

Recommendations for Improving the Business Environment and Encouraging Investment Growth in Croatia

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American Chamber of Commerce in Croatia *Američka gospodarska komora u Hrvatskoj*

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Introduction

AmCham Croatia brings together more than 220 American, Croatian and other international companies employing more than 70,000 people in Croatia. As the oldest foreign chamber in Croatia, for the past 20 years, AmCham has been strongly contributing to the improvement of business operations by advocating best business practices and a series of recommendations for positioning Croatia as an attractive destination for investment.

In 2018, Croatia marks five years of membership in the European Union (EU). Since February 21, 2003, when it applied for membership, until July 1, 2013, when it became a full member, Croatia made a series of legislative changes aimed at achieving stability of institutions, the rule of law, successful market economy, as well as the adoption of the entire *acquis communautaire*. In parallel with the accession process, from 2008 to 2014, Croatia has experienced one of the longest and deepest recessions in the EU, during which real GDP declined by more than 12%¹. After the accession to the EU in July 2013, exports of goods began to positively contribute to growth. A year later, a big growth in export of services occurred, especially in tourism, and in 2015, there was also a recovery of investments, which was largely conditioned by the greater use of EU funds by the state. A slight increase in GDP in 2015 marked the end of the recession and Croatia is currently in the recovery phase². In 2016 and 2017, GDP grew at an approximate rate of 3%. These results are in line with the positive results of the overall European economy, which has been growing steadily over the last few years.

Croatia recorded a slower recovery from comparable economies of Southeast Europe, which had a significantly shorter recession period and higher GDP growth in recent years. For example, the GDP of Romania and Bulgaria grew at a rate of 3.4 and 4.8% in 2016 and 3.6 and 5.5% in 2017, compared to Croatia's 3% and 2.9% respectively³. In order to catch up with the countries of Southeast Europe, Croatia needs to work more actively than it has so far to implement reforms and set prerequisites for economic growth and become recognizable as an attractive destination for investors.

¹ European Commission (2017), Country Report Croatia 2017 Including an In-Depth Review on the prevention and correction of macroeconomic imbalances, accompanying the Communication from the Commission to the European Parliament, the Council, the European Central Bank and the Eurogroup, 2017 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No. 1176/2011, SWD(2017) 76 final

² Ibid.

³ International Monetary Fund, http://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD/HRV (January 5, 2018)

This document includes recommendations arising from the work of AmCham's committees and working groups and from the results of a business environment study conducted among members of the American Chamber of Commerce in Croatia. With these recommendations, AmCham seeks to indicate the existing challenges and propose possible solutions that will lead to further economy growth in Croatia.

RECOMMENDATIONS

Investment prerequisites

Despite the growth of the economy over the last few years, Croatia has failed to implement more significant economic reforms, which would attract an increase in foreign direct investments.

The prerequisites for investments where Croatia is regularly assessed as favorable, such as geographic position, EU membership, quality of workforce, solid infrastructure and a number of natural prerequisites for the development of certain economic sectors, among which tourism is especially prominent, are not sufficient for good positions on competitiveness rankings.

Doing Business Report of the World Bank for 2018 puts Croatia at 51st place among 190 countries in terms of ease of doing business, which represents a drop of 8 places compared to the previous year. Most of the comparable EU member states, for example, Czech Republic (30), Slovakia (39), Slovenia (37), Poland (27), Romania (45), and also some non-member states, for example, Macedonia (11), Serbia (43) and Montenegro (42) are ahead of Croatia on the list of the aforementioned report. According to the data from the Global Competitiveness Report 2017-2018, Croatia also does not rate better: it occupied 74th out of 139 places, effectively retaining last year's position. Key obstacles for business in Croatia have been identified as inefficient bureaucracy, policy instability, tax regulations and corruption.

Membership in the EU and the obligation to transpose the relevant European regulations into national legislation, i.e. ensuring compliance of the national strategic framework with the one at the European level have contributed to the quality of the regulatory and strategic framework. However, Croatia has to make significant further efforts to ensure stability and effectiveness of key segments that affect the ease of doing business and competitiveness, as seen from an investor's perspective.

AmCham's business environment survey has shown that companies that are AmCham members have operated successfully in 2017, and 64% of respondents have increased the number of employees. With regards to the experience of doing business in Croatia, 47% of respondents rated it as good or very good, 42% as

average and 11% as poor. An equal number of respondents believe that business conditions in the last 5 years have improved (45%), while 40% think they are the same. Although existing investors are largely planning to continue expanding operations in Croatia (79% of respondents), AmCham's survey shows that this is largely based on the growth of global demand, while most investors indicate the same barriers to business as in previous years. Despite some commending reform measures such as the 2016 tax reform, they are not enough for a transformation into a highly competitive market economy, which leads to a high percentage of respondents who see the influence of government institutions as negative or as having no effect on the business environment (86%). With regards to the business conditions in Croatia compared to other Central and Eastern European countries, 85% of respondents see them as average or worse. The biggest disadvantages in relation to other countries are slow administration, tax burden, lack of long-term government strategy and a small market.

Taking into account previously adopted recommendations in 2015, and bearing in mind the unrealized proposals and current priorities in 2018, AmCham Croatia recognizes the following as the key prerequisites for further economic growth:

- Strategic approach to attracting foreign direct investments
- Digitalized and optimized public service system
- Stimulating tax system
- Effective legislative and judicial system
- Strategic management of human potentials
- Energy efficient and "green" economy

Strategic approach to attracting foreign direct investments

Preparation and implementation of a long-term investment strategy at a national level were the backbone of AmCham's recommendations in 2015 and they remain just as relevant in the upcoming period.

Implementing a stable and consistent policy aimed at attracting foreign direct investment is of utmost importance for the future growth of the economy and the creation of new jobs. In doing so, in accordance with good practices of other Central and Eastern European countries, the focus should be on "greenfield" investments, or investments in establishing new companies with orientation towards the European or global market and attracting high-tech industries.

The investment strategy should therefore focus on creating a business environment that will enable employers in Croatia to be globally competitive, but to also create an environment that will be friendly to entrepreneurship, innovation and attracting and retaining talents.

Preparing and implementing a long term investment strategy

Despite direct advantages that arose from EU membership, Croatia has so far been insufficiently successful in turning them into specific competitive advantages when it comes to a perception of potential investors.

It is necessary to take specific steps to influence the current situation, and these steps must come from a clearly defined strategy at the highest political level.

The strategy should be oriented towards removing obvious obstacles to attracting investments – for example, improving the effectiveness of public administration and the judiciary and providing a more predictable legal and regulatory framework – but also emphasizing the positive and insufficiently prominent possibilities (e.g. workforce quality, favorable geographic position, availability of EU funds).

For example, 78% of AmCham's respondents rated EU membership as positive for business, with key advantages being the lack of borders, the single market and access to EU funds. Despite the observed potential, 86% of the respondents pointed out they were not beneficiaries of these funds. A clear framework should therefore be set for the use of EU funds for a wide range of business users and create adequate absorption capacity at the level of public administration.

There is a need to build a political consensus on the importance of the existence of such a strategy, which must go beyond the mandate of a single government. In drafting and implementing the strategy, it is important to include, in addition to representatives of the public administration, representatives of the business community, civil society and the academic community.

Promoting the benefits of foreign direct investments

Positive attitudes toward entrepreneurship and investments of domestic or foreign capital should be part of Croatian political discourse and it should be successfully communicated to the Croatian public. Companies with foreign ownerships operating in Croatia make a significant contribution to the Croatian economy through the implementation of new technologies, the application of modern business practices, investment in employee training and so on. Positive attitude towards foreign investments and the presence of foreign companies is key to the Croatian business reputation abroad.

Improvement and promotion of incentives to attract investments

Despite the availability of a series of support measures, entrepreneurs in Croatia and abroad are not sufficiently familiar with them. The Investment Promotion Act⁴ is very extensive and is not easy to comprehend.

It is necessary to allocate funds for promotional activities for existing measures and to work on their promotion through targeted and specialized campaigns.

Different state instances that come into contact with potential investors are also not familiar enough with the existing measures. When using incentives, the Tax Administration and the Ministry of the Economy are not always aligned with their investors' requests, for example, one body seeks information that the investor has not yet received from another body, thus increasing the administrative burden on investors when using incentives. State and public institutions should be better informed and have a consistent approach in accordance with relevant legislation.

⁴ Official Gazette No. 102/15

Digitalized and optimized public service system

AmCham sees public administration digitalization as a program for optimizing processes supported by technology to provide fast and transparent public services to citizens and the economy. Complex public services of uncertain outcome are one of the main obstacles for doing business in Croatia. The digitalization process would provide the required clarity, predictability of outcome, timeliness, speed and transparency of the work of public institutions.

Digitalization of public service system

Long and complex administrative procedures are the main limiting factors to doing business in 2017, according to AmCham's members. Most of our members operate in other CEE countries, and 44% of them deem that business conditions in Croatia are worse than in other countries.

The digitalization trend has shown that it changes the structure of jobs. Some jobs are disappearing, but new jobs are also opening. The requirements of citizens and the economy are clearly focused on higher speed and quality of public services, and the reform of public administration and greater availability of e-services should be started immediately.

Although there are good practices where Croatia is recognized as one of the digital leaders, such as e-prescription (*e-recept*), a comprehensive digitalization project by the state authorities is required, with implementation involving the private sector. Increasing the number of digitalized public services would unburden public administration, simplify business operations and improve citizen interaction with public administration. At the end of 2016, AmCham issued the position paper "Introducing Card Payment Operations into Public Administration" and it deems that the ease of payment of state fees and obligations is an important prerequisite for the expansion of e-services. The Ministry of Public Administration has readily accepted the proposal and is preparing an e-fees project for citizens, which should later be made available to business entities as well.

In 2015, AmCham issued the position paper "Recommendations for positioning of IT industry as a strategic industry in Croatia", proposing the positioning and promoting exports in the IT industry in order for the ICT sector to become the leading Croatian export sector, introducing measures that will enable increased competitiveness and accelerated development of the Croatian IT industry, investing in the education system with the aim of increasing the interest in natural sciences

and developing the necessary technical skills and knowledge and ultimately adapting the legislative framework and introducing programs for opening data available to the state for the development of innovative ICT solutions and services.

Positioning the IT industry as a strategic sector should be supported by a national digital development strategy that must be linked to the mission and vision of the Croatian Government and its sub-strategies, such as e-health, e-education, e-administration, national broadband access development strategy, etc. Due to its national importance, this strategy should include all stakeholders: the government, industry, academic and professional community, and it must form the basis for efficient use of EU funds.

Ensuring sustainability and cost effectiveness of the healthcare system

The goal of each healthcare system is to ensure availability of quality healthcare services to users with the efficient use of available resources. Looking at the general parameters of healthcare outcomes, such as the life expectancy of the population or the infant mortality rate, Croatia lags behind the EU average to a certain extent (77.5 compared to 80.6 and 5.0 versus 3.7/1000 live births⁵). Structural shortcomings of the system become apparent when the comparison is based on spending on healthcare services as a percentage of GDP (7.4% of GDP compared to the EU average of 9.9%), and especially when looking at the financial indicators within the system itself. It is therefore necessary to undertake system reforms to improve these and other relevant parameters.

The European Commission, in its 2017⁶ report, concluded that there was a high risk to fiscal sustainability in Croatia in the medium term. The ever-increasing amount of overdue outstanding liabilities that make the debts of hospitals, as well as the Croatian Health Insurance Fund, indicate significant shortcomings of the existing financing system. The Croatian healthcare system implies wide coverage of citizens with basic health insurance (with a broad spectrum of services) funded primarily from salary contributions. In the context of the fact that only one third of the

⁵ OECD/European Observatory on Health Systems and Policies (2017), Croatia: overview of Health and Healthcare 2017, State of Health in the EU, OECD Publishing, Paris/European Observatory on Health Systems and Policies, Brussels. <http://dx.doi.org/10.1787/9789264285088-hr>

⁶ European Commission (2017), Country Report Croatia 2017 Including an In-Depth Review on the prevention and correction of macroeconomic imbalances, accompanying the Communication from the Commission to the European Parliament, the Council, the European Central Bank and the Eurogroup, 2017 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No. 1176/2011, SWD(2017) 76 final

population is subject to the payment of contributions in full and the trend of aging population, the European Commission's conclusion seems justified.

The healthcare contribution heavily burdens salaries and it is necessary to reform the system to achieve greater efficiency and better cost control.

By promoting responsible fiscal management, it is possible to contribute to the financial efficiency and sustainability of the system and to provide citizens with access to better quality healthcare services in the long run.

One of the prerequisites for better system efficiency is the establishment of registry systems (patient, diseases and technologies) and their use in decision making in healthcare system management.

It is also necessary to equalize the rate of VAT on medicines and medical products. The current 25% VAT on non-prescription medicines purchased by citizens for less serious illnesses penalizes rational behavior and leads to frequent and often unnecessary visits to a doctor who will prescribe the same medicine that will then be taxed at a lower rate of 5%. The tax on the same medicine should not depend on the cost bearer, or whether the cost is covered by compulsory insurance or the patients themselves.

Ensuring consistent implementation of the Most Economically Advantageous Tender Criteria in public procurement procedures

Much of the public investments in the European economy is related to public procurement expenditure, which represents 14% of EU GDP⁷. Public procurement is often considered one of the most effective market instruments for achieving smart, sustainable and inclusive growth in Europe. The share of the total value of public procurement in Croatia's GDP in 2016 was 13.06%, or approximately HRK 45 billion⁸.

The new Public Procurement Act entered into force on January 1, 2017. Three key features of the new act include: the most economically advantageous tender as the only criterion for selection in public procurement processes (July 1, 2017), efforts to achieve greater efficiency through automatization and system integration to simplify the process for both the contracting authority and the bidder, and finally

⁷ European Commission (2017), *Communication from the Commission to the European parliament, the Council, the European economic and social committee and the committee of the regions, Making Public Procurement work in and for Europe*, COM/2017/0572 final

⁸ Ministry of Economy, Labour and Entrepreneurship (2017), *Public Procurement Statistics Report in the Republic of Croatia for 2016*

prior consultation for the purpose of the bidder preparing the documentation more efficiently. In addition to the new act, four ordinances have been adopted, which further define the terms of the public procurement procedure.

By introducing the most economically advantageous tender as the only criterion, the expectations of the experts and the general public are formally met, but it is necessary to actively work on applying the mentioned criterion in practice. For this purpose, it is necessary to provide adequate guidance for those implementing public procurement (contracting authorities), as well as for bidders and to ensure that procurement procedures are monitored by the State Commission for Supervision of Public Procurement Procedures as the relevant body.

It is important to monitor the functioning and, if necessary, to exchange and improve novelties such as prior consultation with interested economic operators, electronic public procurement classifieds, the implementation of the standardized European Single Procurement Document Form and the newly introduced e-complaint system introduced by Croatia, among the first in Europe.

In specific areas of public procurement, for example in the case of procurement of medicines and medical products, particular attention should be paid to the proper application of the most economically advantageous tender criterion. Public procurement should play a much more significant role in achieving the goals set out in the Croatian National Health Development Strategy, which include promoting the health of older population, protecting citizens from health risks, supporting a dynamic healthcare system and introducing new technologies. With the broader use of the most economically advantageous tender criterion, it is necessary to take into account the added value that innovative products bring to patients and the Croatian healthcare system, and to encourage public procurement of medicines and medical products from multiple selected bidders and to take into account the quality of the tender documentation.

Stimulating tax system

A good tax system is certain, clear and predictable. The clarity of certain tax provisions and the functioning of the entire tax system are important both for potential investors and for companies already operating in Croatia. Unclear and inconsistent legal provisions contribute to the instability of the tax system and the inadvertent non-compliance of the provisions by companies but also all other taxpayers.

Binding tax rulings

In 2010, AmCham proposed to the Croatian Government the introduction of binding tax rulings in order to achieve legal security and certainty. Although introduced in 2015, binding tax rulings unfortunately do not work in practice. Investors note that this institute basically exists only on paper. To function properly, it should cover all taxes and be available to everyone in the short term. Increased availability of binding tax rulings would increase knowledge of taxes in the country through open technical dialogue at the highest level and it would provide real benefits for taxpayers and the Ministry of Finance, which would ultimately have a positive impact on the budget.

Administrative measures to facilitate business

In 2016, AmCham called for administrative simplification of tax operations in the position paper "Improving competitiveness through the tax system". An example is the Croatian VAT form that is very detailed and contains many fields that are not regularly analyzed by the Tax Administration. These fields are usually used during inspection when the Tax Administration already has a comprehensive overview of the business books. For comparison, the VAT form in Croatia contains more than 20 fields while the UK VAT form has 5-7 fields. Therefore, AmCham considers that a large number of fields does not bring significant benefits, but presents a significant administrative burden for taxpayers.

AmCham also called for eliminating account liquidation, or leaving it up to entrepreneurs to decide how to control and liquidate their own accounts.

Predictability of the tax system

Frequent amendments to tax regulations are one of the key features of the Croatian tax system. Frequent, unpredictable and non-standardized amendments, regardless of content, are not good for the economy. The announcement of the

Ministry of Finance that there will be no tax changes in the current year if they have not been agreed upon in the previous year, as well as the practice of planning tax regulations in the past year, AmCham sees as a positive step forward, but it is essential that this principle be maintained in the future.

Shifting the tax burden away from labor

Tax reform in 2017 included amendments to 15 acts, and some of the provisions have begun to apply since January 1, 2018. Some of the measures have favored the improvement of the business environment. The threshold for entering the VAT system has increased from HRK 230,000 to HRK 300,000. In the case of income tax, the lowest rate of 12% has been abolished and a reduction of the tax rate of 25% and 40% to 24% and 36% has been introduced. Reducing income tax has positively impacted the reduction of tax burden on labor. Personal deduction increased from HRK 2,600 to HRK 3,800 and a unique tax bracket of HRK 0 - 17,500 was introduced at a rate of 24%. Income tax is not paid for the costs of accommodation and food for workers with fixed-term contracts for seasonal jobs. The 20% profit tax rate was reduced to 18%, and for crafts and small businesses, with annual revenue of less than HRK 3 million, it was reduced to 12%.

Despite the changes in the taxation of labor from 2017 and 2018, income tax still represents a relatively high tax burden, especially comparing Croatia to other countries. AmCham's business environment survey also shows this; the labor tax burden is one of the biggest disadvantages of doing business in Croatia.

There are several reasons for high burden, and one of them is a 24% lower tax rate that affects a too low income group for such a high tax rate. At the same time, the highest tax rate of 36% is already applied to income above HRK 17,500 per month.

Further unburdening of salaries is necessary to stimulate investment and employment. The increase of the tax threshold below which income is taxed at a rate of 24% would positively affect the attractiveness of investors and increase investment inflow from a labor cost perspective in Croatia. Based on the State Budget analysis, it is estimated that the annual revenue of the state budget from income tax (intended for local government units) amounts to approximately HRK 2 billion, while, in comparison, 1 percentage point of value added tax contributes about HRK 2.4 billion to the budget. Potential benefits from further burden reduction would be significantly higher than the consequent loss in revenue from income tax. At the same time, a possible VAT reduction by one or two percentage points does not mean much to consumers and would create a substantial budget deficit.

Rewarding employees by awarding shares

One of the further possible and desirable changes to the tax system, which could have a significant effect on Croatia's attractiveness as a foreign direct investment location, is certainly a reduction of tax rates for Employee Share Plans. In recent years, Employee Share Plans have been introduced in many international companies and have become "best practice" for rewarding and retaining employees worldwide. The purpose of such plans is to promote productivity of employees, retain key employees of the company, and link the interest of employees with the interest of the company to increase growth by involving employees in the success of the company.

The advantage of such plans is that the tax treatment of such income in most tax jurisdictions is usually more beneficial than the tax treatment of employment income. Croatia is an exception as currently there is no possibility of a more favorable tax treatment for local employees who are participants of such a plan. The effective income tax rate and contributions for compulsory insurance on receipts achieved by participation in share plans in Croatia is currently significantly higher than in comparable countries in the region.

Effective income tax rate and contributions for compulsory insurance ⁹	
Croatia	93.17%
Slovakia	35.05%
Hungary	30.34%
Slovenia	25.00%
Czech Republic	22.00%
Romania	16.00%
Poland	14.37%

In order to follow European trends, it is necessary to amend the Croatian personal income tax regulations in such a way to allow that the income received based on an employee's participation in an Employees Share Plan, is treated in the same way as the employee's private investment income that the employee would realize on the open public market (e.g. dividend income and capital gain taxation).

⁹ American Chamber of Commerce in Croatia (2017), Employee Participation in Equity Plans – Taxation in the Republic of Croatia, data taken from the study conducted by KPMG Hrvatska for the purpose of the document

In conclusion, it can be said that tax changes have partly unburdened the economy, but it is important to continue with further unburdening so that the Croatian economy is competitive in comparison with comparable countries and the surrounding countries and is attractive for the inflow of new investments.

Effective legislative and judicial system

Legal security and trust in the justice system serve an important segment that investors consider when making a decision on an investment. It is therefore necessary to ensure a quality and efficient judicial system and a consistent legislative framework as prerequisites for strengthening Croatia's competitiveness. In the business environment survey, AmCham's members link the biggest deterioration of business conditions over the past five years with the implementation of laws and regulations, justice and quality of legislation.

Strengthening principles of better regulation in law and policy adoption

The unpredictability of the legal system in Croatia mostly stems from frequently modified laws that are often made without widespread consideration of the consequences they may have on the economy, which consequently has a negative impact on Croatia's perception as a preferred investment destination.

Some progress has been made in the previous period regarding the implementation of Better Regulation practice through public consultation (*e-savjetovanje*), the prior assessment of the impact of the proposed legislative solutions and the ever lowering frequency of adopting legislation through urgent procedures. Despite the progress made, it is necessary to further improve the system of adopting laws and bylaws.

Croatia, as a relatively young EU member state, does not fully exploit the possibilities of more active inclusion in law-making and policy-making at EU level. This was the topic of AmCham's position paper "Recommendations for Better Inclusion of Croatian Stakeholders in European Decision-Making Processes". For the purpose of changing this practice, it is necessary to introduce a single standardized process for forming Croatian national positions in the context of the work of the Council of the European Union for all competent bodies which would include mandatory public consultation with the representatives of the interested public. Creating a single process for forming positions would enable more effective and transparent administration of that process, which would ensure adopting comprehensive, inclusive and better-quality positions for Croatia, as well as for all other stakeholders. This implies the inclusion of these parties in the phase preceding the referral of a certain act to the formal European legislative procedure, that is, in the processes of forming positions to be discussed at the level of the working parties of the Council of the European Union.

Increasing the efficiency of the judiciary

Judiciary as a system that significantly influences the economy by its actions is recognized as one of the most important factors, but also as an obstacle to business operations in Croatia. The Croatian judiciary is faced with a series of shortcomings, which should be tackled systematically and actively. Namely, the imprecise and unclear provisions of laws and the slow operation of the courts create an atmosphere of distrust of the investors in effective legal protection. Legal uncertainty is one of the most frequent comments of investors, as confirmed in AmCham's survey of the business environment in Croatia, which is part of these recommendations.

The introduction of the obligation to settle small claims disputes at specialized court departments with the participation of Court Advisors would significantly contribute to the unburdening of the legal system. Further unburdening of the judiciary, especially in commercial disputes, could be achieved through the more intensive use of mediation and the specialization and training of participants in the judicial system on specific economic topics and new business models based on innovative technologies.

A separate issue within the question of the effectiveness of the judiciary, is the issue of intellectual property rights protection. After Croatia's accession to the European Union, smaller political and social interest in the area that investors find extremely important has been noted, especially in the field of innovative industries that Croatia wishes to attract. This is manifested in a lower number of criminal proceedings, although the right holders do not notice a smaller number of infringements¹⁰. The biggest challenge for intellectual property rights holders in Croatia is to strengthen the implementation of legislation that defines intellectual property rights and the lack of specialization of judges and the concentration of courts to deal with the above mentioned procedures.

Countries with effective intellectual property protection attract industries that generate high-value jobs, attract foreign direct investments that provide access to advanced technologies, and invest significant resources in research and development. Moreover, the strong implementation of the intellectual property rights in a country is a positive indicator for foreign investors and it attracts greenfield investments, regardless of size, degree of economic development and geographic location. It is therefore important to further work on improving the protection of intellectual property rights.

¹⁰State Intellectual Property Office (2017), Statistics of the Infringement of Intellectual Property Rights in the Republic of Croatia: Annual report for 2016

Strategic management of human potentials

The labor market is becoming more mobile and less bounded by state borders, partly as a result of Croatia's accession to the European Union. Lifelong learning becomes imperative as job profiles are rapidly changing as a result of fast technological development and as the need for many jobs decreases while at the same time new jobs are opening that have not existed until recently and this trend will continue in the future. The task of the state is to timely respond to these changes and enable citizens to develop the skills needed for the labor market through the education system and the availability of lifelong learning programs. For example, the European Commission's data indicate that 90% of all jobs require digital skills, and according to estimates, as many as 44% of Europeans do not have such skills¹¹. At the same time, the workforce possessing skills and qualifications that meet the needs of investors is a basic prerequisite for attracting investments and creating new jobs.

According to the data of the Croatian Bureau of Statistics, the unemployment rate in Croatia in November 2017 was 12.1%, which is still extremely high compared to the European average of 7.3%¹². In the period from 2013 to today, the unemployment rate has been steadily declining, which is only partially a consequence of economic recovery. More than half of this decline is the result of a reduction of workforce¹³.

Short-term predictions that the Croatian economy will continue to grow in the upcoming period also imply opening of new jobs. The state must therefore make additional efforts to actively encourage alignment of the required and available skills on the labor market, and define a clear human resource development strategy.

¹¹ Europe Commission (2017), Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank, Annual Growth Review for 2018, COM/2017/0690 final

¹² Eurostat, http://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment_statistics

¹³ Europe Commission (2017), Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank, Annual Growth Review for 2018, COM/2017/0690 final

Matching skills supply and demand on the labor market

According to the Croatian Employment Service data, in January 2018, there were 189,909 unemployed persons. At the same time, there were 12,000 vacancies registered at the Service¹⁴. In order for the unemployment rate to continue to decline, it is necessary to align supply and demand on the labor market. Acquiring the skills required on the labor market is an important prerequisite for employability. Therefore, it is necessary to:

- Continue with the implementation of curricular reform so that young people entering the labor market will be able to acquire the necessary knowledge and skills;
- Encourage participation in adult education programs and increase awareness of the importance of lifelong learning;
- Continue to implement active employment policy measures, with particular emphasis on groups that find it very hard to find a job (e.g. older, low-skilled, long-term unemployed, women).

Croatia currently does not have comprehensive and structured data on profiles, knowledge and skills of the population and potential employees. It is therefore necessary to build a "human capital map" as a database that would contain all relevant information on the profiles of candidates available for employment. Certain national databases already exist but do not offer detailed and specific information on which investors could make a decision to invest in a particular region or city.

Suggested data which the database should contain:

- Fluency in foreign languages;
- Number of potential employees per wanted profession;
- Number and structure of employed and unemployed persons;
- Salary and labor cost levels;
- Available incentives for employment and education;
- Number and structure of educational institutions and persons receiving education.

Modernizing the labor market

With its accession to the EU, Croatia has become part of the Single Market, which also includes the freedom of movement of the workforce. In order to successfully deal with market pressures, further modernization of the Croatian labor market is inevitable and in line with practices of comparable member states. This implies further labor market flexibility through changes in labor and tax legislation.

¹⁴ Job market, Croatian Employment Service, https://burzarada.hzz.hr/Posloprimac_RadnaMjesta.aspx (5 January 2018)

Within the scope of the aforementioned, it is also necessary to provide for measures to actively attract specific workforce profiles in particular sectors where there is a shortage of domestic staff (for example, the tourism sector) and consider ways of attracting and retaining talents.

It is also important to carry out targeted measures to combat the gray economy in order to prevent a reduction in labor costs and to ensure the effective implementation of the “equal pay for equal work” principle.

One should not ignore the fact that new technologies that change job profiles do not only bring new needs for qualifications, but also new workers’ expectations in terms of flexibility in the workplace, such as the ability to work from home.

Therefore, the requirements the living space must meet should be adapted to serve as a space for performing work tasks, in a manner that is administratively easy and allows for a realistic use of these capabilities.

For the employer, space management and space related costs are important, and this is particularly emphasized in the times of the economic crisis. One of the elements of a flexible approach to resource management is the organization of work at a separate site or at home. As this form of work is happily accepted by employers and employees, AmCham stands for the following:

- Simplify regulations on working hours records for work from home so that employers are allowed to determine by internal rules how to record working hours (work performance versus formal attendance)
- Provide minimum conditions that a living space must meet to be able to serve as a space for performing work tasks and enable authorized labor protection agencies to certify that they meet the minimum of such conditions before commencing work at home.

Energy efficient and “green” economy

Green economy is characterized by a sustainable use of renewable resources, as well as wise use of non-renewable resources. Through energy and resource efficiency, the replacement of fossil fuels with “clean” energy with low greenhouse gas emissions is encouraged as it reduces and slows down climate change, stimulating the development of green jobs and reducing energy dependence.

Fostering e-mobility

The European Commission is undertaking a series of measures to modernize mobility and traffic in Europe, which are intended to lay the foundations for standardized digital traffic solutions. Measures to modernize mobility and traffic will further stimulate innovation, increase competitiveness, reduce CO₂ emissions, and improve overall environmental quality as well as human health.

Traffic has a share of CO₂ emissions that emanate from human activity of about 30% and it is necessary to take measures to reduce CO₂ emissions in this segment. Encouraging e-mobility would significantly affect the achievement of targets for reducing harmful gas emissions on the level of the European Union, since internal combustion vehicles contribute significantly to overall emissions of harmful gases. Setting up infrastructure for electric vehicles, also contributes to building infrastructure for smart cities. E-mobility is an important segment of smart cities, but also wider smart systems that aim to develop areas that are enjoyable to live in, digitally integrate all public service functions such as lighting, energy production, and smart traffic solutions.

Data from the European Commission clearly demonstrate the development and trend of e-mobility in Europe. The number of newly-registered passenger plug-in vehicles in 2011 was 9,426 compared to 157,564 newly-registered passenger plug-in vehicles in 2016. Also, with regards to the number of publicly available electric charging stations in Europe, there were 3,895 in 2011 compared to 91,519 electric charging stations in 2016.

In addition to the obligation to reduce emissions according to EU regulations, which is directly affected by the road traffic, taking into account the growth trend of the number of charging stations and plug-in vehicles on European roads, it is undoubtedly in the interest of Croatia to follow such trends. For Croatia as a tourist destination that largely depends on tourists from Western Europe predominantly coming by road traffic, a developed e-mobility system is of paramount importance for the future of tourism.

Using electric vehicles in traffic and developing a network of charging stations creates the possibility of forming “smart energy grid”, characterized by an intelligent interaction between vehicle and electrical energy grid. Since modern electric vehicles have relatively large capacity battery systems, the user could give the electricity distributor a certain share in the battery's capacity of his vehicle, depending on his daily needs, and the distributor would withdraw energy from the vehicle during a “power shortage” and return it during “excess”. This could be used to compensate for the lack of electricity generation from wind and solar power. Therefore, we can conclude that electric vehicles offer great potential for developing an efficient energy storage system, which is set as the ultimate goal of e-mobility.

For the development of e-mobility in Croatia, it is essential to have a good legal framework which would, on the one hand, enable strategic planning of the development of necessary infrastructure, and on the other further encourage citizens and businesses to use electric-powered vehicles. Although parts of Croatia are well covered by electric charging stations (north of Croatia), at the state level, it is necessary to continue the planning and building process of the charging stations, including the installation of highway charging stations. It is also necessary to offer incentives that will motivate and enable financial viability of purchasing environmentally friendly vehicles.

Conclusion

For 20 years, AmCham Croatia has acted as a wide business platform for American, international and Croatian companies. During this time, it has established a strong cooperation with government institutions and bodies responsible for creating and implementing public policies that influence the development of the economy. Our recommendations draw on experiences of our members when facing difficulties in conducting business. The recommendations are aimed at implementing specific and quality solutions that facilitate business and improve the competitiveness of Croatian economy.

AmCham's detailed position papers on individual topics are available at www.amcham.hr and discuss individual topics at a detailed and specific level, taking into account the best global practices, but also including our members' expertise on Croatian specificities. These recommendations are put forward as a framework for measures that could greatly improve conditions for doing business and make Croatia an attractive location for investments, leading to a higher rate of economic growth and employment.