

REGIONAL ACTION PLAN

On improving the framework conditions for alternative finance
for start-ups and social enterprises

Croatia



Symbolic map

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Croatia

Regional Action Plan

(Output 3.1)

1. Introduction

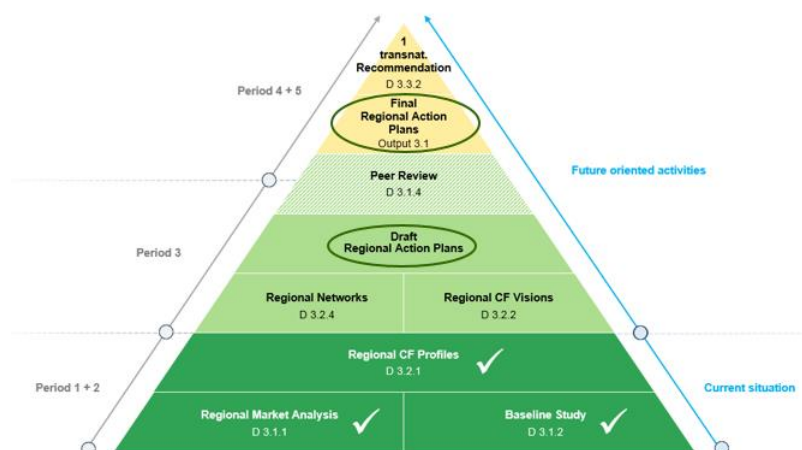
Within the CrowdStream project, each partner region has implemented a process of analysis of local conditions, stakeholder involvement and definition of long-term targets on Crowdfunding. These activities lead to the formulation of the Regional Action Plan (RAP) on the basis of the following inputs (available on <http://www.interreg-danube.eu/approved-projects/crowdstream>):

- Regional Market Analysis on Crowdfunding (D 3.1.1)
- Baseline study (D 3.1.2)
- Regional Profiles (D 3.2.1)
- Regional Stakeholder meetings (D 3.2.3)
- Regional Crowdfunding Visions (D 3.2.2)

The Regional Action Plan provides concrete measures for improving the access to alternative finance for innovative businesses and social enterprises. A peer review process was established to develop the final version of the Action Plans.

RAPs will be linked to the Pilot Actions that will be organized at partner region level in order to showcase solutions how public business support organizations can support CF campaigns of start-ups and social enterprises.

Inputs from the Regional Action Plans of all Danube area partner regions will feed into Policy recommendations aiming at improving the access to alternative finance for innovative businesses incl. social and creative entrepreneurs.



2. Main regional challenges and development needs

Regional challenges and development needs in the context of access to crowdfunding have been identified and elaborated within following project deliverables:

1. Document „Regional profile for the Republic of Croatia“
2. Document „Summary of Regional Stakeholders Meetings“

Regional profile for the Republic of Croatia identified several main weaknesses in utilization of alternative financing, specifically crowdfunding,:

- small overall awareness of the possibility of crowdfunding,;
- low use of Internet in online purchasing of goods;
- poor development and mistrust of e-business;
- unfavorable regulation framework.

SWOT analyzes delivered in the respective document further describes main regional weaknesses, strengths, opportunities and threats.

STRENGTHS:

- already successful campaign examples
- creative human capital
- growing interest

WEAKNESSES:

- lack of awareness
- lack of local platforms
- lack of positive regulatory framework
- tax regulation
- hard to implement equity model

OPPORTUNITIES:

- set the positive regulatory framework
- to establish a national platform
- to enable equity model

THREATS:

- inappropriate regulatory framework
- focus on foreign platforms
- loss of companies
- loss of human capital

While methodology applied in development of document “Regional profile for the Republic of Croatia” relied mostly on a desk research (strategies, regulatory framework, reports, statistical

data), regional stakeholder meetings implemented in the third implementation period represent direct learning interactions where feedback of diverse regional stakeholders have been attained.

Regional stakeholders expressed following difficulties in obtaining financial resources by the crowdfunding campaigns:

- Lack of knowledge in terms of CF and of access to proper education/mentoring
- Lack of support of local and regional government, especially from business support organizations
- Trust of potential backers
- Absence of quality CF service providers
- Logistics and distribution problems after the CF campaign
- Absence of (or inadequate) media/marketing campaign before launching the CF campaign
- Lack of good video pitch, photos and/or web site
- Unrealistic goals and deadlines
- Choosing the wrong CF platform
- Challenges of scale - lack of preparedness for possible extra demand/production (ensuring enough money, manpower, equipment etc.)
- Inadequate product and business development
- Inadequate initial pricing leading to problems with covering the costs of production, overhead, shipping, customs, taxes etc.
- Communication issues: lack of regular updates, lack of response and lack of transparency
- Failure to deliver promised and/or delivery delays

Prioritization process and selection of main challenges were based on four (4) main aspects:

1. Results of the SWOT analyzes of regional CF potential
2. Difficulties in obtaining financial resources by the crowdfunding campaigns identified within the Regional Stakeholders meetings
3. Competencies, available resources and synergies with existing support schemes/programmes of Zagreb Innovation Centre and initial members of Regional network
4. Crowdfunding visions (described in the section 2)

Prioritization of development needs:

1. Recommendations for legal framework adjustment to enable equity based CF investments
2. Popularization of CF financing among SMEs (especially start-ups) and social enterprises;
3. Improvement of knowledge in terms of preparation and management of high-quality CF campaigns;
4. Increased support in access to CF financing by the local and regional government, especially business support organizations;
5. Identification of high-quality CF service providers;

Main Challenge #1: To raise general awareness on CF potential and increase competencies of start-ups and social enterprises relevant for preparation and implementation of high-quality CF campaigns

Detected deficits in the context of this challenge includes:

- Lack of knowledge in terms of CF and of access to proper education/mentoring
- Trust of potential backers
- Absence of (or inadequate) media/marketing campaign before launching the CF campaign
- Lack of good video pitch, photos and/or web site
- Unrealistic goals and deadlines
- Choosing the wrong CF platform
- Communication issues: lack of regular updates, lack of response and lack of transparency

So far, in Republic of Croatia only available (and visible) comprehensive education on crowdfunding is the Crowdfunding Academy that offers two – days training and individual support. In the course of crowdfunding promotion most relevant is the blog “CROWDFUNING.HR” that promotes successful campaigns, offers free of charge information on crowdfunding and is conducting research of crowdfunding activities.

Despite of progress in CF activities in Republic of Croatia during the year 2015 with 5.3 MIL HRK raised within 23 CF campaigns, Croatian campaigners raised only 2.3 MIL HRK during the year 2016. In addition, the number of successful campaigners significantly decreased in the year 2016 with only 13 successful campaigners.

Such statistics clearly indicates that more actions of CF popularization (successful CF campaigners as CF ambassadors, storytelling campaigns, etc.) are needed as well as new or improved trainings aiming to raise competencies of potential campaigners.

Target groups: start-ups, mature SMEs, social entrepreneurs

Main Challenge #2: Set-up of efficient support in accessing CF financing by the local and regional government and business support organizations

Lack of support of local and regional government, especially from business support organizations, is one of the identified difficulties in obtaining financial resources by the crowdfunding campaigns.

Zagreb Innovation Centre already started with informational seminars on crowdfunding, but more comprehensive trainings and mentoring support are required. Furthermore, Zagreb Innovation Centre and the City of Zagreb, signatory of regional stakeholder network MoU, provides various supporting schemes (financial and non-financial) to start-ups, innovators, social enterprises.

Integration of financial support addressed to preparation of CF campaigns (video pitch, marketing plan, etc.) together with comprehensive education would represent a valuable effort to boost interest in CF financing and more efficient capital raise by the CF.

Target groups: public business support organizations, local and regional governments

Main Challenge #3: To advocate legal framework change, thus enabling equity crowdfunding investments

Lack of positive regulatory framework is one of the strongest weakness on Croatian CF market that reflects on restricted possibilities in CF utilization, in particular equity based crowdfunding investments.

No explicit regulations addressed to crowdfunding exists in Republic of Croatia, while numerous acts are regulating legal framework for crowdfunding investments: Value Added Tax Act; Local and Regional Government Financing Act; Income Tax Act; Companies Act; Profit Tax Act; Act on Contributions, etc.

There are no legal obstacles with regard to crowd donating and crowd sponsoring. However, crowdlending is strict regulated by the law on capital markets.. The Croinvest.eu platform offers this possibility in a way that project lead may offer investor to loan funds in form of a interest-free or interest-bearing investment loan, which needs to be repaid in a defined amount of time. Multiple loans setup is also possible on different terms. This model resembles the standard loan agreement defined by Croatian laws. P2P lending is under strict regulation that makes the whole procedure complicated and expensive. Equity CF is hard to implement, but still is available in Croatia via the Funderbeam SEE, blockchain equity based platform.

Analyses of legal framework where explicit regulation addresses crowdfunding financing (e.g. Austria) and recommendations for such regulations adjustment in Republic of Croatia should be the first step to initiate changes.

Target group: national government, politicians, media

3. Visions

Vision #1: By the year 2021. Development Agency Zagreb – TPZ Ltd. will become central regional Crowdfunding point for start-ups and social entrepreneurs

Explanation:

Some of the most important barriers recognized during the stakeholders meeting, related to access to alternative financial mechanisms (Crowdfunding) by Croatian start-ups are:

- Lack of knowledge in terms of CF and of access to proper education/mentoring
- Lack of support of local and regional government, especially from business support organizations
- Absence of quality CF service providers
- Inadequate product and business development

Development Agency Zagreb – TPZ d.o.o. as a public business support organization of the Capital City, with by far the largest business incubator in Croatia and with extensive experience in business development, counselling, education and mentorship, has a potential to become a CF promotor and to provide comprehensive educational and advisory services to start-ups.

In addition, Development Agency Zagreb – TPZ Ltd. cooperates broadly with many universities (e.g. Faculty of Electrical Engineering and Computing, Faculty of Economics and Business) and with the business community, thus supports university spin-offs development.

Vision #2: By the year 2023. Crowdfunding will become dominant alternative financial mechanism for innovative start-ups in business incubators

Explanation:

Limited access to finance represents the strongest barrier in business development for start-ups and social entrepreneurs with innovative products & services. Commercial banks perceive start-ups as a risk investment and ESI funds will most probably become unavailable for SMEs after the 2014-2020 programming period.

Such conditions will turn startups and social entrepreneurs to seek financing within available alternative financial mechanisms.

Development Agency Zagreb – TPZ Ltd. with the broad community of associates (universities, other BSOs, business community, regional and national government) will promote crowdfunding and, in line with the 1st vision, provide comprehensive services to innovative start-ups and social entrepreneurs related crowdfunding financing.

4. Proposed actions to address the regional challenges

Action#1 Strengthening Competencies on CF utilization and popularization of crowdfunding

This action will support achievement of two (2) specific objectives:

1. To increase competencies of two different groups of stakeholders: (1) start-ups and social enterprises; (2) business support organizations
2. To promote crowdfunding as alternative financing mechanism

S.O. 1. STRENGTHENING COMPETENCIES ON CF FINANCING

Already in the scope of Crowdstream project two sets of educational programs are developed:

1. One set of trainings focused on innovative enterprises to develop crowdfunding campaigns & digital pitches;
2. Second set supports business support organizations such as incubators, accelerators, innovation centers etc. to establish support structures for businesses seeking finance via alternative finance

Zagreb Innovation Centre will continue to raise competencies following developed and tested educational training.

Internal staff of Zagreb Innovation Centre will participate on both of the above-mentioned trainings, afterwards, educational program and materials will be prepared in Croatian language and the education will be launched.

Educational trainings will be implemented by the experienced external experts with support Zagreb Innovation Centre employees who attended abovementioned training program.

Two days training for start-ups and social entrepreneurs will be organized 2 to 5 times annually in the premises of Zagreb Innovation Centre.

Training for business support organizations will be open for business support organizations from the entire territory of Republic of Croatia and will be organized at least 2 times on the annual basis, or more often in case of increased interest.

S.O.2. POPULARIZATION OF CROWDFUNDING

As mentioned in the previous section, the year 2016 is marked with 13 successful Croatian campaigners. Still, promotion of successful campaigners by storytelling campaigns should have the strongest impact on potential CF campaigners along with organization of networking events where real-life CF experiences can be transferred.

Zagreb Innovation Centre will identify successful campaigners, in the first step among more than 90 start-ups and SMEs – members of business incubator (already during the project implementation company Profores Ltd., hosted in office of Zagreb Innovation Centre, participated in stakeholders meetings and transferred experience in preparation and implementation of successful pre-sales campaign). Those companies will represent regional ambassadors of crowdfunding and will be invited to participate in networking events and to transfer their experience during the educational trainings.

In the second step, Zagreb Innovation Centre will identify successful Croatian CF campaigners outside own business incubator and prepare promotional stories.

Those stories will be published in the form of promotional articles on the website and social media channels of Zagreb innovation Centre and then transferred on social media channels of regional network members.

Indicative budget (annual):

Cost	Unit	Unit value (EUR)	Number of units	Total (EUR)
Initial development of educational program and materials on Croatian language (internal staff)	Man / Day	100,00	30	3.000,00
Preparation and implementation of 2 days training (5 x annually)	Man / Day	100,00	15	1.500,00
External experts support in training implementation	Man / Day	270,00	7	1.890,00
Administrative costs	Attendee	20,00 EUR	75	1.500,00
Preparation of CF promotional stories and publication on website and social media (at least 10 on annual basis)	Man/Day	100,00 EUR	10	1.000,00
TOTAL COST				8.890,00

Action #2: Setting-up efficient support in accessing CF financing by the local and regional government and business support organizations

As stated in the elaboration of the main challenge no. 2, lack of support of local and regional government in access to crowdfunding financing is evident.

Zagreb Innovation Centre as a public business support organization, owned and financed by the City of Zagreb, is providing business incubator services for high-technology oriented SMEs and is managing entrepreneurial infrastructure with over 9.000 m². In the second half of 2018. Over 90 innovative SMEs are running their business within Zagreb Innovation Centre business incubator. Aside office spaces, shared space, conference hall, high-speed internet, Zagreb Innovation Centre also provides educational and mentoring services to SMEs, supports SMEs to access international markets.

Specific program offered by the Zagreb Innovation Centre, where support in preparation of CF campaigns can integrate is titled "Startup Factory Zagreb". Program represents first publicly funded NO EQUITY program of its kind in Zagreb area and beyond and aims to support startups to monetize their ideas and grow and develop their businesses in a sustainable way. Program consists of financial, infrastructural, educational and mentoring support. Development teams & startups who are competing for the support are selected via the open contest. Applications are selected according to pre-defined criteria and applicants with top ranked business ideas are accessing the program.

In the year 2017, program resulted with 16 selected teams/startups, while 6 of them won the supporting scheme offering infrastructural, financial, mentoring and educational support.

Since most of the applicants are having innovative ideas (products and services) and financial support offered by the program is limited up to 20.000,00 EUR, additional financial resources are often needed to transfer ambitious business ideas into feasible products and services.

State of the art of this action is reflected by integration of following components into ongoing StartUp Factory Zagreb program:

- educational training developed within proposed action no. 1;
- extension of mentoring support to CF campaign preparation;
- allocation of additional financial resources aimed to cover the costs of video production services for CF campaign

Target groups: Startups, Social entrepreneurs

Implementation timeframe: once per year

Duration: 4 months

Indicative budget (annual):

Cost	Unit	Unit value (EUR)	Number of units	Total (EUR)
Preparation and implementation of 2 days training	Man / Day	100,00	3	300,00
External experts support in training implementation	Man / Day	270,00	3	810,00
Mentoring support (internal staff)	Man / Day	100	32	3.200,00
Mentoring support (external experts)	Man/Day	270	16	4.320,00
Video production	Service	5.000	5	25.000,00
Administrative costs	Attendee	20,00 EUR	20	400,00
TOTAL COST				34.030,00

5. Further recommendations to improve regional and transregional framework conditions

1. TO SIMPLIFY INCORPORATION AND EQUITY SHARE TRANSFER PROCESS

Most relevant change should be made within Companies Act, within defined procedure that requires physical presence of founders and equity shareholders when registering company / changing the Certificate of incorporation.

Current procedure requirements hinders equity-based crowdfunding investments, especially in terms of cross-border equity crowd investments in startups and early stage ventures.

Possible solution is to enable one authorized shareholder to finalize incorporation (and a change of Certificate of Incorporation) process psychically, while other founders/shareholders would be enabled to confirm incorporation and Article of incorporation changes digitally, by the use of government ICT service “e-Hrvatska”, without requiring physical presence.

Second solution could be introduction of the so-called “Registered Agent” with physical address in Republic of Croatia, which would accept and sign for all official legal and state documents for the equity investors, without, or in case of stricter procedure, together with the company founder.

Such model is available in the USA and enables non-US residents to incorporate without requiring physical presence of founders.

Simplifying incorporating and changes of equity shareholders within Certificate of incorporation would enable cross-border investments in perspective Croatian SMEs and their projects.

2. TO CONSIDER ADOPTION OF SPECIAL ACT THAT WOULD ADDRESS CROWDINVESTING

Croatian market is rather small and characterized by low overall awareness of the possibility of crowdfunding, low use of Internet and poor development and mistrust of e-business.

Croatian policy makers should consider delivery and adaptation of act addressed specifically to crowdfunding. Good practice example could be the Austrian Alternative Financing Act described within the previous section, which established the legal basis for the financing of SMEs (small and medium-sized enterprises) through Crowdfunding and citizen participation models. In addition, it created a legal framework for the operators of Crowdfunding platforms.

Soon after the adaptation of the abovementioned Act volume of investment via the crowdfunding financing in Austria increased for around 300%.

Only with regulations transparency and legal certainty for businesses, platforms and investors can be provided.

3. TO ENABLE LOCAL AND REGIONAL AUTHORITIES A POSSIBILITY TO USE CROWDLENDING FINANCING MODEL

For a projects with strong impact to the local societies, especially in case of small municipalities with smaller budgets, crowd-lending could be appropriate source of financing. Therefore, a regulator should change the Budget Act and allow municipalities to use crowd-lending model with citizens as investors.

4. TO SUPPORT ADOPTION OF EC PROPOSAL FOR A REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL ON EUROPEAN CROWDFUNDING SERVICE PROVIDERS (ECSP) FOR BUSINESS

Introducing a label of a European Crowdfunding Service Provider would enable CF platforms to scale their operations at a European level and conduct cross-border business with a rather swift and sizeable reduction of market entry costs (regulatory and supervisory costs).

Such coherent and harmonized regulatory frame and supervisory regime would enable scaling up of crowdfunding activity at EU level and provide certainty for project owners, investors and the platform themselves.

Abovementioned EC proposal is elaborated within the previous section of this document.

5. TO INTEGRATE SUPPORT TO START-UPS IN ACCESING CROWD FINANCING WITHIH LOCAL/REGIONAL ACTION PLANS, PROGRAMMES AND STRATEGIES

Pilot action implemented within CrowdStream project demonstrated that potential CF campaigners do not have basic knowledge on crowdfunding, nor do have presentation skills to perform successful pitch.

Local and regional authorities, directly or by their business support organizations, should promote crowdfunding among local start-ups and provide reasonable support through trainings; mentoring support and support in preparation of vide promotional materials for the CF platforms.

6. TO ACCEPT CROWD-FINANCING AS PART OF FINANCIAL CONSTRUCTION FOR PROJECTS APPLIED TO ESIF FUNDS / ESI LOANS

Croatian SMEs, within national OP Competitiveness and Cohesion, within the ongoing programming period (2014-20), are still broadly using ESIF to finance innovation, research and development, integration of IC technologies, etc.

Within majority of calls for proposals support intensity is not reaching 100% and requires co-financing, with own financial resources or with financial construction, that encompasses bank loan.

On the other hand, commercial banks in Croatia are considering start-ups as a risk investment, thus hindering availability of commercial loans in early stage of development.

Crowdfunding could represent viable alternative financing mechanism when closing the financial construction for projects applied for ESI funds.

Same principle should be used in case of applying for ESIF loans. Founder of the first Croatian crowdfunding platform CROINVEST even suggests that providers of subsidized funds and loans (Croatian bank for reconstruction and development and Croatian agency for SMEs, innovation and Investments) could even invest 30% of the targeted CF campaign amount and stimulate further investments of citizens and business investors. This investment could then be, in case of successful campaign, integrated in the loan amount. This model should use “all or nothing” CF campaign model, what would provide certainty for the loan provider, and guarantee return of investment in case CF campaign fail. It is also applicable to the commercial banks.

7. TO SET OUT MINIMAL ETHICAL AND PROFESSIONAL STANDARDS FOR CROATIAN CROWDFUNING PLATFORM OPERATORS

Non-existing special act addressing crowdfunding and diverse national acts that directly or indirectly applies to crowd investing results with un-harmonized ethical and professional standards.

Even though Croatian CF platforms mostly, or completely, provide reward and donation CF investment services, minimum ethical and professional standards should be applied.

Good example is the Code of conduct of European Crowdfunding Network which:

The aim of the ECN Code of Conduct is to:

- state the principles of ethical behaviour that the ECN and its members shall abide by

- assert a collective view that high and professional standards of commercial and social honour are just and equitable principals worth promoting and abiding by
- provide the basis for consideration of and dealing with lapses in professional conduct within the ECN

- provide transparency on business models and industry data

8. TO INITIATE A DIALOG WITH COMMERCIAL BANKS AND ACHIEVE DECREASE OF FINANCIAL TRANSACTION COSTS FOR NON-COMMERCIAL CROWDFUNDING PLATFORMS

For crowdfunding platform operators which do not operate under commercial principles banking fees represent one of the biggest financial burdens. Banks have not been willing to give up of charging banking fees even for donation-based campaigns.

Lower financial transaction costs would make crowdfunding models more competitive on the financial market.