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SOURCES OF FINANCING OF THE SME SECTOR IN THE REPUBLIC OF CROATIA

1.04 Strokovni članek

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ABSTRACT: Incentives for the SME sector in the Republic of Croatia are defined by the Small Business Development Promotion Act (Official Gazette 29/02 to 121/16). The incentive measures regulated by the Act are numerous: from lending under more favorable conditions and subsidizing interest on taken loans, lending for starting a business, providing guarantees for loans, providing professional and advisory assistance for small business entities, providing grants for strengthening the competitiveness of small businesses, providing grants for increasing employment, professional and entrepreneurial training, retraining and additional qualification, providing grants for research, development and application innovation and the introduction of modern technologies and the establishment and management of venture capital funds and other funds. Some of these incentives are explained and elaborated in this article.

In addition to the categorization of small businesses according to size, the Act also classifies investment projects of small businesses according to size into micro investment projects, which include investment by a small business subject of up to €2 million; small investment projects, which include an investment of up to €10 million, and medium investment projects, i.e. investment by a small business entity up to €50 million.

In the new financial perspective of the European Union (2021-2027), small business entities of the Republic of Croatia have at their disposal numerous

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incentives and supports. Incentives may be financed from EU funds, EU programs, and the state and local government budgets. Incentives and grants fall into one of the following categories: EU funds grants; the National Recovery and Resilience Plan (NPOO) grants; EU programs and programs of EU members; financial instruments that provide support for investments by way of loans, guarantees, and the possibility of combining with interest rate subsidies, and equity and quasi-equity financing instruments; incentives of state institutions and local self-government incentives.

This work aims to summarize and briefly explain the specifics of all financing available to the SME sector in the Republic of Croatia from the financial perspective of 2021-2027.

Keywords: SME sector, sources of financing, incentives, grants, EU funds

1 INTRODUCTION

The small business sector (SME) in Croatia has the opportunity to finance their business through the financial perspective 2021-2027. In the new budget period of the European Union from 2021 to 2027 (financial perspective 2021-2027), SMEs in the Republic of Croatia have access to various incentives and support financed through EU funds, EU programs, the state budget, and local government budgets. The incentives and support available to small business entities in the financial perspective of 2021-2027 include:

1. Grants from EU funds.
2. Grants from the National Recovery and Resilience Plan.
3. EU programs and programs of EU member states.
4. Loan guarantees for credits or capital investments.
5. Subsidized interest rates.
6. Ownership and quasi-ownership financing instruments.
7. Incentives from state institutions (currently available incentives from the Croatian Employment Service).
8. Incentives from local governments.

The European Commission has defined the categories of micro, small, and medium-sized enterprises by its provisions. Micro, small, and

medium-sized enterprises include businesses with fewer than 25 employees, an annual turnover not exceeding €50 million, and/or total annual assets not exceeding €43 million (referred to as the SME sector hereafter).

Incentives for small businesses in the Republic of Croatia are outlined in the Law on Incentives for Small Businesses (Official Gazette 29/02 to 121/16). This law not only categorizes small businesses by size (micro, small, medium) but also regulates investment projects based on their size:

- Micro investment project → Investment by small business entities up to €2 million.
- Small investment project → Investment by small business entities up to €10 million.
- Medium investment project → Investment by small business entities up to €50 million.

The law includes numerous incentive measures for small businesses, such as:

- Favorable lending terms and interest rate subsidies for loans taken by small businesses.
- Funding support for business startups.
- Loan guarantees for business loans.
- Provision of expert and advisory assistance to small business entities.
- Support to enhance the competitiveness of small businesses.
- Incentives for increasing employment, professional and entrepreneurial education, requalification, and upgrading.
- Funding for research, development, innovation, and the adoption of modern technologies.
- Establishment and management of risk capital funds and other funds.

2 SME SECTOR: SUPPORT AND INCENTIVES

2.1 SME sector

Micro, small, and medium-sized enterprises are categorized in line with regulations set forth by the European Commission (hereafter referred to as the EC). These enterprises comprise businesses with fewer than 25 employees, an annual turnover not exceeding €50 million, and/or total annual assets below €43 million. As per EC guidelines, an enterprise is defined as "any entity engaged in economic activity, irrespective of its legal structure." This encompasses self-employed individuals, family-owned businesses, partnerships, associations, or any other entity routinely involved in economic endeavors.

In terms of size, the SME sector encompasses micro-enterprises, small businesses, and medium-sized enterprises, as presented in figure 1

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Figure 1 : Criteria for Categorizing SMEs by Size

Enterprise category	Headcount: annual work unit (AWU)	Annual turnover	Annual balance sheet total
Medium-sized	< 250	≤ EUR 50 million	≤ EUR 43 million
Small	< 50	≤ EUR 10 million	≤ EUR 10 million
Micro	< 10	≤ EUR 2 million	≤ EUR 2 million

Source: User guide to the SME Definition, European Commission, 2020

In addition to these criteria, it is required that entities falling within the category of small businesses operate independently. This means they should function as autonomous entities without qualifying as partner entities or affiliated with others. According to data compiled by the Croatian Chamber of Trades and Crafts (HOK), based on information from the Croatian Bureau of Statistics, as of December 2022, Croatia had a total of 240,780 active companies and craft enterprises (as shown in table 1).

No	Active Companies	December 2022.	%
1.	Joint-Stock Company	689	0,3%
2.	Limited Liability Company	102.011	42,4%
3.	Simplified Limited Liability Company	35.154	14,6%
4.	Public Trading Companies	175	0,1%
5.	Branches of Foreign Trading Companies or Individuals	477	0,2%
6.	Other Legal Organizational Forms	121	0,1%
7.	Craft (Craftsmanship)	102.153	42,4%
	TOTAL	240.780	100,0%

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Source: Commercial Companies - DZS Announcement 11.1.2/1. Crafts: Craftsman Register - HOK Members (OR-MINGOR). Processing: Information System and Analytics Department of HOK (author's translation)

Among these active companies, 180,259 were classified as SME sector companies, as indicated in table 2. The SME sector accounted for 99.8% of the total number of enterprises in 2021.

Table 1: Changes in the Number of SME Sector Companies by Size from 2019 to 2022

No	SME sector	2019.	2020.	2021.	2022.	2022. (%)
1.	Micro enterprises (0 - 9 annual work unit)	165.813	164.217	164.565	166.509	92,4%
2.	Small enterprises (10 - 49 annual work unit)	12.091	11.949	11.977	11.988	6,7%
3.	Medium-sized enterprises (50 - 249 annual work unit)	1.891	1.827	1.791	1.762	1,0%
	TOTAL	179.795	177.993	178.333	180.259	100,0%
	Index		99,0%	100,2%	101,1%	

Source: <https://www.statista.com/statistics/878749/number-of-smes-in-croatia/>; (author's translation)

Furthermore, SME sector employed 69.4% of the workforce and contributed 58% of the total value added, as depicted in table 3.

Table 2: Number of enterprises, employees and value added in 2021

No	Enterprises	Enterprises		Persons employed		Value added	
		Number	Share	Number	Share	€ billion	Share
1.	SME sector	178.333	99,8%	754.679	69,4%	17,1	58,0%
2.	Large enterprises	386	0,2%	332.565	30,6%	12,4	42,0%
	UKUPNO	178.719	100,0%	1.087.244	100,0%	29,5	100,0%

Source: Croatia - SME Fact Sheet 2022

2.2 The support and incentives

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The supports and incentives available to the SME sector for the period from 2021 to 2027 are defined in the so-called financial perspective for the same period. In the EU financial perspective for the period 2021-2027, Croatia has access to over 25 billion euros. Funds are allocated from two sources (table 4):

1. Multiannual Financial Framework (MFF) for the seven years, from which Croatia receives over 14 billion euros.
2. Next Generation EU (NGEU), from which Croatia receives approximately 11 billion euros.

Table 3: Financial Perspective 2021-2027

No	SOURCES OF FINANCING	€ billion
I	MULTI-ANNUAL FINANCIAL FRAMEWORK (MFF)	
I.1.	Cohesion Policy	9,070
	European Social Fund Plus (ESF+)	1,983
	European Regional Development Fund (ERDF)	5,356
	Cohesion Fund (CF)	1,547
	- Connecting Europe Facility (CEF)	0,364
	European Territorial Cooperation	0,184
	Just Transition Fund	0,186
I.2.	Security Policy	0,282
	Internal Security, Asylum, and Migration Fund, Border Management	0,282
I.3.	Fisheries Policy Agricultural Policy	0,244
I.4.	Agricultural Policy	4,757
	European Agricultural Fund for Rural Development (EAFRD)	2,147
	European Agricultural Guarantee Fund (Direct Payments)	2,611
	TOTAL MFF	14,353
No	SOURCES OF FINANCING	€ billion
II	EU NEXT GENERATION (NGEU)	
II.1	National Recovery and Resilience Plan (NRRP)	9,92
	- Grants	6,31
	- Loans	3,61
II.2.	REACT-EU (allocation for 2021)	0,574
II.3.	European Agricultural Fund for Rural Development (EAFRD)	0,202
II.4.	Just Transition Fund (JTF)	0,169
	TOTAL NGEU	10,865
III	MFF + NGEU	25,218

Source: Author's Analysis of Data Provided by the European Commission

The support measures within the Croatian economy can be classified into the following categories:

- a) Broad-based support - encompassing initiatives for research and development, workforce education and training, employment incentives, and dedicated support exclusively tailored to small and medium-sized enterprises, among others.

- b) Sector-specific support - designed for sectors like environmental conservation, energy efficiency, agriculture, rural development, land transportation, tourism, and the revitalization and restructuring of businesses encountering challenges.
- c) Regional assistance - directed at fostering economic growth in less developed regions as identified by the regional aid map following EU guidelines.
- d) Assistance at the levels of local and regional governments.
- e) Support aimed at bolstering the economy during the COVID-19 pandemic (2020-2022).
- f) Support of nominal value (de minimis support).

Support for the SME sector is extended through subsidies, tax incentives and exemptions, financial transfers, and various other mechanisms.

3 EU FUNDS

The European Structural and Investment Funds (ESIF) are financial instruments for implementing EU public policies in member countries. The European Social Fund (ESF+), the European Regional Development Fund (ERDF), the Cohesion Fund (CF), the European Territorial Cooperation, and the Just Transition Fund are integral components of the Cohesion Policy of the Republic of Croatia.

The operational programs related to the Cohesion Policy are as follows: Operational Program Competitiveness and Cohesion 2021-2027 (OPCC), funded by the European Regional Development Fund and the Cohesion Fund. Operational Program Efficient Human Resources 2021-2027 (OPEHR); funded by the European Social Fund Plus. Integrated Territorial Program 2021-2027 (ITP); funded by the European Regional Development Fund, the Cohesion Fund, and the Just Transition Fund.

The Ministry of Regional Development and EU Funds is responsible for preparing OPCC and ITP, while the Ministry of Labor, Pensions, Family, and Social Policy is responsible for preparing OPEHR. The total planned funds allocated to these operational programs for the year 2023 amount to €1.921 billion as shown in table 5.

Table 4: Schedule for Announcing Calls for Proposals in 2023 from the Operational Programs

No	Schedule for Announcing Calls 2023	€ billion
1.	Competitiveness and Cohesion	1.461
2.	Effective Human Resources	229
3.	Integrated Territorial Program	231
	TOTAL	1.921

The cohesion policy for the 2021-2027 period is supported by the following funds, enabling financing for specific purposes:

- European Regional Development Fund (ERDF) → funding for infrastructure, research, innovation, productive investment in SMEs, job preservation and creation, equipment, software, intangible assets, networking, collaboration, and knowledge exchange.
- Cohesion Fund (CF) → supporting investments in transportation and environmental initiatives, focusing on renewable energy and TEN-T investments.
- European Social Fund Plus (ESF+) → promoting enhanced labour market access, modernizing labour market institutions and services, ensuring gender-balanced participation in the workforce, facilitating adaptation to change for workers, businesses, and entrepreneurs, improving the quality and inclusiveness of education and training systems, promoting equal access to quality and inclusive education and training, with a special emphasis on disadvantaged groups, and encouraging lifelong learning.
- Just Transition Fund (JTF) → funding productive investments in SMEs, research and innovation activities, advanced technology transfer promotion, affordable clean energy technology and infrastructure deployment, greenhouse gas emissions reduction efforts, digitalization initiatives, circular economy advancements, and worker requalification and upskilling programs.

Figure 2 highlights calls for proposals from the 2014-2020 financial perspective aimed at the SME sector, where SMEs were the applicants. The authors anticipate that some of these calls will be repeated in the 2021-2027 financial perspective, with a stronger emphasis on transitioning to green practices and digitalizing businesses.

Figure 2: Examples of Calls for Proposals for the SME Sector in the 2014-2020 Financial Perspective



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Source: Author's Processing of Publicly Available Data

4 NATIONAL RECOVERY AND RESILIENCE PLAN (NRRP)

The National Recovery and Resilience Plan (NRRP) for the period from 2021 to 2026 is structured to encompass five components and one initiative:

1. Economy,
2. Public Administration, Judiciary, and State Property,

3. Education, Science, and Research,
4. Labor Market and Social Protection,
5. Health,
6. Initiative: Building Renovation.

The NRRP is funded with a total of approximately €9.9 billion, comprising €6.3 billion in grants and €3.6 billion in loans. It outlines a minimum allocation of 37% for investments and reforms related to climate initiatives and 20% for driving the digital transition. The distribution of NRRP funds is detailed in table 6.

Table 5: Allocation of NRRP Funds

Components	Milion €	Share
C1. Economy	3.412	53%
C2. Public Administration, Judiciary, and State Property	581	9%
C3. Education, Science, and Research	995	16%
C4. Labor Market and Social Protection	276	4%
C5. Health	340	5%
C6. Initiative: Building Renovation	789	12%
TOTAL	6.394	100%

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Source: Author's Processing of Publicly Available Data

The "Economy" segment encompasses sub-categories, including enhancing economic competitiveness and facilitating the transition to a more environmentally friendly economy, promoting sustainable energy transition, enhancing water resource management and waste handling, fostering a competitive, energy-efficient transportation system, optimizing the utilization of natural resources, and reinforcing food supply chains. Additionally, it aims to develop a sustainable, innovative, and resilient tourism sector. The allocation of capital for the "Economy" component is detailed in table 7.

Table 6: Component C1. Economy

Components	Milion €
C1.1. Strengthening Competitiveness and Green Economic Transition	738,6
C1.2. Energy Transition for Sustainable Economy;	658,3
C1.3. Enhancement of Water Management and Waste Management	862,7
C1.4. Development of a Competitive, Energy-Sustainable, and Efficient Transportation System	728,8
C1.5. Improvement of Natural Resource Utilization and Strengthening of Food Supply Chains	131,1
C1.6. Development of a Sustainable, Innovative, and Resilient Tourism Sector	292,0

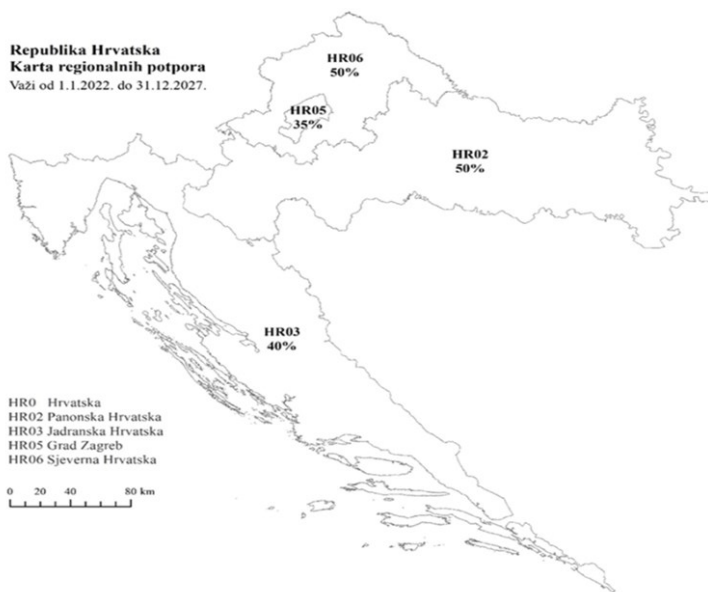
Source: Author's Processing of Publicly Available Data

Support (assistance) for investment in the *2021-2027 financial perspective* is divided into seven categories:

1. Regional support,
2. Support for investments in promoting energy from renewable sources,
3. Support for investments in energy efficiency measures,
4. Support for investments that allow entrepreneurs to exceed Union environmental protection standards or increase environmental protection levels in the absence of Union standards,
5. Support for process and business organization innovation,
6. Support for training,
7. De minimis aid (small-value aid).

The share of regional support amounts to at least 60% of the total requested amount of non-repayable funds for financing eligible costs. The Republic of Croatia is divided into four regions to grant regional support, ranging from 35% to 50%, as shown in figure 3.

Figure3: The four regions of Croatia for the distribution of regional assistance (support)



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Source: <https://razvoj.gov.hr/vijesti/europska-komisija-odobrila-kartu-regionalnih-potpورا-za-hrvatsku-za-razdoblje-2022-2027>

Investment incentives are granted based on the location of the investment (Article 13 and 14 of Regulation 651/2014 EC), and the maximum aid intensity is defined according to the size of the enterprise as defined in table 8.

Table 7: The maximum aid intensity for investments

Regions	Micro and Small Enterprises	Medium-sized Enterprises	Large Enterprises
HR02 Panonian Croatia HR06 Northern Croatia	70%	60%	50%
HR03 Adriatic Croatia	60%	50%	40%
HR05 City of Zagreb	55%	45%	35%

Source: Author's Processing of Publicly Available Data

The maximum aid intensity for investments in promoting energy from renewable energy sources (Article 41 of Regulation 651/2014 EC) depends on the size of the enterprise and defined eligible costs, as shown in table 9.

Table 8: The maximum aid intensity for investments in promoting energy from renewable energy sources

Eligible costs	Small Enterprises	Medium-sized Enterprises	Large Enterprises
Eligible costs for investments in renewable energy production	65%	55%	45%
Eligible costs for specific small installations	50%	40%	30%
+15 percentage points for assisted areas in Pannonian Croatia, Adriatic Croatia, and Northern Croatia			
+5 percentage points for assisted areas in the City of Zagreb			

The maximum aid **intensity for investments in promoting energy from renewable energy sources and investments in energy efficiency measures** (Article 38 of Regulation 651/2014 EC) ranges from 30% to 50%, with the possibility of an increase for assisted areas and presented in table 10.

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Table 9: The maximum aid intensity for investments in promoting energy from renewable energy sources and investments in energy efficiency measures

Eligible costs	Small Enterprises	Medium-sized Enterprises	Large Enterprises
Eligible costs for energy efficiency measures investments	50%	40%	30%
+15 percentage points for assisted areas in Pannonian Croatia, Adriatic Croatia, and Northern Croatia			
+5 percentage points for assisted areas in the City of Zagreb			

Source: Author's Processing of Publicly Available Data

The maximum aid **intensity for investments that enable entrepreneurs to exceed Union environmental protection standards or increase the level of environmental protection** in the absence of Union standards, as defined in Article 36 of Regulation 651/2014 EC, ranges from 40% to 60%, with increases for assisted areas as shown in table 11.

Table 10: The maximum aid intensity for investments that enable entrepreneurs to exceed Union environmental protection standards or increase the level of environmental protection

Eligible costs	Small Enterprises	Medium-sized Enterprises	Large Enterprises
Eligible costs	60%	50%	40%
+15 percentage points for assisted areas in Pannonian Croatia, Adriatic Croatia, and Northern Croatia			
+5 percentage points for assisted areas in the City of Zagreb			

Source: Author's Processing of Publicly Available Data

Support for innovation of processes and business organization (Article 29 of Regulation 651/2014 EC) amounts to 50% of eligible costs.

Table 11: The maximum aid intensity for innovation of processes and business organization

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Eligible costs	SME
Eligible costs	50%

Source: Author's Processing of Publicly Available Data

The maximum **intensity of support for training** (Article 31 of Regulation 651/2014 EC) depends on the size of the enterprise, with an additional 10% increase for workers with disabilities or in disadvantaged positions as presented in table 13.

Table 12: The maximum intensity of support for training

Eligible costs	Small Enterprises	Medium-sized Enterprises	Large Enterprises
Eligible costs	70%	60%	50%
+10 p.p. for employees with disabilities or workers in disadvantaged positions, but limited to a maximum of 70% in total			

Source: Author's Processing of Publicly Available Data

The key characteristic of de minimis aid is that an individual entrepreneur cannot receive de minimis aid exceeding €200,000 within a three-year fiscal period, regardless of the source or type of de minimis aid. Regarding road freight transport for hire or reward, this limit is reduced to €100,000 within a three-year fiscal period. De minimis aid can be granted by various entities, including central government bodies, local and regional authorities, as well as any legal entity. It is available to small, medium, and large enterprises and shown in table 14.

Table 13: The maximum intensity of de minimis aid

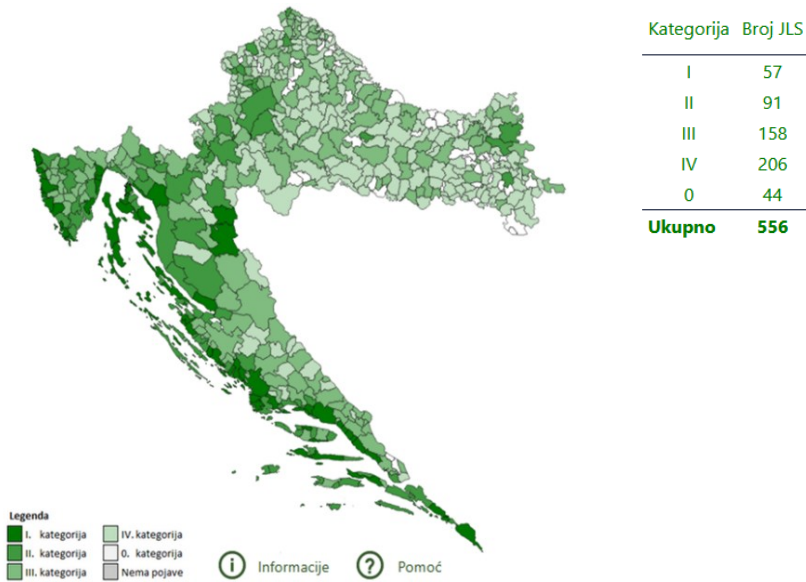
Eligible costs		1 ITR	0, 2, 3, 4 ITR
Eligible costs		75%	85%
Maximum per project: 199.084,21 €			
Maximum per entrepreneur: €200,000 in the current and preceding two fiscal years	Maximum per entrepreneur engaged in road haulage of goods for hire or reward: €100,000 during any period within three fiscal years		

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Source: Author's Processing of Publicly Available Data

According to the Tourism Development Index in 2021, Croatia was divided into five categories, with a total of 556 units of local self-government. These categories likely represent different levels of tourism development or performance within the country. Each category may have its own specific characteristics and tourism-related factors that determine its ranking within the ITR (Figure 4).

Figure 4: ITR chart (2021)



Source: <https://www.iztzg.hr/hr/itr/>

5 GUARANTEES AND SUBSIDIZED INTEREST RATES

Guarantees and subsidized interest rates are facilitated through funding from multiple sources, including the European Investment Fund (EIF), the European Investment Bank (EIB), the Croatian Bank for Reconstruction and Development (HBOR), and the Croatian Agency for Small Businesses, Innovation, and Investments (HAMAG-BICRO).

The European Investment Fund (EIF), a part of the European Investment Bank Group, is crucial in supporting European small and medium-sized enterprises (SMEs) by granting them access to financing. SMEs benefit from EIF's support, allowing them to conduct their operations using their resources or funds provided by entities such as the European Investment Bank, the European Commission, EU member states, or third-party organizations.

The European Investment Bank (EIB) extends various financial instruments, including loans, guarantees, equity investments, and advisory

services. As the lending institution of the European Union, the EIB collaborates with other EU institutions to uphold EU policies across more than 140 countries globally. The EIB Group is responsible for executing 75% of the InvestEU program, built upon the successful European Fund for Strategic Investments (EFSI) model. This program combines the European Fund for Strategic Investments with 13 existing EU financial instruments. By leveraging guarantees from the Union budget to attract additional investors, InvestEU enhances the EU's capacity to support investments further.

HAMAG-BICRO provides National Guarantees and ESIF Guarantees to assist the SME sector. National Guarantees are issued to secure investments or a portion of the principal on loans provided by commercial banks or HBOR. ESIF Guarantees encompass ESIF Individual Guarantees for investment loans and working capital loans, a limited portfolio guarantee that enables financial institutions to extend loans or leases to clients, and HAMAG-BICRO's guaranteeing of a portion of the principal and agreed-upon interest rates, in addition to interest rate subsidies under the NRRP financing program.

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HAMAG-BICRO also offers ESIF loans for long-term assets and working capital to SMEs. Long-term assets can be financed through microloans of up to €25,000 and ESIF small loans of up to €50,000. Micro and small loans for rural development and investment loans from the NRRP, up to €100,000, are available. Working capital needs can be met through ESIF microloans of up to €25,000 and microloans for working capital for rural development.

HBOR provides a range of financial services to the SME sector, including loans, guarantees, and export credit insurance. Their credit offerings include investments in specific SME segments under the NRRP, support for young entrepreneurs, women, and beginners, financing for private sector investments, export and EU projects, working capital, business restructuring, and ESIF loans.

Furthermore, HBOR is involved in the Croatian financial market through venture capital funds. Venture capital, a form of equity investment with active involvement in the businesses it invests in, aims to enhance the performance of the invested companies. This is achieved through strengthening

management capabilities, implementing operational improvements, and assisting companies in entering new markets.

EIF and HBOR collaborate in joint investments, including:

- Investments in venture capital funds managed by EIF-selected firms.
- Co-investments alongside funds that have an established relationship with EIF and positive track records.

6 THE SUPPORT PROVIDED BY THE CROATIAN EMPLOYMENT SERVICE (HZZ)

The Croatian Employment Service (HZZ) offers a diverse range of assistance programs, encompassing self-employment aid, self-employment in green and digital sectors, business expansion initiatives, the "Choose Croatia" program for relocation within the country and for returning to Croatia, employment facilitation services, opportunities in green and digital employment sectors, internship programs, including those with a green and digital focus, public service internships, educational opportunities targeting unemployed individuals and other job seekers, support for training, on-the-job training, specialized training within adult education institutions, education for fundamental personal and professional development competencies, continuous seasonal employment options, public work initiatives, job retention measures, and more.

Furthermore, HZZ administers education vouchers and collaborates in co-funding educational programs designed to acquire expertise in green, digital, and general knowledge and skills.

7 SUPPORTS AND INCENTIVES IN NUMBERS

The total state aid granted to the Republic of Croatia from 2018 to 2020 ranged from €2.0 billion in 2018 to €2.8 billion in 2020, while the share of state aid in GDP ranged from 3.86% in 2018 to 5.68% in 2020 as showed in table 15. The multi-year trend in the share of state aid in GDP is illustrated in figure 5.

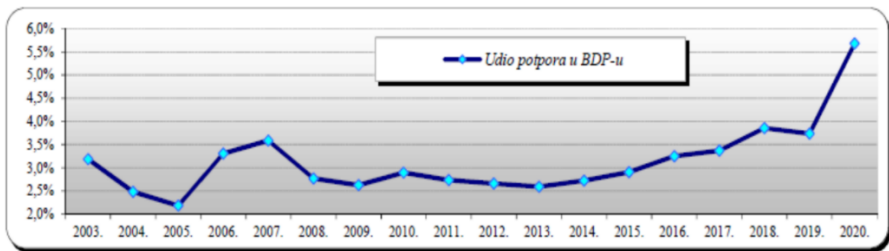
Table 14: The total state aid granted in the Republic of Croatia, from 2018 to 2020.

No	SME sector	Mjera	2018	2019	2020
1.	State aid	Milion HRK	14.871,1	15.066,6	21.099,5
	State aid	Milion EUR	2.005,8	2.032,3	2.800,9
2.	GDP	Milion HRK	385.377,0	402.332,0	371.517,0
	GDP	Milion EUR	51.978,9	54.269,4	49.318,1
3.	Government Spending	Milion HRK	131.731,7	115.290,8	101.834,2
	Government Spending	Milion EUR	17.767,7	15.551,2	13.518,3
4.	Number of employees	number	1.517.580	1.555.068	1.543.869
5.	Share of state aid in GDP	%	3,86	3,74	5,68
6.	State aid per employee	HRK	9.799,22	9.688,71	13.666,64
	State aid per employee	EUR	1.321,70	1.306,88	1.814,22
7.	Share of state aid in government expenditures	%	11,29	13,07	20,72
8.	State aid per capita in Croatia	HRK	3.627,10	3.674,78	5.274,88

Source: The Croatian Bureau of Statistics and the Ministry of Finance of the Republic of Croatia

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Figure 5: The share of total subsidies in Croatia's GDP from 2003 to 2020



Source: The Ministry of Finance of the Republic of Croatia

Support for small and medium-sized enterprises (SMEs) in 2020 amounted to €67.3 million, which is 4.48 times higher than in 2018 and presented in table 16.

Table 15: Support for small and medium-sized enterprises, from 2018 to 2020

No	Small and Medium-sized Enterprises	2018		2019		2020	
		million HRK	million EUR	million HRK	million EUR	million HRK	million EUR
1.	A1 subventions	58,20	7,80	274,00	37,00	470,00	62,40
2.	C1 favorable loans	0,10	0,01	0,30	0,04	---	---
3.	D1 guarantees	53,70	7,20	48,40	6,50	36,90	4,90
	TOTAL	112,00	15,01	322,70	43,54	506,90	67,30
a)	share (%) in horizontal objectives	1,62		5,44		6,97	
b)	share (%) in total support (excluding agriculture and fisheries)	1,29		3,85		3,78	
c)	share (%) in total support	0,75		2,14		2,4	
d)	share (%) in GDP	0,03		0,08		0,14	

Source: The Ministry of Finance of the Republic of Croatia

8 CONCLUSION

The article provides a concise and clear overview of all financial instruments and funding sources for the SME sector in the Republic of Croatia. From the financial perspective of 2021 to 2027, the supports and incentives include Grants from EU funds, Grants from the National Recovery and Resilience Plan, EU programs and programs of EU member states, Loan guarantees for credits or capital investments, Subsidized interest rates, Ownership and quasi-ownership financing instruments, Incentives from state institutions (currently available incentives from the Croatian Employment Service), and Incentives from local governments.

The SME sector comprises businesses with fewer than 25 employees, an annual turnover not exceeding €50 million, and/or total annual assets below €43 million.

The support measures within the Croatian economy can be classified into Broad-based support, Sector-specific support, Regional assistance, assistance at the levels of local and regional governments, and De minimis support. A significant source of funding for the SME sector in the period 2021 to 2027 is the National Recovery and Resilience Plan (NRRP). The NRRP is funded with a total of approximately €9.9 billion, comprising €6.3 billion in grants and €3.6 billion in loans. It outlines a minimum allocation of 37% for investments and reforms related to climate initiatives and 20% for driving the digital transition.

Guarantees and subsidized interest rates are facilitated through funding from various sources, including the European Investment Fund (EIF), the European

Investment Bank (EIB), the Croatian Bank for Reconstruction and Development (HBOR), and the Croatian Agency for Small Businesses, Innovation, and Investments (HAMAG-BICRO).

The significance of the SME sector in the Republic of Croatia is underscored by the following data from 2021:

1. SMEs constitute 99.8% of the total number of companies in Croatia.
2. They employ 69.4% of the total workforce in Croatia.
3. SMEs contribute to the generated added value with a weight of 58%.

These statistics highlight the vital role that SMEs play in the Croatian economy. They are a substantial source of employment and contribute significantly to the country's economic output. Ensuring efficient sources of financing for this sector is crucial for its continued growth and prosperity.

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