

Special SME Segments Investment under NRRP

Operational Programme for the Implementation of the Financial Instrument of HBOR Direct Loans Exceeding EUR 100,000 to Micro, Small and Medium-Sized Enterprises under the National Recovery and Resilience Plan

From the funds of the National Recovery and Resilience Plan (NRRP)¹, HBOR implements, on its own behalf and for the account of the Republic of Croatia, the Financial Instrument of HBOR Direct Loans Exceeding EUR 100,000 to Micro, Small and Medium-Sized Enterprises (hereinafter: the Financial Instrument) within the framework and in accordance with the terms and conditions of the loan programme Special SME Segments Investment under the National Recovery and Resilience Plan (NRRP).

The financial instrument envisages the approval of HBOR's direct investment loans in the amount of over EUR 100,000 to micro, small and medium-sized enterprises:

- Start-ups
- Young entrepreneurs
- Female entrepreneurs
- Investing in special areas of the Republic of Croatia (hereinafter: the Republic of Croatia)
- Investing in the commercialisation of projects based on research, development and innovation (RDI²).

1. Borrowers

1.1. Eligible borrowers

Micro, Small and Medium-Sized Enterprises

Private sector business entities which employ fewer than 250 employees and which have an annual turnover below EUR 50 million and/or an annual balance sheet total below EUR 43 million according to the latest available annual financial statements, in accordance with the Commission Recommendation 2003/361/EC of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (OJ L 124, 20.5.2003)³, for example companies, crafts businesses, sole traders, family farms in the VAT system, cooperatives, institutions etc., fulfilling at least one of the following conditions:

- **Start-up entrepreneurs**
Entrepreneurs who establish a business entity for the first time or business entities that have been operating for less than 3 (three) years at the time of applying for a loan. Start-up entrepreneurs were not previously nor are they currently owners or co-owners of another business entity with a share of more than 30%.
- **Young entrepreneurs**
Business entities in which at least one or several young persons (in the age group up to 40 years at the time of applying for a loan) together have at least 50% of ownership.

¹ The Recovery and Resilience Facility (RRF) has been introduced under the „Next GenerationEU“ instrument, from which EU member states, through their own national plans, are able to use funds to finance reforms and investments that accelerate recovery and increase resilience of the economy and society. The goals of the 2021-2026 National Recovery and Resilience Plan of the Republic of Croatia (NRRP) are, among others, mitigation of consequences of the crisis, recovery, resilience and competitiveness of the economy, modernisation and accelerated growth of the economy, strengthening Croatia's competitiveness at the European and the global levels.

² RDI – Research, Development and Innovation

³ <https://www.apprrr.hr/wp-content/uploads/2018/02/Vodi%C4%8D-za-korisnike-o-definiciji-malih-i-srednjih-poduze%C4%87a-4.pdf>

- **Female entrepreneurs**
Business entities in which at least one or several women together have more than 50% of ownership and are also managed by a woman. In the case of a medium-sized entity, woman or women together may have less than 50% of ownership, provided that at least one woman is in one of the key management positions related to finance and/or operational business and/or strategy.
- **Investing in Special areas of the Republic of Croatia**
- **Investing in commercialisation of projects based on Research, Development and Innovation (RDI)**

The borrower must be established in the Republic of Croatia no later than before loan disbursement.

1.2. Ineligible borrowers

Entities in difficulties

Borrowers cannot be entities that, at the time of loan approval, belong to the category of companies in difficulties in accordance with the provisions of Article 2, paragraph 18 of the Commission Regulation (EU) No. 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (OJ L 187, 26 June 2014, hereinafter: the Regulation: 651/2014), i.e. with the provisions of the regulation in force at the moment of loan approval.

More details at link: <https://www.hbor.hr/naslovnica/hbor/poduzetnici-u-teskocama/>

2. Area of investment

2.1. Eligible area of investment

Eligible are investments in the territory of the Republic of Croatia.

2.2. Special areas of the Republic of Croatia

Special areas of the Republic of Croatia are economically less developed areas (supported areas), hill or mountain areas and the islands:

Supported areas

Units of local and regional government classified into groups I, II, III or IV in accordance with the Regional Development Act of the Republic of Croatia (Official Gazette of the Republic of Croatia Nos. 147/2014, 123/2017, 118/2018) and the Decision on the Classification of Units of Local and Regional Government According to the Level of Development (Official Gazette of the Republic of Croatia No. 3/2024-60) and all their amendments.

Hill or mountain areas

Areas in accordance with the Act on Hill or Mountain Areas (Official Gazette of the Republic of Croatia No. 118/2018) and the Decision on the Coverage and Classification of Local Government Units Acquiring the Status of Hill or Mountain Area (Official Gazette of the Republic of Croatia No. 24/2019) and all their amendments.

The islands

In accordance with the Islands Act (Official Gazette of the Republic of Croatia Nos. 116/2018, 73/2020, 70/2021) and all its amendments.

3. Type of investments

3.1. Green transition

Projects that, according to the EU taxonomy criteria and accompanying regulations (delegated acts), contribute significantly to the achievement of at least one of the following environmental objectives:

- Climate change mitigation;
- Climate change adaptation;
- Sustainable use and protection of water and marine resources;
- Transition to a circular economy;
- Pollution prevention and control;
- Protection and restoration of biological diversity and ecosystems,

and at the same time satisfy the “do no significant harm” principle.

Green transition projects include, among others, investments such as green technologies, business models based on the circular economy, renewable energy sources, energy efficiency, etc.

3.2. Digital transition

Development and/or introduction of digital technologies (for example, digitalisation of production, procurement and sales) in certain areas of business and their full integration and education of employees and users including the following investments:

- Digital infrastructure;
- Digital transformation of companies, research in the field of digital technologies;
- ICT (investments in information and communication technologies), digital marketing, digitalisation and automation of business processes, digital procurement, digitalisation of sales representatives, changes in all forms of businesses and processes in which employees of the organisation interact with its customers and similar;
- Industry 4.0 - production processes based on the latest technology and covered by devices for mutual autonomous communication; machines controlled by artificial intelligence that can independently exchange information; application of smart factory models in which robotic machines control and monitor physical processes; production system that can independently exchange information during the production process and knows at any time at what stage the output product is.

3.3. Strengthening competitiveness and resilience

Projects that include all other investments in long-term tangible and intangible assets (new technologies, vehicles and equipment; construction and/or extension and/or adaptation/modernisation/renovation of business and/or production and/or service facilities, etc.) and other purposes of significance for expanding business volume, strengthening productivity, employment, internationalisation of business, etc.

3.3.1. Research, Development and Innovation - RDI

Projects based on research, development and innovation or investment in research, development and innovation in the field of products, processes, business organisation and marketing (customer relations) in a company. They include projects based on industrial and experimental research; products/services/processes and methodologies protected by intellectual property regulations but also other projects based on the application of a new or substantially modified product (goods or services), processes, new organisational methods, business practices or new marketing methods and their introduction into practical use, that is, the commercialisation or expansion of existing production/service capacities for RDI-based operations.

3.4. Ineligible activities

Ineligible activities include activities, business activities and purposes that are not eligible for funding and the corresponding exemptions, if any, listed in Schedule 1.

4. Purpose of Loans

4.1. Eligible purposes

Investment in fixed assets – investments in tangible and intangible assets for the purpose of business start-up, business modernisation, introduction of new technologies, increase in capacities (including tourism capacities), development and introduction of new products and services, digitalisation of business, investment in environmentally friendly business processes and resource efficiency, research and development, etc, except for investments in Ineligible activities (Schedule 1).

Investment in working capital – up to 30% of the loan amount (working capital necessary for the implementation of capital investments and business growth).

Refunding of existing loans is not an eligible purpose

VAT is not an eligible cost.

4.2. Do No Significant Harm Principle (DNSH)

All investments under this Financial Instrument must comply with the „**Do No Significant Harm**“ principle.

More details can be found in the document Guidelines on the Application of the DNSH Principle in the Implementation of HBOR's Financial Instruments under the NRRP (Schedule 2).

5. Loan Amount

The loan amount depends on the specific features and creditworthiness of the borrower, the purpose and structure of investment and the rules related to state aid, with the following restrictions:

- Loan amount is higher than EUR 100,000
- Maximum loan amount for start-up entrepreneurs is EUR 500,000
- Maximum loan amount for other borrowers is EUR 1,000,000
- Loan may amount to a maximum of 85% of the estimated value of investment, VAT not included, except for loans in the amount of up to EUR 150,000, where up to 100% of the estimated investment value, VAT not included, can be financed
- Borrower cannot be granted more than one loan from the Financial Instrument for the same investment.

6. Interest Rate

Interest rate depends on the type of investment financed by loan:

Type of investment	Interest rate according to the type of investment
Green transition and/or Digital transition and/or Research, Development and Innovation - RDI (investments based on RDI)	from 0.40% p.a., fixed
Other investments	from 0.80% p.a., fixed

Depending on the aid regulations, interest rates may be higher than those listed.

7. Fees

The borrower is charged neither the loan application processing and administration fee nor the commitment fee.

Other fees are charged in accordance with the Ordinance on Fees for HBOR Services for direct HBOR loans in the country, valid on the day of calculation.

8. Disbursement Period, Grace Period and Repayment Period

Disbursement period, grace period and repayment period are determined in accordance with the purpose of the loan and the planned dynamics and structure of investment, where:

- Disbursement period can generally be up to 12 months
- Grace period can be up to 3 years
- Repayment period can be up to 15 years, including grace period.

9. Collaterals

- Bills of exchange and debentures of the borrower, the co-debtor and guarantors-payers
- Pledge of property financed by the loan, with insurance policy for the property against usual risks, endorsed in favour of HBOR
- HBOR reserves the right to demand additional collateral, depending on the assessment of risk of the borrower and the project.

10. Other Terms and Conditions

Application of the state aid regulations

The financial instrument is implemented with the application of HBOR's state aid programmes in line with the valid state aid regulations.

Avoidance of double funding

The financial instrument can be used in combination with other forms of financial support from the national and the EU funds in compliance with the national and the EU state aid regulations as well as in compliance with applicable provisions on avoiding double funding under the NRRP and other EU programmes.

Period of implementation

The financial instrument is implemented until the available funds have been disbursed in full, i.e. no later than until 30 June 2026 (approval of interest subsidy is possible until the available funds have been disbursed in full, and no later than until 30 June 2026).

Schedule 1 – Ineligible activities

- (1) Activities that limit individual rights and freedoms or that violate human rights;
- (2) In the area of defence activities: the use, development, or production of products and technologies that are prohibited by applicable international law;
- (3) Tobacco-related products and activities (cultivation and production, distribution, processing and trade);
- (4) Activities excluded from financing pursuant to the relevant provisions of the Horizon Europe Regulation: research on human cloning for reproductive purposes; activities intended to modify the genetic heritage of human beings which could make such changes heritable; and activities to create human embryos solely for the purpose of research or for the purpose of stem cell procurement, including by means of somatic cell nuclear transfer (SCNT);
- (5) Gambling (production-, construction-, distribution-, processing-, trade- or software-related activities);
- (6) Sex trade and related infrastructure, services and media;
- (7) Activities involving live animals for experimental and scientific purposes insofar as compliance with the European Convention for the Protection of Vertebrate Animals for Experimental and other Scientific Purposes cannot be guaranteed;
- (8) Real estate development activity, such as an activity with a sole purpose of renovating and re-leasing or re-selling existing buildings, as well as constructing new buildings intended for sale (investments in energy efficiency projects or social housing are not excluded);
- (9) Financial activities (e.g. purchasing or trading in financial instruments). In particular, interventions targeting buy-out intended for asset stripping or replacement capital intended for asset stripping shall be excluded;
- (10) Activities forbidden by applicable national legislation;
- (11) Decommissioning, operation, adaptation or construction of nuclear power stations;
- (12) Activities and facilities related to fossil fuels, including further use⁴;
- (13) Activities and facilities under the EU Emission Trading System (ETS) with projected CO₂ emissions that are not lower than the relevant benchmarks⁵;
- (14) Activities and facilities related to disposal of waste to landfill facilities, incinerators⁶ and mechanical biological treatment plants⁷;
- (15) Activities and facilities where the long-term disposal of waste may cause harm to the environment;
- (16) All activities that are not allowed to be financed by aid from the relevant state aid regulations such as GBER, ABER, de minimis and other regulations applicable to a particular loan;
- (17) All prohibitions and restrictions in accordance with the General Eligibility Criteria of HBOR.

⁴ Except for projects in the field of electricity and/or heat production and related transmission and distribution infrastructure, in which natural gas is used, which comply with the conditions set out in Annex III to the Technical Guidelines on the Application of “Do No Significant Harm” Principle (2021/C58/01).

⁵ If the supported activity achieves projected greenhouse gas emissions that are not substantially lower than the relevant benchmarks, the reasons why this is not possible need to be explained. The benchmarks for the allocation of emission allowances for activities covered by the ETS are set out in the Commission Implementing Regulation (EU) 2021/447.

⁶ This exclusion does not apply to investments in plants exclusively dedicated to treating non-recyclable hazardous waste and existing plants, where the investment is for the purpose of increasing energy efficiency, capturing exhaust gases for storage or use or recovering materials from incineration ashes, provided that such activities do not result in an increase in the capacity of waste treatment plant or prolongation of the lifetime of the plant; for which there is evidence at the plant level.

⁷ This exclusion does not apply to investments in existing plants for mechanical biological treatment, where the investment is for the purpose of increasing energy efficiency or subsequent incorporation of separate waste into recycling processes for the purpose of composting biowaste and anaerobic digestion of biowaste, provided that such activities do not result in an increase in the capacity of waste treatment plant or prolongation of the lifetime of the plant; for which there is evidence at the plant level.

Schedule 2 – Guidelines on the Application of the DNSH Principle in the Implementation of HBOR's Financial Instruments under the NRRP

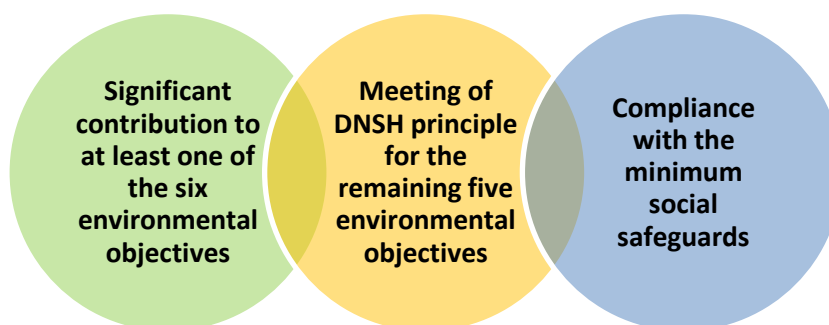
What is the DNSH principle and why is the DNSH analysis carried out?

On 11 December 2019, the European Commission introduced the EU Green Deal as the strategy to attain the sustainability of the EU economy with an objective of achieving the following goals in terms of climate, energy, transport and tax policies: reduction of net greenhouse gas emissions by 55% compared to 1990 by 2030 and net zero greenhouse gas emissions by 2050, which would ensure that Europe becomes the first climate-neutral continent.

The emergence of the Covid-19 pandemic has highlighted the need to develop a new facility for the recovery of the EU economy, as a result of which the **Recovery and Resilience Facility** has been developed as part of the Next Generation EU initiative. The implementation of the Recovery and Resilience Facility in the Republic of Croatia is regulated by the National Recovery and Resilience Plan (NRRP), of which HBOR's financial instruments are also an integral part (hereinafter: HBOR's NRRP measures). The objective of the Recovery and Resilience Facility is to promote the sustainable recovery of the EU economy in terms of the climate and the environment in line with the goals of the EU Green Deal.

In order to ensure the attainment of the climate and environmental goals of the EU, the European Commission has developed a new comprehensive and standardised classification framework called the EU Taxonomy⁸. The main goal of the EU Taxonomy is to enable transparent and comparable measurement of the impact of individual business activities on the attainment of the EU Green Deal objectives, and the EU Taxonomy defines three types of criteria:

1. **Criteria indicating that a particular activity significantly contributes to the attainment of the EU Green Deal's climate and environmental goals (at least one environment goal),** the meeting of which can make it possible for a particular business activity, investment or project to achieve the status of "green" investment
2. **Criteria ensuring that a particular activity does no significant harm to the EU Green Deal's climate and environmental goals,** i.e. the criteria of "Do No Significant Harm" to the climate and the environment
3. **Criteria ensuring that a particular activity is in line with the minimum social safeguard measures**



In order to enable long-term positive or at least neutral impacts on the environment and the climate through the implementation of the NRRP measures, the need to meet the "Do No Significant Harm" principle (hereinafter: DNSH principle) has been introduced for all investments planned under the NRRP.

⁸ REGULATION (EU) 2020/852 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 – called the **Taxonomy Regulation**, establishes a comprehensive EU strategy on sustainable finance with a technically reliable classification system for standardising "green sustainable" economic activities and redirecting capital flows towards sustainable investments.

The DNSH principle implies that a certain activity/project must not do significant harm to any of the following six environmental objectives:

- Climate change mitigation
- Climate change adaptation
- Sustainable use and protection of water and marine resources
- Transition to a circular economy
- Pollution prevention and control
- Protection and restoration of biodiversity and ecosystems.

How does HBOR carry out the analysis of compliance of investment projects with the DNSH principle?

In the implementation of HBOR's NRRP measures, HBOR and/or partner financial institutions included in the implementation of the measures are obliged to verify the compliance of investments carried out by final beneficiaries (public or private sector entities) with the DNSH principle by:

1. **Excluding ineligible activities** from the financing – ineligible activities are listed in Schedule 1 to this Operational Programme
2. **Carrying out the analysis of compliance with the relevant environmental legislation both at the EU and the national levels** for every project
3. **Ensuring the application of the Commission's Technical Guidance on Sustainability Proofing under the InvestEU Fund ((2021/C 280/01))** in the implementation of the NRRP measures.

In order to facilitate the preparation of projects for the final beneficiaries in accordance with the DNSH principle, and also in order to facilitate and accelerate compliance assessment of received applications for finance/issue of guarantee, etc., beside technical, legal and project documentation⁹, it is necessary to submit the **Self-Assessment Questionnaire for the purpose of identifying climate, environmental and social risks and impacts** prepared by HBOR and enclosed with these Guidelines.

How can a project satisfy the "green transition" criteria and thus achieve even more favourable terms and conditions of finance?

As previously pointed out, the preparation of projects in accordance with the DNSH principle represents the main mechanism for confirming that the respective project or activity has no significant adverse impacts on climate and environmental objectives in terms of the EU Green Deal.

For the project to achieve even more favourable terms and conditions of finance (lower interest rate, higher interest subsidy rate, etc.), it must be assessed as a "green" transition project, i.e. it must **meet the conditions for the assessment of a significant contribution to the attainment of climate and environmental objectives under the EU Green Deal**.

An example of significant contribution:

In the case of construction of a new business facility that is intended to be classified as a "green" facility, technical and construction interventions must ensure that the primary energy consumption of the new facility is 20% lower than the current national standard (Nearly Zero Energy Building standard), which significantly contributes to at least one environmental objective (climate change mitigation), and that it meets the DNSH principle in terms of the remaining five EU environmental objectives, i.e. that it does not significantly harm the other environmental objectives.

⁹ Preliminary, Main and Final Design, Investment Study, Environmental Study, Environmental Impact Assessment and other relevant documents defined by relevant national and EU legislation 8