

## Conference Paper

# Awareness of SMEs on the EU Funds Financing Possibilities: The Case of Split-Dalmatia County

Josip Visković and Martina Udovičić

Faculty of Economics, University of Split, Cvite Fiskovića 5, 21000 Split, Croatia

## Abstract

Micro, small and medium-sized enterprises (SMEs) are considered to be the engine of the European economy. In EU SMEs make up more than 99% of all companies and provide around 75 million jobs. They are a key source of job creation and stimulation of entrepreneurial spirit and innovation and are therefore essential for fostering competitiveness and maintaining employment in the EU. Yet SMEs often have problems in raising funds to finance fixed investments and inventory and working capital. SMEs mostly use internal sources while the most important external sources of SMEs are bank loans, which are not easily accessible. Hence, one of the priorities of the European Commission is stimulating SMEs through EU funds and programs in order to enable SMEs development and finally to contribute to economic growth. SMEs sector also dominates the economic structure of Croatian economy and they have similar financing problems. However, Croatia in period 2014 – 2020 have at disposal a total amount of 10.676 billion of euros from European structural and investment funds, of which 8.397 billion are aimed for cohesion policy objectives and 470 million euros are aimed for the development and competitiveness of SMEs. Besides, EU programs COSME and HORIZON 2020 are intended to provide direct support to SMEs and to create a favorable environment for their development. However, even though the number of successful project applications for small and medium-sized enterprises in the total share of Croatian project applications is relatively high, fund absorption has not reached satisfactory levels. Using the sample of Split-Dalmatia County's SMEs, this study finds out reasons for low absorption capacity from SMEs point of view: SMEs are interested in funds from European Union, but are not sufficiently familiar with their availability i.e. funds at their disposal, especially programs COSME and HORIZON 2020; SMEs state that they know how to apply for EU funds but considered the procedure as complicated and demanding regarding documentation, and that the needed knowledge and know-how for proposal is beyond their scope; SMEs are not satisfied with the cooperation with state institutions, especially Ministry of Regional Development and EU funds and Croatian Chamber of Economy. We point out four main conclusions: (1) SMEs are not enough aware of EU financing possibilities; (2) additional promotion of EU programs directly to SMEs is required; (3) additional education of SMEs regarding project proposal and documentation is needed and (4) more proactive policy of state institutions and cooperation with local authorities is expected. Finally, greater awareness and professional help might be a key in strengthening the SMEs, whose entrepreneurial spirit and innovation process is a prerequisite for economic growth and development.

Corresponding Author: Josip Visković; email: jviskovi@efst.hr

Received: 19 January 2017

Accepted: 2 February 2017

Published: 19 March 2017

Publishing services provided by Knowledge E

© Josip Visković and Martina Udovičić. This article is distributed under the terms of the [Creative Commons Attribution License](#), which permits unrestricted use and redistribution provided that the original author and source are credited.

Selection and Peer-review under the responsibility of the EBEEC Conference Committee.

 OPEN ACCESS

**Keywords:** SMEs, awareness, EU funds and programs, absorption capacity, Split-Dalmatia County

---

## 1. Introduction

SMEs are considered as the most important companies in EU, because they make up more than 99% of all companies and provide around 75 million jobs. Moreover, SMEs stimulate entrepreneurial spirit and innovation process, foster competitiveness and maintain employment in the EU [6]. However in their activities they are often limited with financing possibilities, especially in their creation. Namely, at the first phase of their business life-cycle SMEs mostly use internal sources, because external sources are difficult to access. According to [18] a major problem in SMEs access to finance is their way of doing business that is often not publicly available and transparent as in large enterprises, which significantly limits their access to traditional capital markets. Therefore, small businesses cannot be funded by issuing securities directly from investors, while medium-sized companies have barely 1% securities financing. Therefore, considering external resources SMEs are highly dependent on bank loans and very sensitive to changes in the credit market. However, research conducted in the UK in 2004, as one of the problems faced by SMEs considers the lack of financial knowledge and entrepreneurs skills needed to produce a business plan that is presented to the bank for loans [15]. Moreover, [16] conducted a survey and concluded that there is a need to improve communication between banks and SMEs, because on the one side problem appears to be the lack of transparency and on the other ease access to finance. Also, owners of small businesses do not want to share control, or ownership of their company, because they are primarily formed due to their desire for independence and self-success, and therefore depend on their own finances and help from family and friends. So, it is evident that there exists a financing gap for SMEs in EU. Hence, one of the European Commission's priorities, in order to bridge abovementioned gap, is stimulation of SMEs through EU funds (structural and investment funds) and programs i.e. grants awarded directly to end users.

SMEs sector also dominates the economic structure of Croatian economy with share of 99.7% of all enterprises. Small enterprises in Croatia are mostly financed from internal resources, followed by bank loans, leasing and supplier loans, while medium-sized enterprises have relatively larger share of external funding. So, similar problems in obtaining funds are evident for Croatian SMEs as well and EU funds are therefore of great importance. Concretely, Cohesion Fund, European Regional Development Fund and EU programs COSME and HORIZON 2020 are intended to provide direct support to SMEs and to create a favorable environment for their development. In period 2014 – 2020 Croatia, from European structural and investment funds, has available a total amount of 10.676 billion of euros, of which 8.397 billion are aimed for cohesion policy objectives. Moreover, grants available directly to SMEs (besides agriculture and fisheries sector) from the structural and investment funds for the same period amounts to around 470 million euros and are aimed for the development and competitiveness of

SMEs [17]. However, albeit the number of successful project applications for SMEs in the total share of Croatian project applications is relatively high, fund absorption has not still reached acceptable levels. Therefore, the point of this paper is to, by using a sample of Split-Dalmatia County SMEs, analyze how well are SMEs informed about EU funds at their disposal (how well entrepreneurs are acquainted with EU funds, what funds are entitled to which sectors, where and how they can obtain the necessary information), whether entrepreneurs know the requirements for EU funds and on what problems do SMEs encounter in process of application (procedure, documentation, bureaucracy, disbursement) and finally are they interested in EU funds i.e. do they even consider EU fund application. Thus the aim of the paper is to, from perception of SMEs, identify key problems in absorption capacity and to recommend adequate solutions in order to enhance funds absorption. Besides, we will also try to define EU funds and programs that are aimed directly for SMEs in Croatia.

The contribution of this paper is to provide insight in possible reasons for relatively poor absorption capacity of EU funds and to comprehend the most important obstacles that stand on the EU funds way for SMEs in the Split-Dalmatia County. Namely, EU funds can be a powerful driver of the SMEs development which can result in economic growth. Therefore it is vital to eliminate identified problems and to make EU funds more accessible. The research results can be of great use to decision makers of all countries whose SMEs have access to EU funds and whose capacities are not satisfactory.

## 2. Literature Review

The SME sector is of great importance not just for the EU economy, but for Croatian economy as well, covering 99.8% and 99.7% of all companies respectively. The percentage of micro enterprises prevails in Croatia and the EU - 92.2%, while small enterprises comprehend 6.5% of all enterprises in the EU and 6.3% of all companies in Croatia. Medium enterprises cover just over 1% of all business [21]. They also provide the majority of jobs i.e. two thirds of employment in the private sector. Furthermore 85% of net new jobs in the EU are created and 58% of gross value added by business sector is produced by SMEs [9]. They dominate also the economy structure of Split-Dalmatia County (99.7%), and they are also important as a generator of employment (72% of total employment in the County) and revenue (63% of total revenue).

Yet, despite their importance, they face daily issues regarding their business and one of the most prominent are sources of financing their projects. [13] also states that access to finance is a key to business development and that investment and innovation are not possible without adequate financing, particularly for small and medium sized enterprises [25]. Moreover, access to finance is still perceived as an important problem faced by SMEs, especially micro-enterprises (ECB, 2014). Namely, according to [1] SMEs are constrained by lack of access to financial sources due to financial sector policy distortions, lack of know-how on the part of banks, information asymmetries and high risks inherent in lending to SMEs. Financial reason are therefore one of the key constraints to SMEs growth and investment i.e. financial constraints are affecting the

smallest firms most adversely. Considering internal and external funds, according to [20] internal funds includes private equity that is used in the growth phase of the company and venture capital that is used in the initial phase of start-up. The author also states that external funds include bank loans, suppliers' credits and bonded loans. According to [28] beside long term and short term financing, there is a new form of financing for SMEs, which includes a hybrid form of financing or funding i.e. mezzanine financing.

As indicated by 25% of SMEs internal funds play an important role in their financing (ECB, 2015), but doing business without external sources is not possible. The most important external source for SMEs are bank loans, particularly in south east EU member states i.e. states with less developed financial markets [6]. Namely, bank products are the most important sources of finance for euro area SMEs i.e. 54% considered bank loans to be relevant, while 55% includes bank overdrafts. Besides, grants and subsidized loans from public sources are also perceived as relevant for 37% SMEs. Leasing (44%), trade credit (34%) and family, friends or related companies sources (23%) are considered important as well (ECB, 2015). Furthermore, micro and small firms mostly use short-term bank finance (credit line/bank overdraft/credit card) and long-term bank loans, trade credit and leasing. These external, besides internal, sources are important in order to be able to finance fixed investment and inventory and working capital. On the other hand debt securities play a relatively minor role in the funding of corporations in EU.

Similar situation is also evident in Croatia. [2] confirm that as for funding, in Croatia and in other EU countries, the typical source is lending of mainly short-term loans. According to [4, 27] SMEs mostly use internal funds, because internal sources are most easily available to SMEs. Moreover, the traditional sources of financing or bank loans, according to CEPOR (2013), are the main sources of financing. Vidučić (2012) confirms the importance of internal funds and loans i.e. the percentage of internal funding is 37%, the share of short-term loans 28%, commercial loans 26%, and the funds from friends and family amounted to 9%. Additionally considering external sources financial institutions provide 73% of funds, investment funds 7.9%, while leasing companies provide 7% [27]. Besides abovementioned sources, government incentive programs and subsidized credit lines are also important fund source for SMEs. On the other hand non-traditional sources of financing, such as venture capital and business angels are still insignificant and poorly used source of financing for development and growth of SMEs in Croatia (CEPOR, 2013). Due to undeveloped capital market, considering issuing securities, SMEs in Croatia do not use this possibility of funding. Although banks in Croatia recognize the importance of SMEs, SMEs nevertheless, due to agency costs, information asymmetry and collateral requirements such as type of collateral, collateral-to-loan ratio, insufficient collateral or guarantees, and similar, still face with many problems and obstacles to obtain a loan. However, owners are also unwilling and averse to external sources, because of unwillingness of giving up the part of ownership.

Furthermore, SMEs in Split-Dalmatia County have similar problems as other SMEs in Croatia and across EU. Research on the attitudes of SMEs in Split-Dalmatia County confirmed their dissatisfaction with the conditions considering obtaining a loan (interest rates, administrative costs, costs of processing loan applications, collateral requirements, procedures and requested documentation), and 1/5 of managers identified insufficient information about loans as a problem. Also, they pointed out the problems of financing their projects and low state and local grants and incentives to small and medium businesses i.e. just 0.05% of total budget expenditures [26].

[13], due to all the financing problems, pointed out the importance of SMEs and confirmed that European Union supports entrepreneurship through a wide range of programs. [8] in their memo stated that improving access to finance for SMEs is the key to economic recovery boosting competitiveness and innovation. Besides EU Funds and Programs, EU is taking additional steps to develop innovative financing instruments, such as risk-sharing schemes and guarantees, in order to mobilize venture and equity investors. Regarding the financial assistance SMEs can apply for EU funds via several sources. Grants from the European Structural and Investment Funds, that include co-financing of projects, can be accessed through calls for application published by national and regional authorities who manage the funds. Moreover, European Investment Bank and European Investment Fund provide various financial instruments that are available through local financial intermediaries (banks, credit institutions, private equity and venture capital funds), that finally provide loans to SMEs on preferential terms; aiming to stimulate the supply of credit that is available for SMEs and to increase the lending capacities of financial intermediaries. Finally, SMEs can apply directly for funding by programs, such as Horizon 2020 and COSME, managed by the European Commission and, in some cases, the Executive Agency for Small and Medium-sized Enterprises [6]. All of these funds and programs include grants, loans, microcredits, guarantees, venture capital and equity, and should enable access to finance for SMEs and resolve the market imperfections that limit SMEs development and growth. Financial assistance is also in line with EU's growth strategy called Europe 2020 that is based on smart, sustainable and inclusive growth, that complementary should provide high levels of employment, productivity and social cohesion. Concretely the main goals are to increase employment (75% of the 20-64 year-olds should be employed), innovation (3% of EU GDP should be invested in research and development), to reach climate and energy objectives (energy goals "20/20/20", including a greenhouse gas emissions 20% lower than 1990, 20% of energy from renewables, 20% increase in energy efficiency), to improve the education level (the percentage of early school leaving should be under 10% and at least 40% of 30-34-year-olds should complete third level education) and finally to reduce the risk of poverty (20 million fewer people should be at risk of poverty and socially excluded), whereas each Member State adopted its own national targets [7]. In order to achieve these objectives European Union has defined guidelines that among others are: 80 billion euros will be invested in the area of science and innovation, 88 billion in employment, 386 billion euros in agriculture and rural development as well as 376 billion euros for economic, social and territorial cohesion; the administrative barriers EU funds will be reduced and finally most of the

funds will be directed to countries whose GDP is lower than 75% of the European average.

Cohesion policy is one of the main policies for SMEs. Namely, European Structural and Investment Funds are the EU's main sources of investment and financial assistance with a budget of 454 billion € for period 2014-2020. In order to economically develop regions, by job and wealth creation, EU via funds creates a business friendly environment and boost SMEs' competitiveness. Moreover, European Regional Development Fund (ERDF), with 57 billion € earmarked specifically for SMEs is oriented towards SME competitiveness, research and innovation, information and communication technologies (ICT) and a low-carbon economy. European Social Fund (ESF) finances education and training for entrepreneurs and their employees. Specifically, SMEs in rural and maritime regions can also raise funds from the European Agricultural Fund for Rural Development (EARDF) and European Maritime and Fisheries Fund (EMFF).

European Investment Bank Group supports SMEs growth and innovation providing various financial instruments, such as loans and microcredits, developing its products and taking measures that will encourage entrepreneurs to invest, innovate and create new jobs.

The Horizon 2020 Framework Programme for Research and Innovation is the biggest EU Research and Innovation programme with a budget of 78.6 billion € available over 7 years i.e. for 2014-2020 period. Horizon 2010 has several sections where SMEs can directly apply for funding - projects supporting innovation, industrial technologies, environment, and advanced technology.

COSME (Competitiveness of Enterprises and Small and Medium-sized Enterprises) with a budget of 2.3 billion € for period 2014-2020 is primarily oriented to supporting SMEs by facilitating access in all phases of their lifecycle - creation, expansion, or business transfer. Thanks to COSME SMEs have easier access to guarantees, loans and equity capital and financial instruments are channeled through local financial institutions. The main objectives of the program are facilitating access to finance for SMEs, creating a stimulating entrepreneurial environment, promoting an entrepreneurial culture in Europe, increasing the competitiveness of European companies, improving SMEs access to markets, reducing unemployment, and developing entrepreneurship [8].

European structural and investment funds at disposal for Croatia in period 2014-2020 are: European Regional Development Fund, European Social Fund, Cohesion Fund, European Agricultural Fund for Regional Development and the European Maritime and Fisheries Fund. Available programs are COSME, Horizon 2020, Life, Erasmus and Creative Europe. For 2014-2020 period 10.676 billion of euros available from EU funds - 8.397 billion for the objectives of cohesion policy, 2.026 billion euros for agriculture and rural development and 253 million euros for the development of fisheries. Grants available directly to SMEs (besides agriculture and fisheries sector) amount around 470 million € and are aimed for the development and competitiveness of SMEs. Grants for SMEs development are awarded through the Ministries of entrepreneurship, tourism and economy, state agency - HAMAG BICRO, counties, cities and municipalities. However,



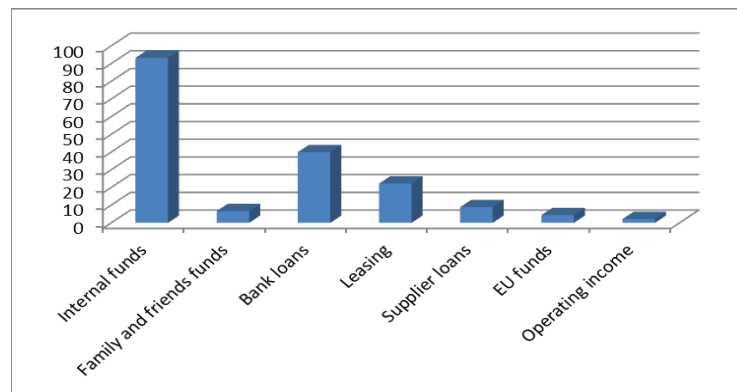
even though the number of successful project applications for small and medium-sized enterprises in the total share of Croatian project applications is relatively high, fund absorption has not reached satisfactory levels.

Similar problem regarding absorption in Croatia is noticeable in Romania as well, where SMEs does not succeed in successfully absorbing EU funds. The reason of low absorption capacities are absence of a public-private partnership. Moreover, bureaucracy and lack of information are considered by SME as main obstacles in the way of accessing grants. Besides, 50% of projects are completed exceeding the budget, 25% fail completely, and only 25% of projects are successfully completed [23]. Also, according to [22], very low level of absorption of EU funds was recorded in Bulgaria (only 37%), Romania (45%) and Slovenia (48%), while Baltic countries, Slovakia, the Czech Republic and Poland were successful. Moreover European Commission data state that Croatia is at bottom regarding the successful absorption of EU funds for budget period 2007-2013 with just 51.08% of IPA funds utilized. However it is important to emphasize that Croatia then was still not EU member. Additionally, another important fact to emphasize is that the absorption capacity differs at the county level i.e. that the number of employees in the preparation and implementation of projects on a county level is crucial in absorbing funds [24].

[12] states that absorption capacity of a country is determined by several elements and these are macro-economic, administrative and financial element of the absorption capacity. The amount of funds that, under the Structural Funds, are available to a country is determined by the extent of the macroeconomic capacity of the country. Administrative capacity can be defined as the ability and skill of central and local authorities to prepare appropriate plans, programs and projects within the stipulated deadlines, decide on programs and projects, organizing coordination between key partners, to cope with the administrative requirements, supervise their implementation, avoiding irregularities as far as possible. The financial factor is evaluated through the co-financing capacity. [19] point out that coordination and cooperation across the relevant ministries, sub-national authorities and agencies are essential for the effective management and implementation of EU structural funds. Which of these elements might be crucial for better absorption of funds in Croatia? Therefore, the point of this paper is to investigate reasons for relatively low absorption capacity from SMEs point of view and results are given in following section.

### 3. Research Design and Results

Empirical research was conducted by online survey that was sent to 1000 SMEs in Split - Dalmatia County via e-mail addresses available at the web site of the Croatian Chamber of Economy. The survey was anonymous and consisted of 24 questions that were divided into three groups. The first set of questions was related to general information about the company (number of employees, annual turnover, the business sector, etc.), second group referred to the current sources of financing and the last



**Figure 1:** Financing sources of SMEs. Source: research results.

group of questions regarded the awareness and use of EU funds. Survey was answered by 45 respondents.

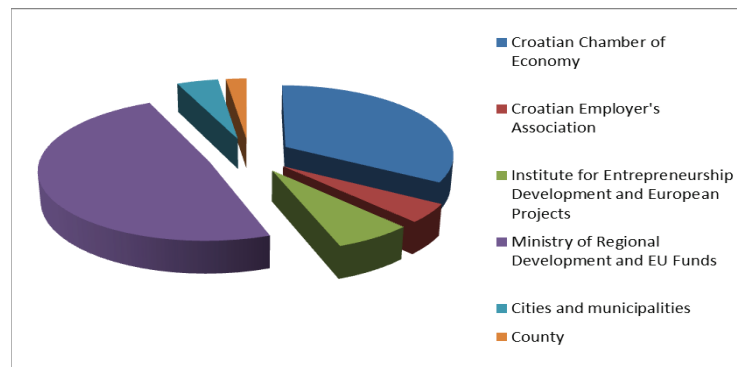
Regarding general information about company most of SMEs have headquarters in Split (62.2%), followed by Kaštela, Solin and Supetar with 6.7%, then Makarska, Omiš and Stari Grad (4.4%) and finally Hvar and Trogir (2.2%). Most respondents are owners of micro enterprises (46.7%), followed by small (40%) and medium enterprises (13.3%). More than a half (51.5%) is engaged in service sector, 26.7% in industry and 11.1% relates to trade.

Considering the financing sources, where respondents had possibility of multi choice answers, almost all respondents (93.3%) defined internal funds as one of the used source of funds (Figure 1.). This response was expected, because there are still many obstacles of getting a loan and non-traditional sources are still not developed. Other sources of funding are: funds of family and friends (6.7%), bank loans (40%), leasing (22.2%), supplier loans (8.9%), resources from European funds (4.4%) and operating income (2.2%), what is in line with research of Vidučić (2012) and European Commission (2015). As a key problems regarding the access to finance entrepreneurs point out complicated administrative procedures (75.6%), lack of financial knowledge and skills (43%), high financing costs (35%), lack of information about the company (30%), the inadequacy of collateral (22%), insufficient supply of funds (17.8%) and non-transparent way of doing business (4.4%), what was generally concluded in research of [1, 15].

Contrary to expectations not all entrepreneurs are interested in financing with the EU funds. However, majority i.e. 88.9% have affirmatively answered the question regarding interest. Furthermore, 66.7% of entrepreneurs know how to apply for EU funds. Most of them are partially familiar with the procedures and requirements (53.3%), 24.4% of them have no idea how to apply and 22.2% are fully aware of the whole procedure.

Regarding the responsibility of informing the entrepreneurs about EU funds and programs they perceive Ministry of Regional Development and EU Funds (48.9%) as a key place to inform themselves about EU funds and the application procedure. Except Ministry, Croatian Chamber of Economy is also expected to be on disposition (33.3%).





**Figure 2:** Responsibility of informing the entrepreneurs about EU funds. Source: research results.

Croatian Employer's Association (4.4%), Institute for Entrepreneurship Development and European Projects (6.7%), cities and municipalities (4.4%) and counties (2.2%) are not perceived as responsible for informing. This result should be taken very seriously, because for SMEs in Split-Dalmatia County municipalities are not considered as important partner for the effective management and implementation of EU structural funds. On the other hand [19] pointed out the need for coordination and cooperation across the relevant ministries, sub-national authorities and agencies is a key for effective implementation of EU funds.

If entrepreneurs would obtain EU funding they would mostly invested it in new products/services (60%) and infrastructure (20%). This confirms ECB (2015) statement that financial sources are important in order to be able to finance fixed investment. Besides new products and infrastructure some of them would invest in marketing (2.2%), system management (4.4%), training/education of employees (8.9%), start a new business (2.2%) and 2.2% of respondents do not even need EU funds. Only 9.9% of respondents have already financed from EU funds and had applied for IPA Regional Development IIIc, Framework Programme 7 (FP7), Framework Programme for Competitiveness and Innovation (CIP). So it is obvious that there is a vast majority of SMEs that should be informed and motivated to apply for funds.

In the next part of the survey entrepreneurs were given claims, and they were able to evaluate them as strongly disagree, disagree, neither disagree nor agree, disagree and strongly agree. Firstly they were evaluating how clear the procedure for obtaining funds is. Respondents consider the project preparation, finding appropriate tender, business plan and project reporting clear, while as the most ambiguous part they consider preparation of documentation in accordance with the requirements of the tender. Uncertain deadlines and funds disbursement, signing a contract and implementation of the project were mostly noted as neither disagree nor agree.

Moreover, considering the accessibility of funds respondents consider that it would increase if the procedure was simplified i.e. the amount of required documentation was reduced (15.6%) and entire procedure of applying for the tender simplified (15.6%). Greater help and cooperation of responsible institutions (4.4%) and the publication of tenders on one unique website (2.2%) would also improve their absorption capacity.

	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
Project preparation for tender	4,40%	4,40%	4,40%	8,90%	0
Finding the appropriate tender	4,40%	4,40%	6,70%	8,90%	0
The business plan/investment study	2,20%	2,20%	11,10%	6,70%	2,20%
Preparation of documentation in accordance with the requirements of the tender	4,40%	4,40%	11,10%	2,20%	2,20%
Loan approval	2,20%	4,40%	11,10%	6,70%	0
Uncertain deadlines and funds disbursement	2,20%	2,20%	15,60%	4,40%	0
Signing a contract with the granting institution	2,20%	0	15,60%	4,40%	0
Implementation of the project in accordance with the contract	2,20%	0	15,60%	6,70%	0
Project reporting	2,20%	2,20%	11,10%	8,90%	0

TABLE 1: Understanding the procedures for obtaining EU funds. Source: research results.

	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
You're familiar with the types of funds that are available	26,70%	8,90%	26,70%	26,70%	4,40%
Information about EU funds are easily accessible and understandable.	24,40%	26,70%	26,70%	13,30%	2,20%
You are aware to which institutions you can turn to for questions and information.	20%	22,20%	22,20%	22,20%	6,70%
The Ministry of entrepreneurship has done enough to inform entrepreneurs about the EU funds.	22,20%	28,90%	28,90%	13,30%	0
Documentation and preparation of projects for funds withdrawal is not complicated.	42,20%	28,90%	20%	2,20%	0
Sufficient funds in EU funding is available.	15,60%	15,60%	33,30%	20%	8,90%

TABLE 2: Opinion of entrepreneurs on the following statements. Source: research results.

Considering the source of information on EU funds, most surveyed entrepreneurs did not even answer the question (66%). However, 33% of them responded that they inform themselves using the websites (22.2%) followed by professional journals (4.4%) and television/radio (4.4%), while the least number of respondents inform from state institutions (2.2%).

In the next part of the survey entrepreneurs were again given claims, and they were able to evaluate them. The statement that *documentation and preparation of the project to attract funds is not complicated* was mostly rated fully disagree (42.2%). On the other hand the most positively denoted statement i.e. fully agrees were EU funds making sufficient funds available (8.9%). They are generally familiar with the types of available funds. Considering information about funds and institutions which they should address themselves to results indicate possible room for improvement.

Likewise, the majority of respondents are unfortunately not familiar with the EU program for the competitiveness of SMEs COSME and HORIZON 2020 (77.8%). Possible explanation is that COSME and HORIZON 2020 are relatively new EU programs whose first tenders have appeared only last year and are significantly less promoted than EU funds. The following results were also disappointing. Namely, contrary to expectations, 24.4% of respondents answered that they will not apply for any mentioned programs, 64.4% still do not know, while only 8.9% reported that they plan to apply. These answers warn authorities that they should implement more aggressive strategy in promotion of the programs.

In the last question respondents had opportunity to indicate any suggestions regarding EU funds. Following suggestions and problems were reported: frequent changes of application instructions, deadline changes and tender delays, detailed explanation when project was rejected in order to improve know-how in applying, corruption, Croatian Chamber of Economy should provide entrepreneurs services that include preparing projects and documentation, too many different sources of information about funds, counselors and people trained in project preparation should be on the field, in direct contact with SMEs.

Based on the research results we can conclude that, from SMEs perception, entrepreneurs are not sufficiently familiar with EU funds and programs at their disposal, that SMEs are not fully familiar with the requirements and how to get EU funds and finally that respondents are not enough interested for EU funds, especially programs. However, they expect that ministries and state institutions to be more proactive and helpful in order to make the project proposal, procedure and documentation more understandable and approachable. Yet, the paper does not consider the responsibility of entrepreneurs themselves and questions how well entrepreneurs themselves motivated and active in informing are.

Finally, we have used binomial test to examine whether there is a larger percentage of one answer that is statistically significant and whether it can be taken as representative of the entire sample and tests proved to be right. Also, we used t - test to assess the difference between samples i.e. to show whether there is a statistically significant difference between the average of those who agree and those who disagree with the statements. All statements were significant with a significance of 0.01 ( $p \approx 0$ ). With respect to paper instruction (6,000 words) they are not presented here, but results are available upon a request.

## 4. Conclusion

European Union considers SMEs as the engine of economic growth and development. However, SMEs have problems in access to financial sources. Namely, SMEs mostly use internal sources, because external sources such as bank loans are not easily accessible. Hence, one of the European Commission priorities is stimulating SMEs through EU funds and programs. Though, in new entrant countries, like Bulgaria, Croatia and Romania, absorption capacity of EU funds is not satisfying. Therefore, the idea of this paper was to find out what seems to be the reason for such a poor absorption capacity.

Research results show that entrepreneurs are partially interested in funding from EU funds and programs and moreover that are not fully familiar with them. Also, SMEs are not satisfied with the quality and quantity of information available to them, and 77.8% have not ever heard for EU programs COSME and HORIZON 2020 that are intended for SMEs. Another obstacle on the way to EU funds is the application process. Namely, most SMEs know how to apply for the funds, but are not familiar with the whole procedure and its requirements, and they find documentation and preparation of the project to attract funds complicated i.e. preparation of documentation in accordance with the requirements of the tender they find as the most ambiguous part. SMEs consider that the entire process should be facilitated and that SMEs should be offered free help, advice and assistance in dealing with documentation and writing project, because many of them cannot afford professional help. SMEs perceive Ministry of Regional Development and EU funds and Croatian Chamber of Economy as the place to get informed and consider that abovementioned institutions are not doing enough to help in informing and simplifying the entire process. Regarding the interest in EU funds, almost 90% of respondents claim that they are interested in EU structural and

investment funds and 2/3 know how to apply. However, there is warning small interest and awareness for programs COSME and HORIZON 2020, which are relatively new and insufficiently presented to entrepreneurs and 77.8% of respondents did not even heard about them.

Our paper gives interesting results and insight in possible reasons of relatively low absorption capacity of EU funds. It can be concluded that SMEs are interested in funds from European Union, but are not enough familiar with their availability. Also, SMEs are not satisfied with the proactivity of state institutions. Therefore, we propose additional promotion of EU funds, especially programs and additional education of SMEs regarding project proposal and documentation that might be realized via separate office/agency for EU funds. Namely, greater awareness and professional help might be a key in strengthening the absorption capacity of SMEs, which is prerequisite for economic growth. Similar measures might also be incorporated in other EU member countries whose absorption capacities are poor.

The main limitation of our research is limited database i.e. relatively low feedback and sample of Split-Dalmatia County SMEs, that is primarily characterized by service sector.

## References

- [1] T. Beck, A. Demirgüç-Kunt, and V. Maksimovich, *Financing Patterns Around the World: The Role of Institutions. Policy Research Working Paper 2905*, World Bank, DC, Washington, 2002.
- [2] I. Bujan and M. Vugrinec, Specificnosti financiranja SME sektora u Hrvatskoj u odnosu na zemlje Europske Unije, *Zbornik Veleučilita u Rijeci*, 2, no. 1, 127–138, (2014).
- [3] CEPOR. , Centre for Small and Medium Enterprise and Entrepreneurship, in *CEPOR - Centre for Small and Medium Enterprise and Entrepreneurship*, 1848–3526, Report on small and medium enterprises in, Croatia, 2015.
- [4] M. Curak, D. Mulac, M. Ćurak, and D. Mulač, Odrednice depozitnog potencijala banaka u Republici Hrvatskoj u Viducic.Lj, in *in Viducic Small and Medium Enterprises; Financial Policy and Economic and Financial Framework support*, Faculty of Economics, Lj. Vidučić, Ed., Split, 2012.
- [5] V. Đulabic and V. Đulabić, *Apsorpcijski kapacitet i korištenje sredstava fondova Europske Unije: izazovi i prilike za Hrvatsku. Edited by Musa, M., 2. Forum za javnu upravu, Friedrich Ebert Stiftung, Institut za javnu upravu*, Apsorpcijski kapacitet i korištenje sredstava fondova Europske Unije, izazovi i prilike za Hrvatsku. Edited by Musa, 2012.
- [6] Bank. European Central, (2015)., Survey on the access to finance of enterprises in the euro area. European Central Bank, .
- [7] EUROPE. , *A strategy for smart, sustainable and inclusive growth*, European Union, European Commission, sustainable and inclusive growth, 2010.
- [8] *Improving access to finance for SMEs: key to economic recovery*, European Union, European Commission, 2013.

- [9] J. Le Cacheux and E. Laurent, Report on the state of the European union: Is Europe sustainable? *Report on the State of the European Union: Is Europe Sustainable?* 1–167, (2014).
- [10] European. Commission, Small and medium-sized enterprises' access to finance, European semester thematic fiche, *Small and medium-sized enterprises' access to finance, European semester thematic fiche*, (2015).
- [11] *The new SME definition: User guide and model declaration. Enterprise and industry publications*, European Commission, 2015.
- [12] European. Parliament, REGULATION (EU) No 1287/2013, establishing a Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME, *REGULATION (EU) No 1287/2013, establishing a Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME*, (2013).
- [13] European. Parliament, SME support in EU regions. EPRS|European Parliamentary Research Service, *SME support in EU regions. EPRS|European Parliamentary Research Service*, (2015).
- [14] Europski strukturni i investicijski fondovi, available at: <http://www.strukturnifondovi.hr/eu-fondovi>, [30.03.2016.].
- [15] S. Fraser, *Finance for Small and Medium-Sized Enterprises: A Report on the*, UK Survey of SME Finances. Centre for Small and Medium-Sized Enterprises Warwick Business School, University of Warwick, UK, A Report on the 2004 UK Survey of SME Finances. Centre for Small and Medium-Sized Enterprises Warwick Business School, 2004.
- [16] ICAEW - *Institute of Chartered Accountants in England and Wales*, UK, 2011.
- [17] Kagor d.o.o., 2015. Poticaji, potpore, EU fondovi-vodič za poduzetnike. [Internet], available at: <http://www.kagor.hr/hr/usluge/eu-fondovi-i-bespovratna-sredstva/> [10.4.2016.].
- [18] O. Kaya, *SME financing in the euro area, New Solutions to an old problem*, Germany, Deutch Bank, 2014.
- [19] I. McMaster and J. Bachtler, *Implementing Structural Funds in the New Member States: Ten Policy Challenges*, European Policies Research Centre University of Strathclyde, Ten Policy Challenges. European Policies Research Centre University of Strathclyde, 2005.
- [20] N. Michel, Finanzierungsmöglichkeiten für KMU unter Berücksichtigung steuerlicher Aspekte, Diplomica Verlag GmbH, *Finanzierungsmöglichkeiten für KMU unter Berücksichtigung steuerlicher Aspekte, Diplomica Verlag GmbH*, (2012).
- [21] *Development Strategy of Entrepreneurship in Croatia, 2013., -2020. Ministry of Entrepreneurship*, Ministry of Entrepreneurship, Zagreb, 2013.
- [22] D. Novotny, Koristiti EU fondove samo za infrastrukturne projekte je pogreka, *Croatian Chamber of Economy*, (2013).
- [23] I. Oncioiu, Small and Medium Enterprises Access to Financing A European Concern: Evidence from Romanian SME, *International Business Research*, **5**, 47–58, (2012).
- [24] J. Puljiz, *Analiza kapaciteta za koristenje EU fondova na upanijskoj razini. Institut za medunarodne odnose, IMO*, Institut za medunarodne odnose, 2011.
- [25] M. Schiffer and B. Weder, Firm Size and the Business Environment: Worldwide Survey Results. Discussion Paper 43, International Finance Corporation

- [26] County. Split-Dalmatia, *Razvojna strategija Spltisko-Dalmatinske upanije 2011-2013. Split-Dalmatia County*, Croatia, Split, 2011.
- [27] Lj. Viducic and Lj. Vidučić, Financijska ogranicenja osnivanju i poslovanju malih i srednjih poduzeca, in *in Viducic Small and Medium Enterprises; Financial Policy and Economic and Financial Framework support, Faculty of Economics*, Lj. Vidučić, Ed., Split, 2012.
- [28] B. Wassermann, Neue Finanzierungswege für kleine und mittlere Unternehmen, Akademie Verlag, *Neue Finanzierungswege für kleine und mittlere Unternehmen*, Akademie Verlag, (2010).