

## **Initial Financing of Croatian SMEs – Financial Reports Evidence**

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When starting a business, one of the major decision that needs to be made is how such business will be financed. Although, entrepreneur can consider different possibilities, the most commonly used sources of financing include own resources of entrepreneur(s) and combination of own resource and lending money from financial institutions, mostly banks. Due to legal requirements, in Croatia it is theoretically impossible to start a company without own resources, although it is possible to start a company with symbolical amount of own resources (initial capital). Each alternative has its advantages but also drawback which need to be considered while making the decision how to finance the new business. For a new company it could be hard to lend money from financial institutions due to the lack of business experience and asset which could serve as collateral.

Therefore, in this paper it is argued that entrepreneurs’ own resources are mostly used way of financing their new companies. The main aim of this paper is to analyse if this holds for Croatian companies. Additionally, considering the differences between industry sectors, the analysis of financing sources will be made also at the level of major industry sectors. Some industry sectors may be perceived as less risky, what can lead to easier access to banks (or other financial resources) loans.

For purposes of this research data from companies’ financial reports will be used, more precisely data on structure of companies financing sources. Research sample will include active Croatian SMEs that were established during year 2018.

It is expected that the results will confirm the main argument of this paper, i.e. that entrepreneurs’ own resources are the main source of initial financing of new enterprises. As for the industry sectors, it is expected that this research will provided evidence that differences within industry sectors exist (regarding the initial financing of enterprises). Based on obtained results conclusions about the practices of Croatian enterprises’ financing will be made, as well as recommendation for facilitating the asses to financing for new enterprises.

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