
MPC was particularly active in organizing and preparing entrepreneurs for their presentations on fairs, as well as organizing seminars in computer applications for entrepreneurs. The team of only three people achieved this.

2. Croatia's Entrepreneurial Activity in an International Perspective

It is possible to conduct an international comparison of entrepreneurial activity of a country by using a unique indicator, specially developed for the needs of the GEM project. The Total Entrepreneurial Activity Index (TEA) combines the number of people who are trying to start their own business and the number of people who are owners/managers in an active firm not older than 42 months. Identification of these people is made by testing a random sample of at least 2,000 adult persons in each project participating country. The TEA index is the number of entrepreneurially active people in the two categories mentioned per 100 surveyed inhabitants 18 to 64 years old.

The TEA index for Croatia in 2002 was 3.6, and the average for all countries was 6.878, which ranked Croatia 32nd out of 37 project participating countries:

Figure 2 - TEA Indices by Countries – 2002



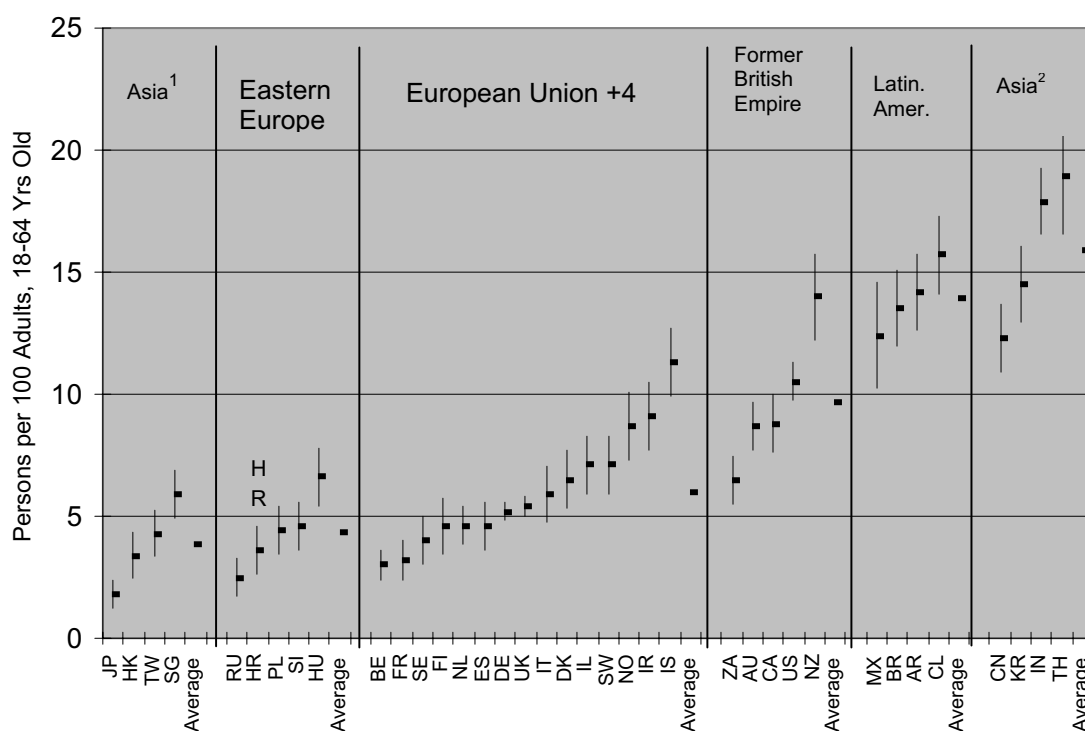
Note: The vertical columns represent a confidence interval of 95%. The values of the TEA index for each country are based on the ratio of assessment of the total number of persons participating in the TEA index for the whole population of each country and the total number of labour. International abbreviations were used for countries (the key is provided in Annex 2).

Source: GEM 2002

2.1. Are the Differences in Entrepreneurial Activity Related to the Total Economic Growth of a Country?

Entrepreneurship is a global phenomenon, but the level of entrepreneurial activity is very different from one country to another, from 3% of adults 18 to 64 years old included in entrepreneurial activities in Japan, Russia, and Belgium to more than 18% of such inhabitants in India and Thailand. The level of entrepreneurial activity is the lowest in developed Asian countries (Japan, Hong Kong, Taiwan, and Singapore) and in Central Europe (Russia, Croatia, Poland, Slovenia, and Hungary), somewhat higher in the EU countries and Israel, significantly higher in Australia, Canada, New Zealand, the Republic of South Africa and the USA, even higher in Latin American countries (Argentina, Brazil, Chile, and Mexico), and the highest in Asian developing countries (China, Korea, India, and Thailand).

Figure 3 - Indices of Total Entrepreneurial Activity (TEA) by Global Regions and Countries, 2002



Note:

Asia¹ = developed countries

Asia² = developing countries

Source: GEM 2002

The significance of this regional grouping of countries with regard to the intensity of entrepreneurial activity (TEA index level) leads to the conclusion that there are common causes of such grouping. These causes may be in the level of development of a country, but also in the level of efficiency of the functioning of the macroeconomic framework of an entrepreneurial activity.

2.2. Motivation for Entrepreneurship

Entrepreneurial activity strongly and positively correlates with the growth of GDP, in which the motivation for entry into an entrepreneurial activity is very important. The prevailing number of entrepreneurs who have become entrepreneurs because they have spotted a business opportunity (opportunity-based entrepreneurs), and not because they did not have an alternative (necessity-based entrepreneurs) in the structure of entrepreneurs affects positively the economic growth of a country. In less developed countries there is a larger presence of entrepreneurs who have become entrepreneurs out of necessity, whereas in developed countries there is a greater presence of entrepreneurs who have become ones through their own choice. Table 2 presents both indicators for all project participating countries based on overall TEA index rank (from figure 2):

The NEW DIMENSION AWARD - The best business incubator, 2002

The entrepreneur incubator in Labin launched its projects in 1998. Today the incubator occupies the area of 1.150m² and 12 entrepreneurs are situated there. It is worth noticing that the number of employees rose from 31 in 1998 to 103 in 2001. Interestingly, 45% of the employees are women. The incubator provides the entrepreneurs with convenient premises. The incubator also offers the possibility of joint activities of entrepreneurs, as well as joint appearance on a demanding market. When the entrepreneurs leave the incubator, the town Labin offers them the continuation of their business in the entrepreneur zone in the same area.

Table 2 - The Ratio Between Business Opportunity Driven Entrepreneurship and Necessity Driven Entrepreneurship

Country	TEA opportunity	TEA necessity
TH	15.30	3.40
IN	12.40	5.00
CL	8.50	6.70
KR	8.60	4.10
AR	6.80	7.10
NZ	11.60	2.20
BR	5.80	7.50
MX	8.30	2.70
CN	5.60	7.00
IS	8.60	0.90
US	9.10	1.10
IR	7.80	1.40
CA	7.40	1.10
NO	7.40	0.40
AU	6.70	1.50
SW	6.00	0.90
IL	5.20	1.40
HU	4.00	2.10
ZA	3.30	2.40
DK	5.90	0.40
SG	4.90	0.90
IT	3.30	0.50
UK	4.40	0.70
DE	3.90	1.10
ES	3.40	0.10
SI	3.30	1.40
NL	4.00	0.50
FI	3.90	0.30
PL	2.80	1.30
TW	3.30	0.70
SE	3.29	0.70
HR	2.20	0.80
HK	2.30	1.20
FR	2.80	0.09
BE	2.00	0.30
RU	1.90	0.60
JP	1.20	0.50
All countries	5.40	1.70

Source: GEM 2002

Motivation for entrepreneurship (business opportunity or necessity) in Croatia has a weaker ratio than the average for all 37 countries included in the project:

TEA - general	3.6 , rank 32, all countries 6.88
Necessity driven TEA	0.80, rank 24, all countries 1.70
Business opportunity driven TEA	2.20, rank 34, all countries 5.40

It is good that the number of entrepreneurs who have become entrepreneurs due to a business opportunity is higher than the number of those who have become ones out of necessity. However, the difference between necessity driven entrepreneurs and those driven by making use of a business opportunity is important, because research confirms that entrepreneurs who have become entrepreneurs out of their own choice are more optimistic in planning the development of a business undertaking than those who have become entrepreneurs because they did not have a choice.

The NEW DIMENSION AWARD - The best large bank, 2002

Zagrebacka Banka, plc is the first commercial bank that has accepted the terms of the "The Snowball" program and started its implementation. Other banks, which have later proven their role as good partners in this project, followed suit, led by the image of Zagrebacka banka in the banking world. Nevertheless, ZABA has kept the leading position in terms of the number of units of local self-administration in which the credit financing was carried out, as well as in terms of total funds allocated. One of the criteria was the promptness of credit processing, and ZABA has proven to be the most efficient bank. This bank had the highest *number of credit claims and has processed them most efficiently.*

3. Entrepreneurship in Croatia

Research so far in the GEM project has confirmed that entrepreneurship is an integral phenomenon, which emerges from the interaction of an initiative, know-how, and the efforts of an individual or a group and the environment in which the activity takes place. It is for this reason that, in order to understand the level of entrepreneurial activity in Croatia, it is necessary to analyse the differences in entrepreneurship with regard to the different characteristics of entrepreneurs, but also the macroeconomic context in which the entrepreneurial activity takes place.

3.1 Attitudes Towards Entrepreneurship

In 2002, a telephone survey was conducted in Croatia with 2001 respondents, out of whom there were 1,603 persons between the age of 18 and 64, representing a sample for establishing the entrepreneurial activity index. There were 54 entrepreneurially active persons aged 18 to 64, which makes up 3.36%, i.e., the TEA index is 3,36 (this indicator refers only to the surveyed sample, without adjustment to the overall population, and is therefore different from the 3.6 indicator, which is the basis for international comparison in Figures 2 and 3).

There is a significant difference of attitudes towards entrepreneurship between those who are entrepreneurially active and those who are not (Table 3). As a rule, those who are included in the TEA index have more frequent contacts with entrepreneurs, they recognise business opportunities (women are an exception) and possess know-how and skills for starting a business (at least that is how they see themselves). In terms of the attitude towards risk, there are no such sharp differences between those who are entrepreneurially active and those who are not. Interestingly, those who are not entrepreneurially active, regardless of gender, have no fear of business failure either. This means that, besides the attitude towards risk, opting to start a business depends on other factors as well. Among those who are entrepreneurially active, women are more cautious than men in terms of attitude towards business failure.

Table 3 - Attitudes Towards Entrepreneurship, as a Percentage

Characteristic	Attributes	Entrepreneurially active – included in TEA index (n=54)		Entrepreneurially inactive (n=1947)	
		Women	Men	Women	Men
Know someone who started a business in the last two years	Yes	45	80	30	40
	No	56	20	70	60
In the next 6 months there will be good opportunities for starting a business	Yes	11	53	14	17
	No	89	47	86	83
Possessing know-how and skills for starting a new business	Yes	75	95	27	42
	No	25	5	73	58
Fear of failure would prevent you from starting a business	Yes	58	13	29	28
	No	42	87	71	72

Source: GEM 2002

3.2. What Is Croatia's Entrepreneurial Activity Index?

The level of entrepreneurial activity in Croatia expressed by the TEA index of 3.36 varies significantly depending on the different characteristics of entrepreneurs (gender, age, education, income, relation to risk ...), but not all the differences are statistically important. Statistical significance indicates the possible interventions in terms of including people in an entrepreneurial activity.

Tables 4 and 5 include the values for the TEA index of total entrepreneurial activity, the TEA index of necessity driven entrepreneurial activity, and business opportunity driven TEA index, according to the selected characteristics of entrepreneurs, i.e., their responses.

Table 4 - Croatia's TEA Indices in 2002

Index	Value
TEA total	3.36
TEA necessity	0.85
TEA opportunity	1.97

Source: GEM 2002

Note: These values were obtained from the data on respondents in Croatia without adjustment to the overall population.

Table 5 - TEA Indices of Entrepreneurial Activity, According to Selected Characteristics of Entrepreneurs

Characteristic	Attributes	TEA total	TEA opportunity	TEA necessity
Gender	Women	1.58	0.74	0.64
	Men	5.12	3.20	1.05
Age	18 – 24	3.78	2.25	0
	25 – 34	5.54	3.84	1.25
	35 – 44	3.04	2.28	0.75
	45 – 54	2.72	0.91	1.58
	55 – 64	1.58	0.37	0.17
Education	Below high school	0.62	0	0.38
	Secondary or vocational school	5.02	3.21	1.07
	University or higher	2.11	0.9	0.86
Income	Lower third	1.58	0.68	0.32
	Second third	2.90	0.97	1.34
	Upper third	7.00	5.30	1.22
Knowing an Entrepreneur	Yes	6.10	3.66	1.27
	No	1.53	0.91	0.63
Good Opportunities	Yes	9.03	6.14	1.87
	No	2.29	1.02	0.84
Skills	Yes	7.83	4.57	2.21
	No	0.61	0.50	0.11
Fear	Yes	2.59	1.20	0.78
	No	4.10	2.75	1.06
Regions	Zagreb and surroundings	4.38	2.80	0.98
	Slavonia	2.11	1.77	0
	Northern Croatia	2.83	1.46	1.06
	Lika and Banovina	2.18	0.41	1.77
	Istria, Primorje, and Gorski kotar	4.47	3.29	0.92
	Dalmatia	3.45	1.36	0.90

Source: GEM 2002

The conducted analysis of statistical significance of differences (at the level of 5%) in the values of attributes of characteristics presented in Table 5 indicate that the differences in entrepreneurial activity which are the result of necessity with regard to gender, education, and income characteristics are not statistically significant. Necessity as a motive for entrepreneurial activity also cancels the differences among those who do or do not see a

business opportunity, who do or do not have the necessary know-how and skills for an entrepreneurial activity, as well as among those who do or do not fear business failure.

Statistical significance is present in the TEA index which describes an entrepreneurial activity resulting from a spotted business opportunity in all of the observed characteristics (gender, education, and income). The difference between age groups 25 to 34 and older groups is also statistically significant. The differences in entrepreneurship motivated by a spotted business opportunity are statistically significant between those who do or do not see a business opportunity, who do or do not have the necessary know-how and skills, as well as between those who do or do not fear business failure. There is also a significant difference between the TEA index based on a business opportunity with regard to regional affiliation, specifically between Istria and Lika and Banovina.

A demographic profile of an entrepreneur in Croatia may be prepared by using the indicators presented in Table 5.

The general image of an entrepreneur in Croatia

An entrepreneur in Croatia is three times more frequently a man than a woman, between 25 and 34 years old, with secondary education and a high income. An entrepreneur is significantly more often a person who knows other entrepreneurs, who recognizes business opportunities, possesses the skills necessary for running a business, does not fear business failure. An entrepreneur most frequently comes from the areas of Istria and Zagreb.

The image of an entrepreneur who has become one due to a spotted business opportunity:

This overlaps with the general image of an entrepreneur. It should be noted that the number of such entrepreneurs is the lowest in Lika and Banovina.

The image of a necessity driven entrepreneur:

A necessity driven entrepreneur is also more frequently a man than a woman, but the difference is considerably smaller than in the general image. This type of entrepreneur is most frequently older people (45 - 54 years old), with a secondary, but also higher educational background, with income lower than that of a business opportunity driven entrepreneur, and most frequently comes from Lika and Banovina.

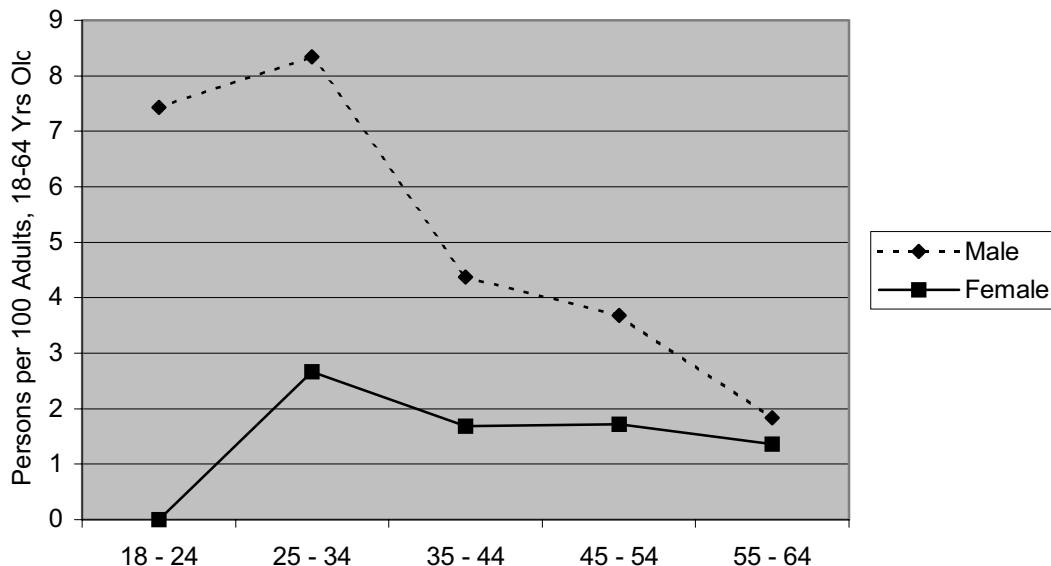
3.2.1. Men more Entrepreneurial than Women?

Although in all the countries men are more active in entrepreneurship than women, the differences among countries are very great. Whereas in Thailand the ratio is almost the same, in Japan there are five times as many entrepreneurially active men as women. The average for all 37 countries is 1.8 times more men than women in entrepreneurship. In Croatia there are three times more male entrepreneurs than women. Only the necessity to engage in entrepreneurship decreases these differences: among those who have become entrepreneurs out of necessity, the differences among men and women are smaller than the average, and significantly smaller in comparison with entrepreneurs who have become entrepreneurs out of their own choice.

3.2.2. Age Also Plays a Role

Although people between the ages of 25 and 34 are the most active in starting new businesses, necessity driven entrepreneurs are mostly people in the group aged between 45 and 54. Differences in entrepreneurial activity between genders are decreased by necessity, but also age (Figure 4).

Figure 4 - TEA Indices by Gender and Age



Source: GEM Croatia 2002

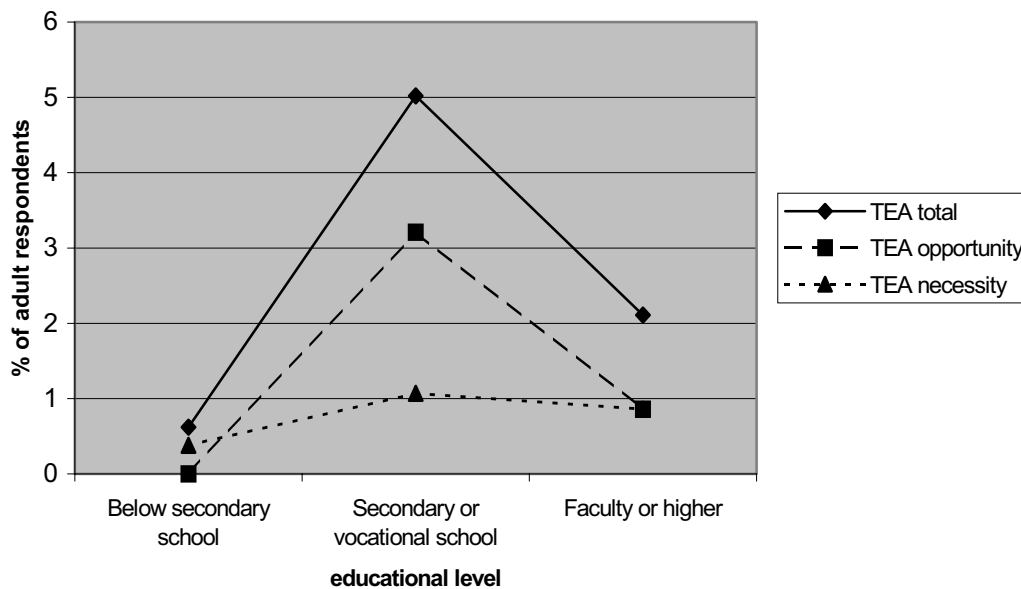
The number of entrepreneurially active women does not vary significantly because of age. Opposite is true for men: the number of entrepreneurially active men decreases along

aging process. It confirms the conclusion that women, more frequently than men, become necessity based entrepreneurs.

3.2.3. More Educated People are More Frequently Entrepreneurs

Entrepreneurial activity is the highest in respondents with secondary school qualifications, followed by those with university qualifications, while the least educated respondents are the least active. Still, there are interesting differences in the ratio of business opportunity driven entrepreneurs and necessity driven entrepreneurs: there are more necessity driven entrepreneurs among the most uneducated people, and there are three times more business opportunity driven entrepreneurs among people with secondary education (Figure 5).

Figure 5 - TEA Indices by Educational Structure



Source: GEM 2002

3.2.4. Know-how and Experience, Perseverance, and “an Eye” for Entrepreneurial Opportunities are Important for Entrepreneurial Activities

Entrepreneurial activities also greatly depend on factors such as know-how and experience for starting up a business undertaking, recognizing a business opportunity, socializing with entrepreneurs, except in the case of necessity-driven entrepreneurship. There are great differences in the TEA index among those who socialize with entrepreneurs and those who do not know any entrepreneurs (6.10 vs. 1.53); among those who await a good business opportunity in the next six months and those who do not see one (9.03 vs. 2.29), those who have the know-how and experience for new business activities and those who do not (7.83 vs. 0.61). Those who will not perceive a business failure as the end of their entrepreneurial

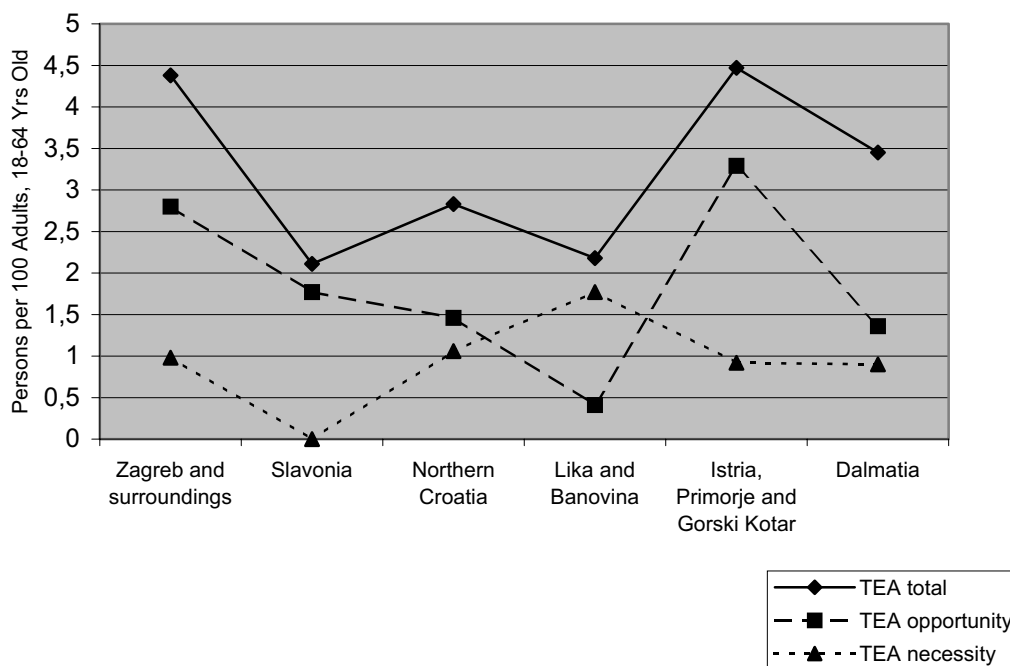
career are more frequently entrepreneurs than those who will consider a business failure “the end of the world” (4.10 vs. 2.59). All these differences are statistically significant on the level of the overall TEA index and TEA index – opportunity.

3.2.5. “An Entrepreneurial Incubator” in Croatia

Regional differences in entrepreneurial activity lead to the conclusion that, within the same Government policies and programmes, the socio-economic differences in Croatia have a significant impact on the level of entrepreneurship. Entrepreneurial activity measured by the overall TEA index is most intensive in Istria, Primorje, and Gorski Kotar (4.47) and in Zagreb and its surroundings (4.38), and is the lowest in Slavonia (2.11), and Lika and Banovina (2.18).

Although in Croatia, as well as in other participating countries of the project, opportunity-driven entrepreneurial activity is higher than necessity-driven entrepreneurial activity, this is still not so in all the observed regions in Croatia. It is disconcerting that in Lika and Banovina are there more entrepreneurs who have become entrepreneurs out of necessity (1.77) than those who have become entrepreneurs because of a spotted opportunity (0.41). In all other regions there are more entrepreneurs driven by opportunity than entrepreneurs driven by necessity.

Figure 6 - TEA Indices by Regions in Croatia



Source: GEM 2002

3.2.6. Business “Flux”

Usual approach to analyzing changes in the structure of firms and employment according to the size of firms, does not reveal “flux” provoked by initiatives for starting new businesses. From Table 6 it is obvious that employment increased only in small firms, employment decreased in big and medium sizes firms.

Table 6 - Structure of “living” firms according to average number of employed persons (end of quarter)

Year	Indicator	Firm			
		Large	Medium	Small	Total
1996.	Number of "living" firms	526	1497	59935	61958
	%	(0.85)	(2.42)	(96.73)	
	Average number of employed persons	369662	177759	217693	765114
	%	(48.31)	(23.23)	(28.45)	
2000.	Number of “living” firms	620	1978	54604	57202
	%	(1.08)	(3.46)	(95.46)	
	Average number of employed persons	345763	155475	232523	733761
	%	(47.12)	(21.19)	(31.69)	

Source: Statistical reports on industries regarding the size of firms, 1996 and 2000, Croatian Chamber of Commerce

GEM project is trying to identify what makes the segment of small firms more alive than other firms, and what business “flux” is depending on. The result of entrepreneurial activities in the GEM project is observed through three key indicators:

- Participation in genuine business start-ups (paying wages over a period of no longer than three months)
- Participation in new firms (firms less than 42 months old at the time of the survey, i.e., established in 1999 or later)
- Participation in business angel investment.

The first two of these participation rates are combined to form an index of total entrepreneurial activity.

In the structure of entrepreneurial activity covered by the TEA index (*start-up* business activities and new firms), start-up business activities are the dominant group (42 out of

54), and the rest are new firms.² In the next three years 8.5% of respondents aged 18 to 64 expect to start a new business, either on their own or with somebody, including self-employment. The research also showed the existence of “business angels”. In fact, 1.4% of all the surveyed citizens aged 18 to 64 in the previous three years provided financial resources for the starting of new firms of others (not including the purchase of equities or joint funds).

The reasons for business start-ups are mostly divided between “catching” a business opportunity, i.e., the desire to be “one’s own boss” and engaging in entrepreneurship because there was no other good solution (Table 7).

Table 7 - Structure of Entrepreneurially Active Persons by Motives of Business Start-ups

	Active entrepreneurs (n=54) %
Exploit business opportunity	33
Best work choice	26
Work choice and opportunity	20
Job and better opportunity	6
Don't know/Refused	15

Source: GEM 2002

3.2.7. Enterprises with Growth Potential

Business undertakings with growth potential are relatively rare. The GEM project has developed its own approach to identifying business undertakings with growth potential by adopting five criteria used to evaluate the attitude towards innovativeness and the attitude towards export orientation:

- To what extent the products and services produced by the enterprise are new for clients
- The expected degree of competition
- The percentage of the clients of the enterprise outside Croatia
- The expected number of jobs 5 years after the establishment of the enterprise
- Was the technology necessary for the activities of the enterprise known one year earlier.

² The number of registered small and medium-sized enterprises, observed in relation to the number of inhabitants, is far lower in Croatia than, for instance, in the USA. For every 100 inhabitants of Croatia there is one registered and operational enterprise. In the USA, for every 100 inhabitants there are 8 registered and operational enterprises.

The Attitude Towards Innovativeness

The attitude of entrepreneurially active people towards innovativeness is very weak, because as a rule they enter the market with products which are not new (81% of respondents), the market has many competitors (48%) and they use already known technology (94%). Only 5% of the respondents expect their enterprise, within five years of starting the business, to have more than 20 employees.

Table 8 - Attitude Towards Innovativeness

Characteristics	Attributes	Entrepre-neurially active population (n=54) %
How new are products/ services for the clients	New for all	4
	New for some	15
	Not new for anyone	81
How many competitors offers the same product /service	Many	48
	Several	33
	None	19
Expected number of jobs 5 years after the establishment	0	0
	1 – 2	28
	3 – 5	35
	6 – 10	27
	11 – 20	5
	More than 20	5
Was the necessary technology available a year earlier?	No	6
	Yes	94

Source: GEM 2002

Attitude Towards Export Orientation

Seventeen per cent of the entrepreneurially active surveyed people out of a total of 54 expressed an intention to seek buyers mostly abroad (more than 51% of buyers) (Table 9), which is within the average for all participating countries in the GEM project. This confirms that new and small enterprises have limited access to international markets, which indicates a need for them to develop international competitiveness.

Table 9 - The Percentage of Prospective Buyers outside Croatia

Characteristic	Attributes	Entrepre-neurially active (n=54) %
Percentage of buyers outside Croatia	91 – 100%	6
	76 – 90%	2
	51 – 75%	9
	26 – 50%	7
	25 % and less	76

Source: GEM 2002

3.3. Macroeconomic Framework of Entrepreneurial Activities

The conceptual framework of the GEM project starts with the attitude that entrepreneurship contributes to dynamising economic activities and job creation, and to fostering more innovative, more creative and flexible business behaviour. At the same time, the model recognizes the inter-activity of the entrepreneurial activity and the macroeconomic framework mechanisms which can contribute to or impede the start-up and development of business undertakings.

3.3.1. Croatia's Macroeconomic Performance in an International Perspective

Entrepreneurship becomes especially significant in modern conditions marked by the deteriorating macroeconomic performance of many national economies, seen through the slow-down or sluggishness of economic growth in many parts of the world. This conclusion is drawn by indicators of the growth rate of real GDP (Table 10) and unemployment, which, in Central and Eastern European countries was between 3.7% (the lowest) in the Ukraine and 23.1% (the highest) in Croatia in 2001. In the same year the unemployment rate in the European Union was a high 7.4% (i.e., in the range from the lowest, 2.5%, in Luxembourg to the highest, 22.2% in Spain).

Table 10 Growth Rates in Real GDP (Percent Change at Annual Rate)

	1999	2000	2001
World	3.6	4.7	2.4
Advanced economies	3.3	3.9	1.1
Major advanced economies	3.0	3.5	1.0
Other advanced economies	4.9	5.2	1.5
European Union	2.6	3.4	1.7
Euro area	2.6	3.4	1.5
Newly industrialized Asian economies	7.9	8.2	0.4
Developing countries	3.9	5.8	4.0
Africa	2.5	2.8	3.5
Developing Asia	6.2	6.8	5.6
Middle East, Malta, and Turkey	1.1	5.9	1.8

Western Hemisphere	0.1	4.1	1.0
Countries in transition	3.6	6.3	4.9
Central and Eastern Europe	2.0	3.8	3.0
CIS and Mongolia	4.6	7.8	6.1
Russia	5.4	8.3	5.8
Croatia*	-0.9	2.9	3.8

Source: Department of Commerce (Bureau of Economic Analysis) and International Monetary Fund.

* Croatian Statistical Office and Croatian National Bank

Table 11 presents data which illustrate Croatia's macroeconomic performance and enable it to be positioned towards its closest neighbours (Hungary and Slovenia), as well as for a comparison to be made with an entrepreneurially extremely active country – Ireland, which, prior to a respectable growth, was in a similar, difficult economic situation to Croatia's. Although in 2001 and 2002 Croatia's GDP grew at a significant rate (2.9%, and 3.8% respectively), this growth was not sufficient to bring down unemployment to any great extent. Furthermore, the structure of GDP in Croatia is unfavourable, because unproductive state expenditures and the payment of installments of due foreign borrowings have too great a share. Exports as a significant source of growth of GDP in every country, and especially small countries like Croatia, has stagnated in the last dozen years at the level of approximately USD 4.5 billion, and the export-import ratio in the period 1991-2001 had an almost constant downward trend (the average export-import ratio was 67%). In the period 1996-2001 this indicator dropped to the level of 53%.³

Table 11 - Croatia's Position within Reference World Indicators

	Croatia	Hungary	Slovenia	Ireland
GDP per capita, 2001, current prices, US\$	4,403.00**	5,035.50	10,400.80	27,051.90
GDP growth per capita, 2001, %	-0.07*	0.04	0.13	0.07
% GDP external, 1999, (exports + imports)/GDP	0.87	1.30	1.11	0.79
% GDP external in services, 1999 (services imports + exports)/GDP	0.28	0.20	0.17	0.21
Inflation rate, 2001	2.60*	9.20	6.50	3.90
Unemployment rate, 2001	16.30	5.90	6.30	4.20

³ Croatian Bureau of Statistics, Yearbooks

Employment change, % 2001-2002	-1.50	0.10	n.a.	1.00
Total population, 2002	4,390,751	10,075,034	1,932,917	3,883,159
Net (in) migration per 1000 population, 2002	9.72	0.76	2.24	4.12

Source: GEM, 2002

* figure on Croatia refers to 2000

** Croatian Bureau of Statistics

According to the Vienna Economic Research Institute (WIIW),⁴ Croatia, with EUR 8,730 of GDP per capita (according to purchasing power parity) in 2001 realized 37% of the average of the EU-15. This was also the lowest level among transition countries – the Czech Republic, Hungary, Slovenia, Poland, and Slovakia. Still, this was an improvement in comparison with 1995, when it amounted to EUR 5,220 and accounted for only 25% of the EU average.

3.3.2. General Macroeconomic Conditions for Entrepreneurial Activities

In the GEM project, macroeconomic conditions for entrepreneurial activities are assessed using eight dimensions:

- openness of the national economy: foreign trade, protectionist measures
- government: role, efficiency
- financial markets: efficiency
- technology, R&D: level, intensity
- infrastructure: physical
- management (competitiveness): competencies, productivity, and cost of management cadre, enterprise culture
- labour market: flexibility
- institutions: impartiality, the rule of law

In 2002 it was not possible to evaluate all the dimensions of this macroeconomic framework in which Croatia's entrepreneurial activity is conducted, or to compare them internationally. The reason for this was a poor official statistical database and Croatia's non-inclusion in some world projects and reports which are the data sources of the GEM project. For instance, Croatia was included for the first time into the Global

⁴ The Current Situation in the Croatian Economy, paper for the Assembly of the Croatian Chamber of Commerce, December 2002, www.hgk.hr

Competitiveness Report project only in 2002, so that in that year it was still not possible to use the data for assessing national competitiveness, Government efficiency, business efficiency, national technological capacities, efficiency of public institutions, and the intensity of information and communication technology.

Education Level, Scientific Research, Technology Transfer

Research in the GEM project indicates that there is a positive correlation between the level of entrepreneurial activity and the dimensions of the national entrepreneurial framework, such as the proportion of the population covered by higher education and technology transfer. The differences in the indicators of the educational, science-and-research, and technological base of Croatia and reference countries (Hungary, Slovenia, and Ireland) warn that these dimensions affect the development of entrepreneurship in Croatia in a restrictive, and not stimulating, manner (Table 12).

Table 12 - Selected Indicators of Educational, Science-and-Research, and Technological Base

	Croatia	Hungary	Slovenia	Ireland
Gross enrolment ratio % tertiary education, 1997	28.00	24.00	36.00	41.00
Science and engineering students as a % of total tertiary students, 1997	30.00	32.00	26.00	30.50
Scientific and technical journal articles per 100,000 people	11.72	16.97	25.99	30.33
Number of patents granted to residents by the national office per 100,000 people, 2000	2.45	1.77	9.31	n.a.
Number of patents granted to non-residents by the national office per 100,000 people, 2000	5.69	14.34	54.88	154.67
Patent applications (international) to WIPO per 100,000 inhabitants	1.18	1.31	2.07	5.52

Source: GEM, 2002

Institutional Efficiency

Although international business practice has shown that even restrictive national conditions for entrepreneurship cannot prevent its development, they can still adversely affect the intensity and dynamics of entrepreneurial activities, and especially the start-up of new businesses.

A number of research studies on Croatia's business practice and socio-economic development in general⁵ have shown that the institutional infrastructure is one of the greatest barriers to an intensification of entrepreneurial activities, namely:

- inefficiency of institutions of the legal system, the Government, and Parliament, i.e., institutions which are the stronghold of legality, social order, and business conditions in general, as well as
- overly complicated and lengthy administrative procedures, especially procedures related to obtaining entrance visas and work permits, as well as procedures related to land (acquisition of land, registration of land, and building).

In the last few years Croatia has been affected by a drastic decrease in the level of public confidence in the majority of institutions in Croatia (the legal system, Parliament, public services, and the police). This decrease is not an immediate consequence of transition processes which affected Eastern Europe and Croatia since the early 1990s, nor of war activities which were completed in Croatia in 1995. It is a primary consequence of "tolerating, or even sponsoring, corruption, nepotism, and political clientelism".⁶ The decrease in the level of confidence in institutions has directly led to a decrease in readiness to accept the risk of entrepreneurial activity on an individual level. Institutional inefficiency is also a reason for the lack of positive synergy effects in the networking of institutions, whose activities should ensure a consistent framework for entrepreneurial activities.

The data in Table 13 indicate a high share of unofficial economy in Croatia's GDP, the inefficiency of the Government, political institutions being closed, the low level of protection of civil rights and property rights, as well as a high level of corruption. Consequently, the institutional infrastructure has an adverse effect on the intensity and dynamics of entrepreneurial activities. In comparison with Eastern European countries included in the GEM 2002 project (Croatia, Hungary, Poland, Russia, Slovenia) in terms of the above aspects of institutional efficiency, only Russia has worse indicators than Croatia.

⁵ For example: Social Development Report – Croatia 2001, UNDP, UN/DESA, Institute of Economics, Zagreb, 2001; FIAS report "Croatia: Administrative Barriers to Foreign Investments", January 2001.

⁶ Social Development Report – Croatia 2001, UNDP, UN/DESA, Institute of Economics, Zagreb, p. 31

Table 13 - Institutional Efficiency

	Croatia	Hungary	Slovenia	Ireland
% GDP in unofficial economy, 2000	30.40*	28.80	26.40	16.70
Return on assets	0.20	0.20	0.20	0.20
Government effectiveness**	0.10	0.60	0.60	1.40
Highest marginal income tax rate, 1999	35.00	40.00	n.a.	46.00
Closed political institution (0 = open)	6.40	5.70	5.70	0.00
Civil rights index (1 = max. protection)	0.50	0.80	0.80	1.00
Property rights	2.00	n.a.	3.00	5.00
Corruption index – World Bank (1 = clean)	0.20	0.50	0.60	0.80

* The shares of the unofficial economy in GDP depend on the selected assessment method. In the magazine "Financial Theory and Practice", Nr. 1, 2002, the results of assessments of the unofficial economy according to various methods were provided. A work by Katarina Ott synthesizes these results: in 1998 the share was 9.12%, 8.41% in 1999, 6.81% in 2000 (measured by the method of unreconciled national accounts); according to the EUROSTAT method adjusted to the needs of transition countries, the share of the unofficial economy in GDP accounted for 8.9% in 1988, and 8.1% in 1999. These indicators may be used as lower limits.

** Government effectiveness in the GEM project refers to what extent Government policies contribute to competitiveness

Source: GEM, 2002.

Administrative procedures may, if they are complicated and lengthy, act as a considerable disincentive to investments and business start-ups, whether domestic or foreign-owned.

Administrative procedures are usually monitored through three steps: business start-ups (registration and various licensing procedures), procedures related to land (acquisition, i.e., purchase of land, registration of land, and building facilities), and procedures related to business operations (tax payments, customs procedures, labour regulations, and state inspections). In the case of foreign investments, entry procedures should be added (such as immigration procedures, work permits). The results of research conducted by the Foreign Investment Advisory Service (FIAS)⁷ indicated that in Croatia entry procedures and land-related procedures are especially cumbersome and lengthy.

⁷ Foreign Investment Advisory Service (FIAS): Croatia: Administrative Barriers to Foreign Investments, January 2001.

Other procedures were not indicated as especially burdensome in the establishment of enterprises or in the course of business operations.

However, taking into consideration, for example, the number of steps necessary for registering a new enterprise, the number of procedures that are necessary when starting to establish an enterprise, the registration costs, and the overall registration procedures, Croatia is in the group of countries whose procedures are complicated and lengthy⁸ (Table 14).

Table 14 - Registration Procedures

	Croatia	Hungary	Slovenia	Ireland
Costs paid to non-government entities	1534.10	2717.40	1192.90	35.80
Number of steps to register start-up	11.00	5.00	8.00	3.00
Number of procedures to register new firm, 1999	12.00	8.00	9.00	3.00
Cost to register: % per capita GDP, 1999	0.50	0.90	0.20	0.10
Registration procedures: all procedures	6.00	6.00	8.00	2.00

Source: GEM, 2002

The following comparisons are indicative:⁹

- In Croatia, the registration of an enterprise lasts on average 4-6 weeks, and may last for as long as 6 months; registration costs of a limited liability company amount to approximately USD 660 (including the costs of public notaries and publication in the Official Gazette); the registration costs of a joint stock company – the level of costs depends on stock capital
- In Hungary registration lasts approximately 4 weeks, whereas the costs for an individual trader amount to USD 40, and for all other companies – a percentage of stock capital
- In Slovenia registration lasts 1 – 3 months, whereas the costs of registering a joint stock company amount to USD 1,300; limited liability company USD 500
- In Ireland registration takes 10 days, and the costs of registering a limited liability company are 250 Irish pounds, and all others enterprises 20 Irish pounds.

⁸ ibidem. The FIAS report specifies that the very process of registering of a company in Croatia is quite simple, but mediator-intensive, “and it is much more difficult if legal services are not used. This is a much greater problem for small and medium enterprises, which can often not afford the use of legal services (p. 39)... With the help of a lawyer with good connections, the process of registration of a company at the Commercial Court may last only two days. The parties who opt to conduct the registration procedure on their own are faced with a time lag of as much as six months (pp. 39 – 40)”. Therefore, the FIAS recommendation is that the registration process, “although relatively clear, should to a greater extent be oriented towards the clients, with special emphasis on shortening the duration and reduction of direct and indirect registration costs”(p. 40).

¹⁰ FIAS report, p. 40

According to the results of the GEM research, in international terms, the character of the tax system and the level of flexibility of the labor market are also especially significant factors in the explanation of variations in the level of entrepreneurial activities among countries. The level of entrepreneurial activities is higher in countries where:

- The tax burden is smaller
- The labour market is more flexible.

In Croatia the tax system was rated as better and more transparent than the world average and the EU average; yet, for instance, in 1998, with a 46.6 percent tax share in GDP, Croatia had a greater share of tax income in GDP than the average of the EU and most transition countries.¹⁰ The labour market was rated as the most rigid in comparison with transition countries (only the Slovenian labour market is more rigid).¹¹

In Croatia entrepreneurs are taxed according to two bases: profit tax and value added tax. Among other duties there are customs duties, capital transfer tax, excise tax, and social insurance contributions. Although in principle the tax system is transparent, entrepreneurs especially object to the following¹²:

- The frequency of the changes in the tax system which add to business uncertainty and hinder business planning;
- The level of tax and other duties (contributions, customs duties, state guarantees, etc.) which exceed the fiscal possibilities of many taxpayers.
- The existing tax practice within which some pay taxes regularly, others negotiate with the state what they will pay and how much they should pay, whereas the third group do not pay taxes at all and do not bear legal consequences;
- Lack of readiness of tax authorities for additional explanations and expression of opinions on legal issues, especially to newly established enterprises, and small and medium enterprises in general.

3.4. What Do Experts Think about Entrepreneurship in Croatia?

The conceptual framework of the GEM project starts from the assumption that entrepreneurial behaviour is determined by the way people perceive the conditions that entrepreneurial activities depend on. The entrepreneurship framework conditions are divided into 9 different areas which are thought to have a direct influence on the shaping of entrepreneurs' intentions, interests, or

¹⁰ Porezna politika: na berbu u dužničke vinograde, Privredni vjesnik, No. 3268 dated September 23, 2002

¹¹ Privredni vjesnik, Nr. 3281 dated December 2 / December 9, 2002, p. 5, according to Global Competitiveness Report 2002-2003 (Executive summary available on web page: www.weforum.org/gcr)

¹² Vlada s gospodarstvenicima, Privredni vjesnik, No. 3287 dated January 27, 2003

behaviour, i.e., which affect the shaping of an encouraging or discouraging entrepreneurial climate. A detailed explanation on the scope of the specific areas is presented in Table 15.

Table 15 - Entrepreneurship framework conditions

Condition	Includes
1. Financial Support	Availability of financial resources, equity, and debt, for new and growing firms including grants and subsidies
2. Government Policies	the extent to which government policies as reflected in taxes, regulations and their application, are either size-neutral, discourage, or encourage new and growing firms
3. Government Programmes	the presence of direct programmes to assist new and growing firms at all levels of government - national, regional, and municipal
4. Education and Training	the extent to which training in creating or managing small, new, or growing businesses is incorporated within the educational and training systems at all levels and the extent of the quality, relevance and depth of education and training in creating or managing small, new or growing businesses
5. Research and Development Transfer	the extent to which national research and development will lead to new commercial opportunities and whether or not R&D is available for new, small, and growing firms
6. Commercial and Professional Infrastructure	the extent of the presence of commercial, accounting, and other legal services and institutions that allow or promote the emergence of new, small, or growing businesses
7. Market Openness/Barriers to Entry	the extent to which commercial arrangements are prevented from undergoing constant change and re-deployment, preventing new and growing firms from competing and replacing existing suppliers, subcontractors, and consultants
8. Access to Physical Infrastructure	ease of access to available physical resources—communication, utilities, transportation, land or space—at a price that does not discriminate against new, small, or growing firms
9. Cultural and Social Norms	the extent to which existing social and cultural norms encourage, or do not discourage, individual actions that may lead to new ways of conducting business or economic activities and, in turn, lead to greater dispersion in wealth and income

The nine areas above shape entrepreneurial conditions and entrepreneurial capacity, whose interaction leads to the creation of an entrepreneurial climate needed for the starting up of new firms.

The analysis of the entrepreneurial climate is based on the attitudes of experts collected through a semi-structured questionnaire for an interview and an additional survey. Experts assessed the conditions for entrepreneurial activities, described through the 9 presented areas, and identified three strengths and three weaknesses of the entrepreneurial climate in their respective countries.

Experts selected for interview in Croatia were persons with experience and with a high public reputation in their area of work. Some of those persons are entrepreneurs themselves, and some are professionally related to the issues of entrepreneurship or entrepreneurs, for example as advisers, heads of support institutions, public administration employees, teachers/professors, bankers, investors, politicians, etc. In the Republic of Croatia the sample of experts included 37 experts, at least four experts in each area.

3.4.1. Entrepreneurial Climate in Croatia in an International Perspective

The entrepreneurial climate in Croatia received lower grades than many other countries included in the GEM 2002 project, because almost all the conditions for entrepreneurial activities were rated as negative or on the level of a neutral attitude. In the range of grades from 1 to 5, grade 3 denotes a neutral attitude, a positive attitude is expressed by grades above 3.01, and a negative attitude by grades up to 2.99 (Table 16). The legend of international marks of the countries with the highest and lowest rated elements of the framework of entrepreneurs' conditions is attached in Annex 2.

Table 16: Assessment of Entrepreneurs' Conditions in an International Perspective

Assessment of entrepreneurs' conditions		Croatia	All** GEM countries		
				Max. grade	Min. grade
Financial support	Availability of loans	3.21	2.90	3.89 US*	1.50 AR
	Importance of venture capital	2.17	2.83	4.30 US	1.72 HU
Government policies	Support policies	2.27	2.68	3.62 CA	1.50 AR
	Low tax burden and number of regulations	1.81	2.41	4.33 HK	1.36 AR
Government programmes	Efficiency of Government programmes	2.11	2.63	3.43 IR	1.61 AR
Education and training	Effectiveness of primary and secondary education	1.63	1.97	2.72 AR	1.34 JP
	Effectiveness of university curricula and additional training	2.01	2.83	3.89 US	2.00 CH
Research and Development Transfer	Efficiency of research and development transfer	2.05	2.47	3.49 CA	1.88 AR
Commercial and Professional Infrastructure		2.43	3.17	4.21 CA	2.00 JP
Market Openness/Barriers to Entry	Market change velocity	3.34	2.84	4.09 TW	1.83 CL
	Low barriers to entry	2.04	2.75	3.88 CA	2.04 HR
Access to Physical Infrastructure	Ease of access	3.08	3.86	4.79 CA	3.00 HU
Cultural and social norms	Cultural orientation toward entrepreneurship	2.20	2.79	4.52 US	1.88 SE

* a number of countries in addition to the USA have the same average grade

** Survey of experts was conducted in 34 out of 37 participating countries of the GEM project

Source: GEM 2002

Some of the nine identified areas of entrepreneurs' conditions are described in more detail due to their complexity. For instance, financial support is evaluated through the availability of credit lines and the importance of venture capital. Government policies are observed through support policies on the local and national level, and through the tax burden, stability, and number of administrative procedures for business start-ups. Education is evaluated separately, as primary, secondary, and tertiary education. Market change velocity and the possibility for new firms to enter the market are taken as indicators of competitive conditions present on the national market.

The grades given by experts are only a supplement to the already identified problems, such as the high share of tax income in GDP, the lengthy procedure for starting up new firms, and the low level of transfer of research results into business practice. A specific paradox is related specifically to the assessment of the market and competitive conditions. Experts in Croatia assess that the Croatian market reacts to changes more quickly than the average for all the GEM countries. On the other hand, those same experts assess that the Croatian market is very closed for the entry of new domestic firms (according to that criterion, Croatia ranked the last out of the 34 GEM countries where interviews were conducted in 2002).

Such an assessment of the conditions for entrepreneurial activities are summed up in the low perception of entrepreneurs' opportunities, but also in the low capacity of entrepreneurial activities, in which the availability of know-how and skills is rated lower than motivation (Table 17).

Table 17 - Assessment of Conditions and Capacities for Entrepreneurial Activities – Croatia vs. all the GEM 2002 countries

Assessments of entrepreneurs' conditions	Croatia	All** GEM countries		
			Max. grade	Min. grade
Perception of entrepreneurs' opportunities	2.93	3.29	3.97 US	2.50 AR
Know-how and skills for entrepreneurship	2.43	2.52	3.47 HK	1.68 JP
Motivation for entrepreneurship	2.99	3.31	4.44 TW	2.63 NO

Source: GEM 2002

On Entrepreneurial Conditions

As part of the statements describing entrepreneurial conditions, experts have given a mildly positive mark (3.54) to the claim that conditions for starting new firms have significantly improved in the last five years, but the possibility for obtaining information necessary for access to business opportunities was rated quite poorly (2.29).

On Entrepreneurial Potential (Know-How, Skills)

As part of the statements describing entrepreneurial potential (expressed through know-how and skills), experts rate as the highest limitation to the development of entrepreneurial potential the lack of know-how on running a small enterprise, as well as the lack of experience in starting new businesses.

On Motivation for Entrepreneurship

In previous studies in the GEM project it was established that people who see opportunities and consider themselves capable of using them in some situations avoid them or do not dare become entrepreneurs. Additional motivation for entry into entrepreneurship are the values and attitudes of society with regard to entrepreneurs and entrepreneurship. Experts express reservation/neutral attitude (grade 3.0) towards the claim that the majority of people in Croatia consider an entrepreneurial career as a desirable career choice. In addition, experts agree that entrepreneurial undertakings in Croatia are considered a good way to become rich, but that successful entrepreneurs do not enjoy either a high status or

esteem. Such a system of values does not help the development of entrepreneurial culture, nor does it contribute to the development of motivation for entrepreneurship. The media do not contribute to this either: experts gave the lowest grades (2.58) to the contribution of the media in disseminating entrepreneurs' success stories. Entrepreneurial behaviour needs role models or a critical mass of leaders which affirms the world of entrepreneurship, thus motivating the rest of the population. It seems that in this respect in Croatia there is a lack of a clearer and better visibility of successful small entrepreneurs heading towards great entrepreneurial success.

3.4.2. Strengths and Weaknesses of Entrepreneurship in Croatia

The interviewed experts were requested to rank, out of the nine specified conditions for entrepreneurial activities, three of the most prominent strengths and three of the most significant limiting factors (weaknesses) for entrepreneurship in their country.

The majority of interviewed experts believe that the following are the most favourable out of the nine conditions in Croatia:

- Cultural and social norms
- Government programmes

whereas the most unfavourable are the following:

- Government policies
- Education
- Financial support.

In comparison with the attitudes of experts in other countries of the GEM 2002 project, there is a significant congruence of opinions on the assessed conditions of entrepreneurial activities. The international consortium of experts highlights cultural and social norms as the most significant strength, and the lack of financial support, inadequate Government policies, and inadequate education as the greatest weaknesses.

The Strengths of Entrepreneurial Processes in Croatia

Cultural and Social Norms

Although the experts were divided in terms of whether or not cultural and social norms work as a strength or weakness of entrepreneurship in Croatia, there is nevertheless a somewhat larger number of those who consider this condition of entrepreneurial activities a strength. However, it is evident from the international comparison of the experts' assessment of

cultural and social norms as conditions of entrepreneurial activities (Table 16) that Croatia is far from the stage when cultural and social norms will be a driving force of entrepreneurship. The assessment of cultural and social norms in individual countries has revealed an interesting phenomenon, which was in a way a driving force of the GEM project as well. The most developed countries in the world (G-7 countries) wished to find an answer to the question why the USA was a “more entrepreneurial” country than others. The GEM project showed great differences in attitudes towards entrepreneurship which are the result of cultural and social norms in specific countries. In the GEM 2002 project as well, Croatia left behind countries such as Japan, Denmark, France, and Sweden. One of the responses was that the Americans more frequently than others accept starting their own small businesses as a business career: 91% of adult Americans say that they would support or strongly support their daughter or son should they wish to start their own small business.¹³

Nevertheless, the following statements of experts prove that changes do happen:

“There is a growing awareness (especially among young people) that they need new knowledge and skills to develop more successfully their own business idea or reduce the entrepreneurial risk to a level as low as possible.”

Government Programmes

Although experts rate Government programmes in Croatia as representing a strength, they receive very low grades. In other GEM 2002 project countries as well, Government programmes as a rule received grades under 3: Ireland received the highest grades (3.43), and only the Republic of South Africa and Argentina are behind Croatia. It is for this reason that the fact that Government programmes of support for the development of institutional networks (business zones, entrepreneurship centers, incubators), as well as credit programmes, have obviously become recognizable as a strength in the development of entrepreneurship in Croatia, they should not be used as a source of complacency, but as an incentive to analyze the efficiency of those programmes.

Weaknesses

Government Policies

Experts in Croatia rated as the greatest weakness in the development of entrepreneurship specifically Government policies, considering them either non-existent or inconsistent, resulting in a non-transparent and complicated regulatory framework in which entrepreneurial undertakings operate. Only a few countries rated

¹³ Dennis, J. W. (1997); The Public Reviews Small Business, NFIB Education Foundation, Washington, DC.

Government policies even lower than the sample of Croatian experts (Slovenia on the same level as Croatia, Japan, Israel, Belgium, Brazil, and Argentina).

Several expert statements illustrate this attitude:

“Business start-ups are burdened with high costs and taxes. The tax policy is equal for all – both for those who are just starting and those who run a business successfully.”

“Constant political skirmishes, incompetence, non-cooperativeness at all levels of administration do not favour the development of an entrepreneurial climate.”

“Legislation and subordinate legislation are insufficiently transparent, unharmonized, and unstable (they change quickly). This makes administration inefficient, creates confusion, and leads to contradictory situations in the implementation and explanation of laws on the regional levels. Croatia as a relatively small country has no fewer than 23 counties, and a large number of towns and municipalities, which results in high state expenditures, inefficient administration, and bureaucratisation of the society at the expense of taxpayers. The Labour Law is inconsistent, discriminating, and contradictory. Public enterprise employees have guaranteed salaries and severance payments, whereas in the private sector legal protection is almost dysfunctional.”

“An entrepreneur has to (if he wants to start a business in his own business premises) obtain and fill out 42 documents – approvals, certificates, etc.”

Education

After Government policies, experts rated education as the highest barrier to the development of entrepreneurship in Croatia. The main objections of experts are the rigidity of the education system and the non-inclusion of the know-how and skills required for entrepreneurial activities into the curricula. A shortage of teachers trained for the realization of such curricula was especially identified. The following is an illustration of the statements from which there follows an assessment of education as an important weakness in the development of entrepreneurship:

“The education system so far has not taught the initiators of business undertakings enough about entrepreneurial know-how and skills. The lack of training of the proponents of those activities is evident as well.”

“Knowledge about entrepreneurship is not acquired early enough and is not present in the curricula. There is an insufficient number of quality cadre who would pass this knowledge on to future entrepreneurs. There are no institutions for business training either.”

“The education system is not defined so as to give the students freedom.”

“In Croatia there is a low level of awareness of the need for learning and knowledge. Managers and entrepreneurs frequently have the attitude ‘I know that’. Only when they stumble and make a big mistake do they turn to learning. There is no proactive way of thinking, and there is more of a reactive way of thinking. An entrepreneur learns by mistakes, which is always the most expensive way.”

In terms of the attitude towards education as one of the most important barriers to the development of entrepreneurship, experts in Croatia share the opinion of experts in other countries. It should be especially stressed that education received poor grades in experts’ assessment across the board, but in all countries primary and secondary education was graded worse than tertiary education.

Financial Support

Experts identified financial support as a limitation to the development of entrepreneurship, not because of a lack of credit programs, but because the banks are not ready to adjust their procedure to the specific traits of beginner entrepreneurs, and due to the problem of securing loans (collaterals). Besides, experts warned of the problem of obtaining documents on ownership as a collateral for loan repayment in specific areas of Croatia, but also the poor quality of business plans on the basis of which entrepreneurs apply for loans.

“The banks significantly limit the entry of new businesses and crafts because they require enormous collaterals for each loan to an entrepreneur – mortgages with a ratio as high as 1:3 in terms of the property of the entrepreneur. Beginners cannot afford such conditions and frequently decide not to start a business at all, because they believe this will be an impossible mission.”

“Banks also require mortgages for new entrepreneurs. The system of providing warranties is fitting for the last century. This is a rigid system which has no flexibility or dynamics, and neither does it support entrepreneurs.”

“Although commercial banks have offered quite favourable credit conditions, tardiness in obtaining the required documents, as well as the poor quality of business plans, is the main obstacle both for the bankers and for entrepreneurs.”

4. Conclusions, Challenges and Recommendations

A huge number of people is included in the entrepreneurial activities around the world. The GEM 2002 project research team estimates that in 37 countries included in the project, which account for 62% of world population and 92% world GDP, about 460 million people either start a new business venture or run their own new business venture which is not older than 42 months. In this “club” with 460 million entrepreneurs Croatia participates with about 98 000 entrepreneurs. Based on the research results certain evaluations of the level of the entrepreneurial activity in Croatia in 2002 can be made, which pose challenges for further research, and put forward recommendations for policy decision-makers in particular areas:

- Most of the factors in the General Framework Conditions (which in countries with high entrepreneurial activity index, operate positively and effectively) are in their characteristics similar to those typical for countries with low entrepreneurial activity index. Insufficient allocation of funds for education, high tax incidence on new businesses, ineffective labor market with high cost of adaptation of employees to the demands of production do not contribute to the entrepreneurial activity of the country.
- Most of the factors in the Entrepreneurial Framework Conditions also have characteristics typical for the countries with low entrepreneurial activity index. There is no stimulation for the engagement of non-formal sources of financing of start-up business projects. Professional infrastructure of support (trainings, consulting, networking...) is in its infancy and there is no standardized quality of service. Education for entrepreneurial behavior almost does not exist¹⁴. The lack of education focused on entrepreneurship is the most important factor that negatively impacts the level of entrepreneurial activity in a country. The inertia of the formal education system towards including topics from entrepreneurship, as well as towards the change of methods of teaching and ways of learning has its roots in the traditional rigidity of the education system, but also in the consent to the long abandoned concepts such as “one becomes an entrepreneur by birth, not education.”

¹⁴The only graduate program in entrepreneurship in Croatia was founded at the Faculty of Economics in Osijek in 2000, which 6 classes of students have enrolled so far.

- New enterprises with a potential of high growth, i.e. ones that use the new technology, which expect to create new markets with their products, which anticipate an intensive growth of the number of employees and the launch on the international markets make up a smaller section of entrepreneurial ventures around the world, but in Croatia their number is under the average for GEM countries. The number of such enterprises is higher in countries that invest above average sums in research and development.
- Starting-up of entrepreneurial ventures by means of non-formal financial support is in all GEM 2002 countries significantly more frequent than the use of domestic venture capital (\$300 million vs. \$60 million). Although such data was not available for Croatia for the year 2002, it is necessary to recognize this opportunity through stimulating tax policy.
- Women take part in entrepreneurial activity less often than men: the average for all surveyed countries is approximately 50% of men entrepreneurs. In Croatia, however, it is 33%. In the developed countries this ratio is more in favor of women, in less developed countries there are less business opportunities for women.

The GEM project research so far has shown that entrepreneurship is an important mechanism on which the economic growth depends, but the rank of countries in terms of the level of entrepreneurial activity is very stable. This suggests that the level of entrepreneurship depends on institutional, social and cultural factors that are difficult to change at short notice. Therefore, the evaluation of different programs and policies implemented by many governments in their countries with the aim of improving the entrepreneurial activity is not always possible because the effects cannot be seen in a short period of time.

The NEW DIMENSION AWARD - The best county, 2002

County Koprivničko-Križevačka is one of the first counties to get involved in the credit program "The Snowball", enabling its entrepreneurs access to cheap capital. For this purpose the county has set aside 2.5 million kuna, the Ministry has provided 2 million kunas. This deposit was five times enlarged by Podravska banka. Thus the entrepreneurs in this county had on their disposal the total credit potential in the amount of 22.5 million kuna. All this would not be so significant if the county had not cashed the funds, showing its engagement and intention to look after its entrepreneurs. In this way 47 entrepreneurs got 20.5 million kuna for their entrepreneurial ventures. One must not neglect the role of two entrepreneur centers, as well as four entrepreneur zones, whose contribution to the success of this county should also be mentioned.

Annex 1: List of Experts Interview in GEM 2002 Project

1. Bilandžija, Nikola



Director of the Raiffeisen bank Osijek branch, he was member of the Osijek-Baranja County leadership in the period from 1999 until 2000, he is now member of the County council for development, as well as of the Osijek Rotary club.

2. Bračić, Ivan



Founder, owner, and director of the enterprise PIP d.o.o. Basic activity of the company is bee keeping. Employs 30-odd employees in 3 companies in Croatia and Bosnia-Herzegovina. Winner of the Gold Plaque for the best small enterprise in 2001, organized by the Croatian Chamber of Commerce. Exports his products to EU countries. A two-times Croatian champion of quality.

3. Crnković Pozaić,
Sanja

Director of Croatian Employment Office

4. Davidović, Drago

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5. Čturiilo, Drago



Founder, owner, and director of the Belišće-based company Creativa d.o.o, existing since 1999. The basic activity is the production of rubber goods – washers – for special and general purposes, as well as paper products and packing material.

Previously worked as a technologist in the machine tools plant in Belišće and in the operations of international cooperation in the Martin company in Graz, Austria. Occupation: BS in mechanical engineering, also completed management training in Graz, Austria.

6. Gavranović, Ante



Chief editor and director of the Privredni vjesnik from 1967 until 1991 (until retirement). From 1991 until 1995 he was member of the Končar electro industry Board of directors. In 1997 he returned to the Privredni vjesnik and became president of the Board of directors. He has performed several duties in different NGOs. He was president of the Croatian Journalists' association in the period from 1991 until 1995, and from 2001 until 2002 he was president of the Eastern European Journalists' Group within the European Journalist Federation. From 2002 he has been the president of the Croatian Newspaper Publishers' Association.

7. Haznadar, Zijad



Full Professor at the Faculty of Electrical Engineering and Computer Science of the University of Zagreb. Regular member of the Academy of Technical Science of Croatia and foreign member of the Academy of Science of Bosnia-Herzegovina. Has written more than 300 research and technical papers, of which 41 have been published abroad.

8. Ivančević, Željko



Head of Croatian Employers' Association since 1993. Graduated from the Faculty of Political Science and the Faculty of Foreign Trade in Zagreb. During his career has worked as adviser in the Ministry of Foreign Affairs, and also as consul for labor-law issues in Frankfurt. Vice-Chairman of the Economic and Social Council.

9. Ivanković, Željko

Editor-in-Chief of Banka monthly. Educational background – B.A. in Philosophy and Comparative Literature, has been actively engaged in journalism since 1983. Attended a course in business journalism organized by Reuters, and attended a two-month training course in the USA organized by the Washington International Center for Journalists. Author of a number of annual analyses on Croatian banking.

10. Jurišić, Milivoj



Director for SMEs in the Croatian Chamber of Commerce since 1997. Participated in many international and domestic conferences and gatherings dealing with small businesses and entrepreneurship. Member of working groups and committees involved in redrafting laws and documents on small businesses. One of the initiators and founders of the Association of Entrepreneurs of Croatia.

11. Karaić, Dragica



Chief of Cabinet of the Minister of the Economy since 2001. Joined the state administration after managing her own company. Was member of the team of Administration for Small Businesses and Entrepreneurship, creator and executor of the Government SME and Entrepreneurship Incentive Programme. Certified teacher/trainer of small business entrepreneurship in the TSM Business School in the Kingdom of the Netherlands and in the Ministry of the Economy.

12. Konjhodžić, Indira



Country Manager of the World Bank Croatia Office. Prior to joining the World Bank, worked as Assistant Minister in the Ministry for European Integration, and was also the National Coordinator for Human Resource Development within the Stability Pact framework. Associate of the Sussex European Institute, and participates in identifying policies and trends as the basis for creating the Institute's research strategy.

13. Kordi, Milena



Senior Associate in the Development and Entrepreneurship Unit of the Economic Department in the City Council of the City of Osijek. Adviser for entrepreneurship of the Ministry of Crafts and SMEs programme. Participated in the preparation and implementation of the Snowball credit programme, as well as in the preparation of the Small Business Support Programme of the City of Osijek.

14. Krstelj, Vjera

15. Lauc, Boris



Director of the Centre for Entrepreneurship in Osijek. Has been trained as a trainer for small and medium enterprises in the area of consultancy, business planning, and financial management. Participated in numerous conferences on small and medium-sized businesses in Croatia and abroad. Member of the International Council for Small Businesses.

16. Leppee, Miljenko



Deputy minister for small and medium enterprise, department for international cooperation. PhD in economics, lecturer at the Vern School for enterprise economy and guest professor at the Faculty of Economics in Zagreb, lecturing on International commerce. from 1998 until 2000 he has worked in the Ministry of Economy in the department for small and medium enterprise on international cooperation and enterprises' promotion and assistance. For more than 20 years he has worked in several private exporting enterprises.

17. Lovrinčević, Željko

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18. Majhen, Robert



Owner of the desktop firm Green Vector. The basic activity of the firm is the Internet. Has 9 employees, more than 10 agents in the USA and clients such as Warner Bros, Volvo USA, NOVEL, DELL, Hinet, etc.

19. Mavrović, Željko



Owner of the company IROKEZ, engaged in health food production and organic agriculture. Prior to establishing his own company, he was a champion boxer. Held the title of European Heavyweight Champion for three years. Also active in humanitarian activities.

20. Mlikotin Tomić, Deša



Associate Professor of Commercial Law and International Trade Law at the Faculty of Economics of the University of Zagreb. Also teaches in several postgraduate studies in Croatia, Bosnia- Herzegovina, and Slovenia. Has lectured at faculties abroad, in America and Europe. Participated in many conventions, seminars, and conferences (as a lecturer, group leader, in discussions); author of a large number of research papers. Also participated in the preparation of the first drafts of the Consumer Protection Act, Market Competition Act, and was also Head of the Market Competition Agency. Was the Chief Coordinator of the working group for legal harmonisation and the preparation of the harmonigram as part of the preparation of the action plan of integration activities of the Office for European Integration of the Government of the Republic of Croatia.

21. Novak, Marjan



Director of the Međimurje Entrepreneurial Centre. Worked as adviser for industry in the Croatian Chamber of Commerce in Čakovec. One of the founders of the Association of Croatian Institutions for Fostering Entrepreneurship (UHIPP), in which he discharges the duty of the President. He is a licensed member of the Croatian Network of Consultants, and also possesses a diploma of licensed adviser for entrepreneurship.

22. Nušinović, Mustafa

Senior Research Associate at the Faculty of Economics in Zagreb. Leader and consultant in a number of development projects of pre-investment and investment studies, consultant in ministries and state agencies, banks, and companies. Author of a large number of business plans, pre-investment and investment studies, articles and books in the area of financial and economic analysis of development projects, restructuring and privatisation, and strategic documents for state bodies and companies.

23. Orsag, Silvije

—

24. Ott, Katarina

Head of the Institute of Public Finance, Editor of the magazine "Financial Theory and Practice", Manager of the Foundation of Prof. Dr. Marijan Hanzeković.



25. Rako, Dijana

Director and co-founder of the Centre for Fostering Entrepreneurship and Crafts and Trades, Split (CEPOS). Graduated from the Faculty of Philosophy in Zadar, The Educational Areas Study in Split and has a title of graduate teacher with specialisation in history.



26. Spevec, Olgica

Assistant Minister of the Economy and Head of the Administration for Trade Policy and International Economic Relations in the Ministry of the Economy. Presides over the Interim Committee for the Application and Implementation of the Interim Agreement on Trade and Trade-Related Issues between the Republic of Croatia and the European Union. Also leader of Croatia's negotiation team for concluding free trade agreements with the Czech Republic, Slovakia, Bulgaria, Hungary, Bosnia-Herzegovina, etc. Author of a number of articles and analytical reviews in the area of the economy and trade in technical magazines and publications in Croatia and abroad.



27. Srića, Velimir



Full Professor of Informatics and Information Management at the Faculty of Economics of the University of Zagreb. Head of the postgraduate Information Management Study. Participated in numerous OECD, UNESCO, and COST projects covering informatics and management. Headed the working group of President Mesić for the preparation of the proposal for Croatia's information strategy. Author of a number of books, research, and technical papers. Winner of the Strossmayer Scientific Award in 1993, awarded a Gerald Ford Fellowship in 1990, etc.

28. Stanković, Boja



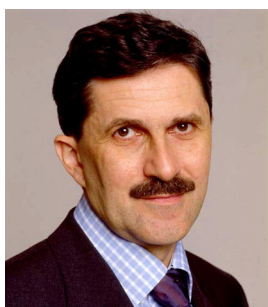
Senior expert assistant in the industrial sector of the Croatian Chamber of the Economy in the County Chamber of Osijek. Responsible for monitoring economic trends within the county and for organising meetings of groups of different vocations. Works on tasks of particular interest to the economy in the field of environmental protection, on stimulating technological development, the development of enterprises, and quality systems. Through the Ministry of Crafts, Small and Medium Enterprises, she has been trained as an adviser for entrepreneurship, and is a certified court-appointed receiver

29. Šestan, Alojzije



Coowner and director of the enterprise Šestan – Busch Ltd., founded in 1994, situated in the industrial zone of Prelog. Mr. Šestan together with some partners from the former company Beton Prelog, was among the pioneers of private enterprising in Međimurje. The enterprise Šestan – Busch works according to the ISO 9002 standards, with its own experts and high modern technologies in the production of complex war equipment at the level of the highest world's requests. Its experts cooperate in the development of new materials, in the testing of protection and comfort of the battle helmets, helmets for battle armoured vehicles, flying helmets and others.

30. Šajatović, Miodrag



Editor-in-Chief of Poslovni Tjednik (Business Weekly). Has been in journalism since his student days – worked as journalist and editor for Večernji List, in which he started the Business World supplement, has cooperated in many magazines – Start, Danas, etc... Author of the book Return to Capitalism. Winner of two awards of the Croatian Journalists' Association.

31. Štefanić, Ivan



Assistant Professor in the area of bio-technical sciences. Employed at the Faculty of Agriculture, where he teaches Agricultural Economics. Participated in a number of research and technical projects as associate and chief researcher. He is also Associate of the Centre for Entrepreneurship in Osijek, Consultant for technology-based, fast growing companies BICRO Zagreb and Coordinator for the implementation of the RAZUM programme for Eastern Croatia. Published a large number of papers and congress statements in the area of agricultural policy, financial management in agriculture, economics of organic and biological agriculture, etc.

32. Tadin, Hrvoje

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33. Tubin, Jovanka



Adviser at the Centre for Entrepreneurship since 1999. Previously worked on analysis and inspection in the State Payment Transactions Agency, Adviser for income tax in the Tax Administration in Osijek, and Director of Internal Control in Gradska Banka in Osijek. Possesses a certified auditor certificate.

34. Vehovec, Maja



Associate professor of Microeconomics at the Faculty of Economics, University of Rijeka. Also lectures in Microeconomics for Management and Business Ethics in postgraduate studies. Has participated in a number of scientific-research projects both in Croatia and abroad. She is member of many professional associations: EACES, the Society of Croatian Economists, the European Association for International Education – Amsterdam, and is also an economic advisor for the Croatian Employers Association.

35. Vrhovski, Mijo



Dean of the Vern Higher School for the Economics of Entrepreneurship (with state recognition) in Zagreb. Attained his Master's degree and doctorate at the Faculty of Mechanical Engineering and Shipbuilding in Zagreb, and spent most of his working career teaching at undergraduate and postgraduate studies at technical faculties in Croatia. Took an international education programme for teachers and trainers of entrepreneurship and is the author of the curriculum of the study of entrepreneurship economics at Vern.

36. Vučina Damir

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Annex 2:

International codes for GEM 2002 countries

Code	
AR	Argentina
AU	Australia
BE	Belgium
BR	Brazil
CA	Canada
CL	Chile
CN	China
DE	Germany
DK	Denmark
ES	Spain
FI	Finland
FR	France
HK	Hong Kong
HR	Croatia
HU	Hungary
IL	Israel
IN	India
IR	Ireland
IS	Iceland
IT	Italy
JP	Japan
KR	Južna Korea
MX	Mexico
NL	Netherlands
NO	Norway
NZ	New Zealand
PL	Poland
RU	Russia
SE	Sweden
SG	Singapore
SI	Slovenia
SW	Switzerland
TH	Thailand
TW	Taiwan
UK	United Kingdom
US	United States of America
ZA	South Africa

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