

## **BUSINESS ENVIRONMENT IMPROVEMENT INITIATIVE – PROPOSED BY BILATERAL CHAMBERS OF COMMERCE IN CROATIA**

**Competiveness of Croatian Economy** – The Global Competitiveness Index for 2018 published on October 17, 2018, puts Croatia in the 68<sup>th</sup> place out of 140 countries. Compared to 2017, two countries have surpassed Croatia. Out of EU Member States, Croatia is ranked last.

The World Bank published its Doing Business 2019 report on October 31, 2018. Out of 190 countries Croatia is placed 58<sup>th</sup> for the ease of doing business. It represents a decline compared to the 51<sup>st</sup> place in 2018.

Despite some tangible changes for the better, reported by member companies of Chambers included in the initiative, businesses and potential investors are still faced with numerous obstacles. Improvements in the Croatian economy, compared to the rest of Europe are far too slow and insufficient.

**Bilateral Chambers Survey** – In the period from October 2017 – May 2018 six Chambers conducted business environment satisfaction surveys. 473 member companies participated in the surveys. Results of the surveys enabled identification of key obstacles to doing business in Croatia. Companies identified the following obstacles: *availability of skilled workforce, taxation, ineffective public administration, legal security and government performance.*

**Improving the Public Service System** – Public Service System in Croatia is inefficient. It is the perception of business representatives that administrative burdens are hindering the development of business environment and inflow of significant investments. Public administration should provide support to businesses and enable them to focus on their core activity by providing timely and predictable services and should be kept accountable. Adequate sanctions should be introduced for inefficiencies in carrying out legally prescribed duties by public servants, as well as rewards for those who exceed expectations. Chambers also call for digitalization of public institutions and services which would result in faster and more transparent public services.

In addition, Chambers call for optimization of public institutions and the scope of their responsibilities. Chambers consider that the Agency for Investment and Competitiveness should remain an independent Agency as it is a focal point for investors considering Croatia as their investment destination.

**Reducing Tax Burden on Labor** – Taxation of labor in Croatia is significantly higher than in comparable countries (Bulgaria, Czech Republic, Romania, Serbia or Slovakia). Net salaries, after all payables and contributions, remain relatively modest compared to the total cost of labor for the employer. Compared to competitive economies, highly paid employees are still “expensive”, which is unstimulating for attracting investment and new employment in business activities that generate a greater added value. Also, the overall wellbeing of employees would be significantly increased if certain payments to workers were not considered taxable income in kind including allowance for workers’ meals, allowance for sports activities or supplementary health insurance. Chambers recognize and welcome Government efforts to lower the labor tax burden in 2017 and 2018, and call for further measures that would increase competitiveness of labor costs in Croatia and would help to retain employees.

**Linking the Education System with Labor Market Needs** – Education system in Croatia, for the most part, remained largely unchanged for the past few decades. Entrepreneurs often report that there is a mismatch between skills and knowledge needed at the labor market and those gained through education system. Most often a company has to invest resources and time to practically train a young person to do what they were initially educated for. Chambers consider that practical skills and knowledge gained through mandatory practice or traineeships for all educational levels (high-school, vocational and higher education) would result in a better educational system and an easier transition into the labor market. The Chambers welcome the introduction of the dual vocational education model but call for a greater inclusion of companies and their needs in the development of curricula. Also, digitalization and the development of technology are requiring a shift in the educational approach that would enable better adoption of such skills.

Proposed by:

American Chamber of Commerce in Croatia

Association of Italian Entrepreneurs in Croatia

Austrian Trade Commission

Canadian-Croatian Business Network

German-Croatian Chamber of Industry and Commerce

Nordic Chamber of Commerce in Croatia