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ENTREPRENEURSHIP DEVELOPMENT IN THE EASTERN CROATIAN TOURISM

POTICANJE RAZVOJA PODUZETNIŠTVA U TURIZMU ISTOČNE HRVATSKE

ABSTRACT

Entrepreneurship and tourism are extremely important for the development of the Croatian economy, especially its eastern part. Due to the high rate of unemployment and economic inefficiency of the economy as a whole, the development of entrepreneurship in tourism has huge potential for possible economic growth. A special role is the development of small and medium enterprises as a carrier in economic development. Developing tourism businesses in eastern Croatia means supporting attractive varieties of tourism, quality of tourism services, better tourism infrastructure and employment expression. The aim is to determine the primary tourist characteristics and importance of tourism development in eastern Croatia, examine the basic characteristics of the relevant development programmes as well as the institutions that implement them, analyse instruments that support entrepreneurship and tourism, examine the advantages and disadvantages of existing support and propose concrete measures and forms of aid in the context of better exploitation of tourism potential and development of entrepreneurship in eastern Croatia. For the purposes of research, the results of surveys, scientific and vocational literature, strategic documents, development programmes and reports are analysed. Based on the analysis of development programmes, tourism and business development, synthesis and deduction conclusions are made on the promotion of entrepreneurship development in tourism. Classification and comparison with other regions and counties have made concrete conclusion about aid in eastern Croatia. Our results suggest an insufficient utilization tourism potential of eastern Croatia, and a poor tourism offer in Croatia's mainland. Eastern Croatia has great potential for development businesses primarily in rural tourism, such as the development of tourism on rural farms, hunting and fishing, ecotourism, cultural and gastronomic, culinary and wine tourism. Various development programmes of the relevant institutions, specifically ministries, and development financial institutions are being implemented. Studies indicate poor use at these programmes. The role of bank lending in tourism is emphasized and survey research highlights that compared with other Croatian regions, eastern Croatia has the lowest utilisation of subsidised credit programmes. Commercial banks emphasize that stronger state support would greatly stimulate financing of entrepreneurship in tourism.

Key words: *Entrepreneurship, Tourism, Development programmes, Eastern Croatia, Loans*

SAŽETAK

Razvoj poduzetništva i turizma ima iznimno značenje za razvoj gospodarstva Hrvatske, a posebno njezinog istočnog dijela. Zbog visokih stopa nezaposlenosti i ekonomske neefikasnosti gospodarstva u cjelini, razvoj poduzetništva u turizmu predstavlja mogući potencijal gospodarskog razvitka. Posebnu ulogu ima razvoj malog i srednjeg poduzetništva kao nosioca gospodarskog razvoja. Poticanje poduzetništva u turizmu istočne Hrvatske znači potporu razvoju atraktivnih vrsta turizma, kvaliteti turističkih usluga, razvoju turističke infrastrukture i zapošljavanju. Cilj rada je utvrditi osnovna turistička obilježja i značaj turizma za razvoj istočne Hrvatske, ispitati osnovne karakteristike relevantnih razvojnih programa kao i institucije koje ih provode, analizirati instrumente dodjele potpora poduzetništvu i turizmu, sagledati prednosti i nedostatke postojećih potpora te predložiti konkretne mjere i oblike potpora u kontekstu boljeg iskorištavanja turističkih potencijala i razvoja poduzetništva istočne Hrvatske. U svrhu istraživanja analiziraju se rezultati provedenih anketa, znanstvena i stručna literatura, strateški dokumenti, razvojni programi te izvješća. Na temelju provedene analize razvojnih programa, turističke ponude i razvoja poduzetništva, sintezom i dedukcijom izvode se zaključci o poticanju razvoja poduzetništva u turizmu. Klasifikacijom i komparacijom s ostalim regijama i županijama donose se konkretni zaključci o potporama u istočnoj Hrvatskoj. Rezultati istraživanja ukazuju na nedovoljnu iskorištenost turističkog potencijala istočne Hrvatske, dijelom i zbog slabe turističke ponude kontinentalne Hrvatske. Istočna Hrvatska ima veliki potencijal za razvoj poduzetništva prije svega u ruralnom turizmu, a to znači razvoj turizma na seljačkim gospodarstvima, lovni i ribolovni, ekoturizam, kulturni te gastronomski i eno-gastronomski turizam. Provode se različiti programi razvoja od odgovarajućih institucija posebno resornih ministarstava i razvojnih financijskih institucija. Istraživanja ukazuju na slabu iskorištenost tih programa. Naglašena je uloga bankarskih kredita u turizmu, a anketno istraživanje ističe da u usporedbi s ostalim regijama Hrvatske, istočna Hrvatska ima najmanju iskorištenost subvencioniranih kreditnih programa. Poslovne banke naglašavaju da bi snažnija državna podrška uvelike stimulirala financiranje poduzetništva u turizmu.

Ključne riječi: Poduzetništvo, Turizam, Razvojni programi, Istočna Hrvatska, Krediti

1. Introduction

At the same time as achieving its independence, Croatia had to face numerous challenges, such as imbalance concerning social and economic development, depopulation, backwardness of many parts of the country, poor basic and business infrastructures, insufficient financial capital for restructuring, as well as the Homeland War, which had multiple impacts on everything previously mentioned. The development difficulties that areas of Croatia that lag behind in terms of social and economic development are extremely high and include a series of negative and mutually related characteristics. According to the Regional Development Strategy of the Republic of Croatia 2011-2013 (Ministry of Regional Development, Forestry and Water Management, 2010, 24), the Pannonian region, and thereby the entire region of eastern Croatia, on average is less competitive and it needs the most investments in order to reach the competitive level of the other regions, especially in the development of entrepreneurship, business infrastructure and encouraging investment. The SWOT analysis and macroeconomic indicators point to the readiness of the region to develop an entrepreneurial infrastructure, which is relatively underdeveloped as a result of under-investment by local entrepreneurs, as well as their poor interconnection. Despite the tradition of industry and craftsmanship, a disconnection between agriculture and tourism has been observed. The Strategy of Regional Development of the Republic of Croatia for Pannonian Croatia sets forth as a priority an increase in the competitiveness of the economy, and some of the relevant measures

are development and advancement of all forms of tourism, as well as the development of small and medium enterprises.

The aim of the paper is to determine the basic characteristics of tourism and the importance of tourism for the development of eastern Croatia, to examine the basic characteristics of relevant development programmes, as well as the institutions that implement them, to analyse the aid instruments intended for entrepreneurship and tourism, to examine the advantages and disadvantages of existing aid and to propose concrete measures and forms of aid within the context of the better use of tourism potentials and the development of tourism potentials in eastern Croatia. Used for this purpose was an analysis of relevant literature, especially strategy and development documents in the field of tourism. With a synthesis of the data obtained, derived are certain conclusions about aid in general, while with the classification and comparison with other regions and counties, conclusions and recommendations for aid in eastern Croatia are made.

The observed area includes the counties of eastern Croatia, that is, the counties of Vukovar-Syrmia, Osijek-Baranja, Virovitica-Podravina, Brod-Posavina and Požega-Slavonia.

2. Main characteristics of tourism in eastern Slavonia

Nearly a quarter of the citizens of Croatia live in eastern Slavonia, and it represents a significant component of all relevant indicators in its economic, political, cultural and tourism development. A relevant determinant of this region is its geographical features. It has all of the prerequisites for the development of a range of economic activities: agricultural production, forestry, fishing, water management, as well as advantages in development of transport, energy and environmental areas. These are essential components for the development of tourism in the region.

2.1. Analysis of tourism in eastern Croatia and comparison with other Croatian regions

According to the latest available databases of the Bureau of Statistics (Table 1.), the analysis of the main characteristics of tourism according to regional wholes and Croatian counties show that, despite the tourism products of continental Croatia, Adriatic Croatia holds a large share in all relevant segments and characteristics of tourism. It generates about 90% of tourism activities, accounts for 95% of all accommodation, and achieves 72%, that is, over 1.6 billion HRK in revenue from hotels and restaurants. The remaining shares belong to the continental part, of which the examined area of eastern Croatia occupies about 1% in terms of tourist arrivals, with a total of just over 300,000 overnight stays, which also makes it the least visited area of the country. Accommodation capacities assume an insignificant 0.8% with 2,420 accommodation units and revenue from hotels and restaurants of 5%.

According to the data of the conducted study on tourism activities of the local population in 2011, the most visited travel destinations in Croatia are Dalmatia (2.0 million trips or 40% of all private multi-day trips in Croatia) and Istria, Kvarner and Gorski kotar (1.3 million trips or 25% of trips in Croatia). The area of Slavonia⁴⁰ holds 9.4% of trips in Croatia or 470 thousand (Marušić and Ivandić, 2012, 19).

⁴⁰ Slavonia includes the areas of the Požega-Slavonia, Brod-Posavina, Osijek-Baranja and Vukovar-Syrmia counties (Marušić and Ivandić, 2012, 11)

Table 1 Tourism - an overview of regional units in Croatia and the counties of eastern Croatia

Revenue from hotels and restaurants, in thousand HRK (2010)			Accommodation capacities (31 Aug 2011)		Tourist traffic (2011)			
	Total	%	Total	%	Arrivals	%	Overnights	%
Republic of Croatia	16.220.735	100	321.417	100	11.455.677	100	60.354.275	100
Central and Northwest Croatia together:	3.743.363	23,1	12.144	3,8	1.120.794	9,8	2.012.553	3,3
Adriatic Croatia	11.682.339	72,1	306.853	95,5	10.178.624	88,8	58.015.765	96,1
Eastern Croatia:	795.033	5,0	2.420	0,8	156.259	1,4	325.957	0,5
Virovitica-Podravina	73.970	0,5	241	0,07	13.625	0,12	32.917	0,05
Požega-Slavonia	69.145	0,4	193	0,06	9.729	0,08	23.627	0,04
Brod-Posavina	114.502	0,7	278	0,09	18.526	0,16	33.127	0,05
Osijek-Baranja	398.235	2,5	1.076	0,33	77.697	0,68	173.892	0,29
Vukovar-Syrmia	139.181	0,9	632	0,20	36.682	0,32	62.394	0,10

Note: According to the statistical division at the NUTS 2 level, eastern Croatia and central Croatia form one region. For the needs of the analysis, Eastern Croatia is isolated, while the data for Central Croatia are shown together with Northwest Croatia.

Source: Croatian Bureau of Statistics (2011, 22), (2012, 418)

An analysis of statistical data clearly points to the fact that the area of eastern Croatia, despite its resources, is still insufficiently recognizable, and does not have, in terms of resources, developed tourism products.

2.2. Resources and eastern Croatian tourism products - potentials for regional development

The potential for tourism development in eastern Croatia include: cities with an ancient past, e.g. Cibalae (Vinkovci), Mursa (Osijek), Marsonija (Slavonski Brod), Vukovar as a memorial complex and symbol of war destruction, Vučedol with 200 archaeological localities, international folklore events (Vinkovačke jeseni, Đakovački vezovi), Slavonian castles and manor houses, Kopački Rit Nature Park, Bizovačke toplice spas, Lipik, Đakovo Equestrian Academy, specific cuisine (wine from Kutjevo and Ilok, kulen (special type of sausage), šljivovica (plum brandy)), the Danube and Drava rivers etc.

Due to the abundance of rural areas, eastern Croatia has exceptional potential for the development of rural tourism. According to Kušen (2006, 170), the rural area forms a basic resource for the development of rural tourism, which relies on the needs of city residents for tranquillity and a space for sports and recreation in the open air, which does not necessarily have to be related to nature. Given the characteristics of certain parts of the rural areas, rural tourism forms a complex kind of tourism that combines a number of basic types of tourism. It includes tourism on agricultural estates, cultural, hunting and fishing, homeland, adventure, religious, ecological, transit, health and other types of tourism. This form of tourism constitutes an additional source of income, and it plays an important role in reducing the rate of rural depopulation and bringing prosperity to poor rural areas. Investments in tourism can preserve cultural and historic resources and traditional activities in rural areas, while unused buildings and land can be made suitable for the needs of tourists and the various activities that form the special characteristics of rural areas.

Tourism on family farms or agricultural estates forms a segment of rural tourism that allows farmers to diversify their economic activities and to enrich the value of their products, and forms a part of rural tourism and agriculture (Kušen, 2006, 171). In Croatia today, there are 360 registered agricultural estates with an offer of tourist services that, in large measure, offer homemade, traditional food to excursionists, while the offer of accommodation capacities and activities that can complement their multi-day stays are much less common. Of the examined counties, the Osijek-Baranja County stands out, which has managed to position itself as a rural tourism destination

thanks to its rural destinations and offer of accommodation on agricultural estates, in rural holiday houses and farm houses (for instance, rooms, apartments) (Telišman-Košuta, N. et al., 2012, 57).

3. Development of entrepreneurial activities in the tourism of eastern Croatia

The valorisation of the unused resources of eastern Croatia and the development of attractive tourism products significantly depends on forms of financing and state aid, primarily the programmes of relevant ministries and development financial institutions⁴¹. Especially considered is the development of entrepreneurship in tourism as a backbone of tourism products and activities.

3.1. Financial instruments for entrepreneurship in tourism

When considering the importance of tourism in realization of strategic goals of development of the Croatian economy, important segments are: financing construction of new facilities for visitors, financing increase in quality of tourism facilities, development of tourism destinations as well as financing of current activities in preparing and realizing tourism season and tourism activities. Within the financial system of the Republic of Croatia, commercial banks represent the backbone of financing and procuring fresh funding for tourism. The share of non-banking financial institutions is relatively small, and their placement policy is focused on other forms of financial allocations. Funds are interested in investing into equity and debt securities of various sectors. However, given that the costs of securities' emission are very high, and tradition of investing into securities still undeveloped, debtor's financing through bank loans is a typical form of financing new investments of constructing large and other accommodation capacities. Alternative forms of financing entrepreneurship in tourism are not easily accessible. Funds of venture capital funds are accessible in very small quantities. Business angels and other non-formal forms of financing are available in construction of apartments and apartment-hotels linked to investments of private accommodation providers and in individual loan programmes of the Ministry of Tourism. Financing through leasing is usually expensive and inadequate for the main needs of financing in tourism. Altogether, financing of investments, procurement of equipment and other needs in tourism depend on bank loans (Ivanov and Kovačević, 2008, 556-557).

According to the survey conducted on several commercial banks, the regional distribution of loans in tourism corresponds to tourism activities. Banks in general mostly provide tourism loans in the area of Adriatic Croatia, followed by the Zagreb region and central Croatia, and least of all, 2%, in the area of eastern Croatia. Commercial loans are approved in the least amount in the area of the Vukovar-Syrmia and the Brod-Posavina counties (Figure 1.).

Besides financing accommodation buildings, banks generally also finance the development of rural tourism, eco-tourism, sports tourism and health tourism (all relevant forms of tourism for eastern Croatia), whereby they emphasized that stronger state aid would significantly stimulate the financing of all tourism activities (Kovačević, 2006, 108).

⁴¹ CBRD, HAMG invest

Figure 1. Regional distribution of commercial loans for tourism

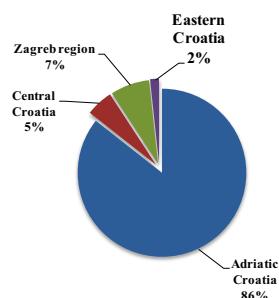
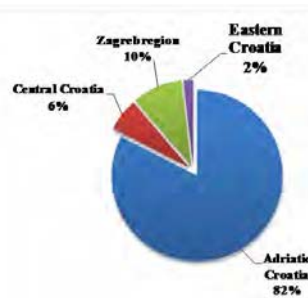


Figure 2. Regional distribution of loans in cooperation with the CBRD for promotion of tourism



Source: Authors' calculation based on survey 'Banks' loan policy" (Figure 1. and Figure 2.)

3.3. State aid for entrepreneurial activities in tourism

In Croatia, there are many programmes of state aid and subsidised loans for tourism. The realisation of subsidised loan programmes in tourism up till now was based on cooperation among the Ministry of Tourism, Croatian Bank for Reconstruction and Development, and the former Ministry of Economy, Labour and Entrepreneurship, today, the Ministry of Entrepreneurship and Crafts. The bulk of government subsidies in tourism are related to the promotion of family, small and medium enterprises in tourism. Particularly significant results in the area of subsidised loans to entrepreneurs in the tourism industry were reached by the incentive measures programme that was implemented from 2002 to 2009, called "Incentives for Success". One of the incentive measures is the Loan programme for small family enterprises in tourism. Data on approved loans from the Incentives for Success programme (Ministry of Tourism 2013a) are confirmed by the results of a survey on the low share of subsidised loans for eastern Croatia. Most subsidised loans from the above programme have been allocated in the Croatian Adriatic region. The least amount, 6.5% of the total of loans approved in the first part of the programme (December 2002- December 2005), went to counties of eastern Croatia. The results of a survey conducted on several commercial banks indicate that the least amount of subsidised loans, 2%, is granted to eastern Croatian (Figure 2.).

In addition to this project, significant to the area of eastern Croatia is the project Development of rural tourism. The aim of this particular loan programme is to encourage the development of tourism in the rural areas of the Republic of Croatia by means of a subsidised interest rate, with the objective of developing the tourism offer as a complementary activity on agricultural estates, increasing the quality of life and creating conditions for staying in the country, maintaining traditional and ambient houses, enabling the direct placement of agricultural products through specific elements of the rural tourism offer, reviving old crafts and trades and local customs, as well as creating a new tourism product and profiling Croatia as a rural tourism destination (Ministry of Tourism, 2013b).

According to the statistical classification of NUTS ⁴² criteria, the region of Eastern Croatia is examined together with Central Croatia, forming together Pannonian Croatia with eight counties: Bjelovar-Bilogora, Virovitica-Podravina, Požega-Slavonia, Brod-Posavina, Osijek-Baranja,

⁴² NUTS is a statistical classification that is used for the collection, processing, analysis and publishing of statistical territorial data at the EU level, by which territorial units are classified into different levels on the basis of population, and it is the basis for determining the acceptability of territorial units for use of EU funds within the defining of cohesion policy.

Vukovar–Syrmia, Karlovac, and Sisak–Moslavina. Data on the allocation of aid according to statistical region show that, in 2011, Central and Eastern (Pannonian) Croatia was allocated aid amounting to 950.4 million HRK, of which 765.1 million HRK or 80.5% for specific sectors, while horizontal aid amounted to 185.3 million HRK or 19.5% in aid allocated to beneficiaries in this region. As part of sector support in tourism, allocated in 2011 to the region under observation was 64.5 million HRK (Croatian Competition Agency [AZTN], 2012, 71).

Table 2 Allocated aid in 2011 according to map of statistical regions of Croatia (NUTS 2) (in million HRK)

Industry and services	Central and Eastern (Pannonian) Croatia	Adriatic Croatia	Northwest Croatia	Total Croatia
Horizontal objectives	92,2	199,4	424,1	715,7
Small and medium enterprises	43,5	122,2	158,8	324,5
Special sectors	765,1	1.968,5	869,7	3.603,3
Tourism	64,5	169,4	14,3	248,2
Regional aid	69,7	77,5	256,4	403,6
Aid at local level	23,4	45,6	84,3	153,3
Total	950,4	2.291,0	1.634,5	4.875,9

Note: Shown is allocated aid without aid for agriculture and economy

AZTN, (2012, 71) according to data from the Ministry of Finance

Comparing Pannonian Croatia to other regions in this part of continental Croatia, awarded in total was the least amount of aid, 19.5% of all aid, which is particularly relevant to horizontal aid with the objective of encouraging small and medium enterprises (Table 2.). In the area of sector aid, Pannonian Croatia has achieved somewhat more support for the development of tourism activities, however, comparing this with the aid granted for encouraging tourism activities in the Adriatic Croatia, it is several times lower and amounts to approximately 26% of all aid to tourism.

4. Conclusion

Eastern Croatia represents an area that has significant potential for tourism valorisation. Taking advantage of tourism potentials may contribute to the development of entrepreneurship and tourism, and ultimately increase overall economic activities. It is the development of entrepreneurship and tourism that is one of the measures to raise the economic competitiveness of the region, as specified in the Strategy for Regional Development of the Republic of Croatia. An analysis of the data has revealed that the financing of entrepreneurship in tourism is inadequate. In general, financing investments, procurement of equipment and other needs of the tourism industry are dependent on bank loans, while state aid awarded for regional development are insufficient to encourage entrepreneurial activities in tourism. In comparison with other Croatian regions, eastern Croatia receives the least amount of support in the form of subsidies.

In order to improve the structure and quality of accommodation, employment, to encourage investment and to increase tourism demand in eastern Croatia, it is necessary to:

- Harmonize and improve the legal framework with the objective of strengthening entrepreneurship and increasing investments
- Launch new programmes to encourage the development of small, medium and large enterprises for the construction of hotels, the renovation and reconstruction of existing hotel capacities, the investment in small family hotels and inns, and in providing diverse tourism infrastructure buildings
- Launch a programme that encourages more intensive development of rural tourism, especially tourism on agricultural estates

- Through different aid instruments, in particular subsidies, tax exemptions and incentives, preferred loans and government guarantees, direct state aid to the development of entrepreneurial activities to the region in general, and especially within the context of those activities that could raise the economic competitiveness of the region.
- More intense cooperation and forming a network of all tourism interest groups in the region
- Emphasise the role of relevant institutions, especially the Ministry of Tourism, Ministry of Entrepreneurship and Crafts, Agency for Regional Development, Croatian Bank for Reconstruction and Development, Croatian Agency for Small Business and Investments, regional and local development agencies in programmes for encouraging entrepreneurship in tourism

In addition to state aid, opening up with Croatia's accession to the European Union are numerous opportunities for utilising European Union funds for co-financing development projects in eastern Croatia. Primarily available are Structural Funds (European Regional Development Fund and European Social Fund), the Cohesion Fund, and the European Agricultural Fund for Rural Development.

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