



Hrvatska banka za obnovu i razvitak

Loan Programme - ESIF Growth and Expansion Loans

1 Introduction

„*ESIF Growth and Expansion Loans*“ is a financial instrument for which the proceeds are provided by European Structural and Investment Funds (ESIF) and commercial banks, in proportion 50:50, and from which new long-term investments of small and medium-sized enterprises are financed.

Three commercial banks participate in the implementation of this financial instrument: Erste&Steiermärkische Bank d.d., Privredna banka Zagreb d.d. and Zagrebačka banka d.d., which have been authorised for its implementation by the Croatian Bank for Reconstruction and Development (HBOR), as the manager of ESIF proceeds that is appointed by the Ministry of Regional Development and EU Funds.

Commercial bank receives loan applications, makes an independent assessment of an entrepreneur and its investment that must be in compliance with this Loan Programme, sustainable from the economic, technical and financial point of view and in compliance with valid regulations of the Republic of Croatia.

In case of a favourable assessment of an enterprise and its investment, the commercial bank enters into a loan contract with the enterprise in its name and on its own behalf (regarding its share in the loan) and for and on behalf of HBOR (regarding ESIF share in the loan). Aid contained in the loan is awarded by HBOR.

2 Eligibility Criteria

Eligibility criteria set out in item 2.1 must be fulfilled at the moment of loan approval, whereas the criterion set out in item 2.1 d) and the criteria set out in item 2.2 must be fulfilled during the entire loan period.

2.1 Eligible Final Recipients

Eligible final recipients are enterprises which, when submitting their loan applications, i.e. at the moment of loan approval, meet the following criteria:

- a) Small and medium-sized enterprises (SMEs) pursuant to the EU definition in force¹,
- b) They operate in the territory of the Republic of Croatia;
- c) They operate at least 2 (two) years before submission of their loan applications, which is to be evidenced by the relevant official annual financial statements;
- d) Their main activity (pursuant to the court register) is in any sector except those mentioned under item 2.2, where the main activity of an entrepreneur must be eligible during the entire loan period;
- e) They are economically viable (by applying customary financial and/or economic indicators for risk assessment, and pursuant to internal documents and the commercial bank's decision);
- f) They have not been requested to return or are not in the procedure of returning state aid or de minimis state aid;
- g) They have not received a new debt financing for this investment not complying with the cumulation rules from the relevant aid regulations² (De Minimis Regulation and General Block Exemption Regulation - GBER);
- h) They have not received aid for activities relating to exports to third countries or the EU member countries, i.e. aid connected directly with exported quantities, for the establishment or operation of distribution network or other current expenses related to export activities;
- i) They have not received aid conditioned by use of domestic products instead of import products;
- j) They are not companies in difficulty as defined by state aid regulations³, which includes that:
 - i. No proposal for the initiation of pre-bankruptcy or bankruptcy proceedings against them has been submitted;
 - ii. No decision on the initiation of an enforced liquidation procedure against them or decision on annulment or revocation of the decision by which they were given operating license has been made;

¹ Pursuant to the Commission Recommendation 2003/361/EC of 6 May 2003 on definition of micro, small and medium-sized enterprises.

² If an enterprise has already received aid in form of a favourable loan, leasing or guarantee from a national or EU source, it must, for the same investment, take into account not to exceed the maximally allowed intensities of aid.

³ Pursuant to the Commission Regulation No. 651/2014 of 17 June 2014 declaring certain categories of aid compatible with internal market in application of Articles 107 and 108 of the Treaty and the Commission Regulation (EU) No. 2017/1084 of 14 June 2017 amending Regulation (EU) No. 651/2014 2017/1084 of 14 June 2017 as regards aid for port and airport infrastructure, notification thresholds for aid for culture and heritage conservation and for aid for sport and multifunctional recreational infrastructures, and regional operating aid schemes for outermost regions and amending Regulation (EU) No. 702/2014 as regards the calculation of eligible costs (General Block Exemption Regulation - GBER).

- k) 2 (two) years preceding their application for aid, they did not carry out a relocation⁴ to the establishment in which the initial investment for which aid is requested is to take place, and give a commitment that they will not do so up to a period of two years after the initial investment for which aid is requested has been completed;
- l) Their responsible persons have not been convicted by a final decision for criminal offences such as fraud, corruption, participation in a criminal organisation or any other illegal activities or for any criminal offence relating to their professional activity, e.g. Chapter XXIII Criminal Offences Against Property and Chapter XXIV Criminal Offences Against the Economy of the Criminal Code (Official Gazette Nos. 125/2011, 144/2012, 56/2015, 61/2015);
- m) They have not been established in the areas of states, the jurisdictions of which do not cooperate with the EU regarding the application of internationally agreed tax standards or do not comply in their tax practice with the Commission Recommendation of 6 December 2012 regarding measures intended to encourage third countries to apply minimum standards of good governance in tax matters (C(2012)8805); and
- n) They are not doing business with entities from countries the jurisdiction of which does not cooperate with the EU with regard to the application of internationally agreed tax standards of the Organisation for Economic Co-operation and Development (OECD) and its forum on transparency and exchange of data for tax purposes.

Eligible final beneficiaries are also special purpose vehicles (SPVs) operating less than 2 (two) years and fulfilling other eligibility criteria, and the owners or founders of which fulfil all the above mentioned criteria.

When submitting its loan application, the entrepreneur declares under penalty of perjury the veracity of all submitted information and documents.

2.2 Ineligible main activities

Entrepreneurs with a main activity (activity stated in the court register) in one of the following sectors, are not eligible for financing, not even in cases when investing in one of the eligible activities:

- a) Sectors excluded by Articles 1 and 13 of the General Block Exemption Regulation (GBER) and Article 1 of De Minimis State Regulation⁵
 - Fishery and aquaculture,

⁴ Pursuant to Article 14, paragraph 16 of the Regulation 651/2014 relocation means the relocation of same or similar activity or a part thereof from the establishment in one contracting party to the Agreement on the European Economic Area (initial establishment) to the establishment in which the investment is carried out in the other contracting party to the Agreement on the European Economic Area (the establishment which was awarded aid). The parties to the Agreement on the European Economic Area are EU member countries, Norway, Island and Lichtenstein. The relocation is in place if the product or service in initial establishments and in the establishments to which aid was awarded serves at least partly for the same needs and meets the requirements or needs of the same type of beneficiaries, and jobs are lost in the same or similar activity in one of initial establishments.

⁵ Commission Regulation No. 1407/2013 of 18 December 2013 on the Application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to De Minimis Aid (OJ C 352, 24.12.2013). (De Minimis Aid Regulation).

- Primary production of agricultural products,
 - Processing and marketing of agricultural products in cases stated in Article 1 paragraph 3 item c) of GBER,
 - Coal industry,
 - Steel sector, shipbuilding sector, synthetic fibres sector, transport sector and related infrastructure, energy generation and supply as well as energy infrastructure.
- b) Tobacco and distilled alcoholic beverages. The production of and trade in tobacco and distilled alcoholic beverages and related products;
- c) Production of and trade in weapons and ammunition: the financing of the production of, and trade in, weapons and ammunition of any kind. This restriction does not apply to the extent such activities are part of or accessory to explicit European Union policies;
- d) Casinos and equivalent enterprises;
- e) Exclusively financial activities or projects in the real estate sector implemented as financial investment activity;
- f) IT sector restrictions: Research, development or technical applications relating to electronic data programs or solutions, which:
- aim specifically at:
 - supporting any activity included in the restricted sectors referred to (a) to (d) above;
 - internet gambling and online casinos; or
 - pornography,
 - are intended to enable:
 - to illegally enter into electronic data networks; or
 - to illegally download electronic data.
- g) Life science sector restrictions: research, development or technical applications relating to human cloning for research or therapeutic purposes or genetically modified organisms („GMOs”).

3 Investment eligibility criteria

Eligible investments are exclusively investments **that have not been started before a loan decision is made and the implementation of which will result in the increased number of employees (at least one newly employed person)**. This must be adequately explained and documented in the investment study/documentation.

Start of construction works or the first legally binding obligation for ordering of equipment or any other obligation that makes an investment irrevocable is deemed to be start of the investment, depending on what occurs earlier.

If the entrepreneur has already purchased equipment or signed contract for the execution of works, it is deemed that the works have commenced.

Purchase of land and preparation works (grubbing up, staking out, preparation for start of construction, procurement of necessary licenses, studies and surveys), are not deemed to be start of works.

Eligibility criteria of investment must be fulfilled during the entire loan period.

3.1 Sectors of investment

Eligible investments are investments in the following business activities, pursuant to the National Classification of Business Activities (NKD)⁶, stated in Table 1.

Table 1 List of eligible sectors of investment

Sector of investment	% per sectoral distribution
Sector C: Manufacturing	≥ 50
Sector I: Tourism (Providing of accommodation)	≥ 25
Sectors: - J: Information and communication – all sub-sectors - M: Professional, scientific and technical activities – all sub-sectors - N: Administrative and support service activities – sub-sector 79 - Q: Human health and social work activities – all sub-sectors - R: Arts, entertainment and recreation – sub-sectors 90 and 93 - S: Other service activities – sub-sectors 95 and 96.	≤ 25

Commercial bank must allocate its portfolio of approved loans according to the above mentioned sectoral distribution, which means that, if the NKD of the entrepreneur belongs to the sector for which the bank has fulfilled its quota, the entrepreneur will not be able to receive a loan in this bank. In this case, the entrepreneur can submit its loan application in another commercial bank that implements this financial instrument.

In case the commercial bank approved a loan by which the quota for certain areas of sectoral distribution has been exceeded, the Ministry of Regional Development and EU Funds and/or HBOR has right to order the cancellation of loan contract and require the return of approved aid.

⁶ Pursuant to the national classification of activities – NKD 2007 (complied with the European Statistical Classification of Economic Activities under the name NACE rev. 2).

3.2 Location of investment

Location of investment must be in the territory of the Republic of Croatia.

3.3 Purpose of investment

Eligible for financing are investments into:

- a) **Long-term tangible assets** and transfer of business operations⁷ between the persons who are not family related and when accompanied by a capital investment as follows:
 - Initial investment,
 - Land (up to 10% of the loan amount),
 - Construction facilities (when construction facilities are purchased, the value of land on which they are located must not exceed 10% of the loan amount)⁸ and
 - Equipment and devices (machinery and plants),
- b) **Long-term intangible assets**⁹ if:
 - They are not used in the business unit receiving the aid,
 - They are conducted as assets that are amortized,
 - They are purchased at market prices from a third person not related with the buyer,
 - They are included in the property of the entrepreneur receiving aid and remain related to the project receiving aid at least for 3 years,
- c) **Working capital** related to the respective investment up to 30% of the total loan amount.

Purchase of a participation in a company is not eligible.

3.4 Own share

Enterprise must provide its own share of at least 15% of the investment amount, VAT not included.

⁷ According to the definition of the European Union, this implies the transfer of ownership over the company to another person or to another company, by which continuity of existence and business activities of the company are ensured, e.g. acquisition of property belonging to business unit that was extinguished or would have been extinguished had it not been purchased, and was purchased by an investor not related with the seller, excluding simple acquisition of shares in the enterprise.

⁸ If the aid through this financial instrument is provided for the purchase of a building or another real estate, this is made only if this real estate is directly connected to the activities of entrepreneur for the respective investment. The construction of facility is eligible in full.

⁹ Intangible assets mean the property not having a tangible or financial form, e.g. patents, licences, knowledge and experience or other type of intellectual property.

Beside own funds, expenses arisen during the project preparation (cost of land preparation, procurement of licenses, preparation of studies, surveys and similar documents) are also recognised, all under the condition that they have arisen before the decision on loan approval.

Land and contributions in kind (machinery, equipment, tools etc.) are not eligible as own share.

3.5 Ban on cumulation of ESIF aids for the same project

It is not allowed to cumulate aids from the proceeds of ESIF on the same project, which means that this loan cannot be combined with:

- ESIF grants, neither as pre-investment nor as co-investment;
- other ESIF financial instruments, such as HAMAG-BICRO guarantees.

3.6 State (regional) aid and de minimis aid

For capital investments, state (regional) aid¹⁰ is approved, whereas for working capital, de minimis aid¹¹ is approved. An investment is eligible if the applicant can be approved state (regional) aid for investment (fixed assets). In such case, it can also be approved de minimis aid for working capital, on the condition that the criteria for its award have been fulfilled.

Before the approval of state (regional) aid and de minimis aid, the entrepreneur, including its related persons, shall be obliged to submit declaration on previously awarded aid and de minimis aid.

Loan application shall be rejected in case of exceeded allowed intensity of state (regional) aid and/or exceeded maximally allowed amount of de minimis aid.

3.6.1 For capital investment

When state (regional) aid is approved, it is necessary that tangible and intangible assets acquired pursuant to the loan contract additionally fulfil the following conditions:

- a) Investment must be initial investment¹² or initial investment in favour of new economic activity¹³;

Initial investment means an investment in tangible and intangible assets related to one of the following circumstances:

- (i) **Creation of a new establishment:** investment in construction of a new manufacturing facility, new hall, new hotel, new distribution centre etc.,
- (ii) **Extension of the capacity of an existing establishment:** building of an annexe to hotel or construction of new floors, extension of a factory etc.,

¹⁰ HBOR's State Aid Award Programme

¹¹ HBOR's Ordinance on De Minimis Aid Award

¹² Article 2 paragraph 50 of the General Block Exemption Regulation and Article 11 paragraph 5 of HBOR's State Aid Award Programme

¹³ Article 2 paragraph 51 of the General Block Exemption Regulation and Article 11 paragraph 6 of HBOR's State Aid Award Programme

- (iii) **Diversification** of the output of an establishment into products not previously produced in the establishment: an existing factory introduces production of a different product than previously produced (difference in third/fourth digit of NACE code, or group/class of national classification of activities - NKD),
- (iv) **Fundamental change** in the overall production process of an existing establishment: entrepreneur introduces a production process fundamentally different than the previous one (does not imply the replacement of deteriorated machinery, but something new and innovative),
- (v) **The acquisition of the assets belonging to an establishment that has closed or would have closed had it not been purchased**, and is bought by an investor unrelated to the seller: halls, plants, production lines, equipment (it is not allowed to purchase a participation in the company!).

For aid granted for a diversification, the eligible costs must exceed by at least 200 % the book value of the assets that are reused, as registered in the fiscal year preceding the start of works.

For aid granted for a fundamental change in the production process, the eligible costs must exceed the depreciation of the assets linked to the activity to be modernised in the course of the preceding 3 fiscal years.

Initial investment in favour of new economic activity is also related to the previously mentioned circumstances, under the condition that the new activity to be performed is not the same or a similar activity to the activity previously performed in the establishment. In relation to the acquisition of assets, under the condition that the new activity to be performed using the acquired assets is not the same or a similar activity to the activity performed in the establishment prior to the acquisition.

- b) The investment must be retained in the region¹⁴ receiving aid at least 3 (three) years from the completion of the entire investment, which does not prevent the replacement of plants or equipment deteriorated due to fast technological changes to take place, under the condition that the economic activity is retained in the respective region during the period of at least 3 (three) years;
- c) intensity of regional aid within a loan must not exceed 35% for medium and 45% for micro and small entrepreneurs in Continental Croatia and 45% for medium and 55% for micro and small entrepreneurs in Coastal Croatia¹⁵;
- d) all investments undertaken by the same entrepreneur on the level of a group in the period of 3 (three) years from the beginning of works on another investment that is awarded

¹⁴ The region is defined at NUTS 2 level. Pursuant to the Regional Aid Map, these are Continental Croatia or Adriatic Croatia.

¹⁵ In accordance with the Regional Aid Map

regional aid in the same region at NUTS 3 level (county) are considered to be the same investment project.

If eligible costs of such an investment exceed EUR 50 million or if it is a “large investment project”¹⁶, maximum permissible aid amounts and maximum regional aid intensity are reduced in accordance with the following formula used for the calculation of the adjusted aid amount¹⁷ or maximum aid amount for a large investment project:

$$\text{maximum aid amount} = R \times (A + 0.50 \times B + 0 \times C)$$

where:

- R is the maximum aid intensity applicable in the area concerned established in an approved regional aid map which is in force on the date of granting the aid, excluding the increased aid intensity for SMEs (basic intensity for large entrepreneurs),
- A is the initial EUR 50 million of eligible costs,
- B is the part of eligible costs between EUR 50 million and EUR 100 million, and
- C is the part of eligible costs above EUR 100 million.

At the moment of approving this Loan Programme, maximum aid amounts for large investment projects are:

- (i) EUR 18.75 million for eligible costs in Continental Croatia, and
- (ii) EUR 26.25 million for eligible costs in Coastal Croatia.

3.6.2 For investments in working capital

Aid rules pertaining to working capital:

- a) Working capital can be financed exclusively under de minimis aid regime,
- b) The total amount of de minimis aid allocated per a member state to one entrepreneur¹⁸ must not exceed EUR 200,000 during 3 (three) fiscal years (current one and two preceding ones).

4 Loan Terms and Conditions

Pursuant to this Programme, one entrepreneur can be awarded only one ESIF growth and expansion loan. The size of investment is not limited, however, it can be financed by an ESIF growth and expansion loan only under the following terms and conditions.

Main terms and conditions for ESIF growth and expansion loans:

¹⁶ As defined in Article 2, item 52 of the General Block Exemption Regulation

¹⁷ As defined in Article 2, item 20 of the General Block Exemption Regulation

¹⁸ The term “one entrepreneur” is defined in accordance with the criteria of the De Minimis Regulation and includes the entrepreneur and all companies associated to that entrepreneur.

- a) **Purpose of loan:** exclusively for new investments (refunding of existing loans is not permissible)
- b) **Currency of loan:** the part of loan from ESIF sources can be in kunas or in kunas indexed to EUR, and the part of loan from commercial bank's sources is approved in kunas indexed to EUR
- c) **Amount of loan:** from EUR 100,000 to EUR 3,000,000 in kuna equivalent value in accordance with the mean exchange rate of the Croatian National Bank valid on the contract date (*maximum loan amount for the tourism sector: EUR 10,000,000*)
- d) **Interest rate:** 0% per annum on the part of loan from ESIF funds; on the part of loan from commercial bank's funds in accordance with its business decision
- e) **Repayment period:** up to 144 months (12 years), up to 24 months grace period included (*for the tourism sector, in the case where an investment study indicates a need for longer maturity and grace period, it can be considered to approve a loan with up to 204 month repayment period (17 years) and up to 48 month grace period*). Loan repayment period cannot be changed.
- f) **Manner of repayment:** in equal instalments, annuities or one-off repayment
- g) **Collateral:** in accordance with assessment/request of commercial bank; for aid reimbursement: 2 (two) debentures of entrepreneur
- h) **Other terms and conditions:** costs cannot be refunded from loan proceeds. It is not permissible to invest in immovable property whose purpose is further commercialisation in the market (sale, rent, etc.).

Disbursement of a loan under this Loan Programme depends on whether commercial banks included in the implementation of this Loan Programme on the financial instrument level have fulfilled all conditions for the disbursement of ESIF funds. If such conditions have not been fulfilled, an entrepreneur cannot draw-down a loan under this Loan Programme. HBOR is not liable for impossibility to draw down ESIF funds and consequently for non-disbursement of a loan to an entrepreneur due to that reason. Commercial bank included in the implementation of this Loan Programme is not liable for impossibility to draw down ESIF funds and for untimely disbursement of ESIF funds due to reasons beyond its control.

5 Undertakings of Entrepreneurs

An entrepreneur who is granted a loan under this Loan Programme undertakes as follows:

- a) To use the loan exclusively for the financing of investment in accordance with this Loan Programme and the aid award documents in effect¹⁹ and to maintain all documents pertaining to project until 31.12.2034;

¹⁹ HBOR's State Aid Award Programme and HBOR's Ordinance on De-Minimis Aid Award that can be downloaded from HBOR's websites

- b) To carry out investment and take all necessary measures in order to complete it and to confirm that goods/works/services financed from loan proceeds have been commissioned/completed/performed;
- c) To acknowledge that it can be excluded from this financial instrument during the entire lifetime of the loan contract and that the loan contract can be cancelled if:
 - It is established that, at the moment of loan approval, it has not fulfilled the conditions referred to in item 2.1 of this Loan Programme, i.e. that the loan has been approved on the basis of incorrect or incomplete data,
 - During the lifetime of the loan, inconsistencies arise with respect to the conditions referred to in items 2.1 d), 2.2 and 3 of this Loan Programme,
 - Commercial bank is obliged to cancel the loan contract to the entrepreneur as a consequence of nonfulfillment of conditions referred to in item 3.6 of this Loan Programme;
- d) To reimburse the awarded aid in all cases of exclusion of entrepreneurs from this financial instrument, irrespective of the reason or liability for exclusion, and, should it fail to do so, HBOR shall be authorised to carry out the procedure of aid reimbursement from the entrepreneur;
- e) To proceed in accordance with the corrective financial measures of institutions in charge of the implementation of this financial instrument²⁰ if the loan proceeds are used contrary to the prescribed purposes;
- f) To allow a commercial bank and institutions in charge of the implementation of this financial instruments to carry out checks and controls of the implementation of investment;
- g) To announce to the public and to the media that it is a recipient of this financial instrument co-financed by the European Regional Development Fund under the Competitiveness and Cohesion Operational Programme and, if it has an appropriate website, to publish the European Union emblem and the ESIF logo of “Growth and Expansion Loans”;
- h) To agree to the public disclosure of investment information in the list of financial instrument recipients, which implies a public announcement of: name of entrepreneur, purpose of loan or summary of investment, amount and maturity of loan under this Loan Programme and date of the last loan disbursement;
- i) To agree in advance to the public availability of those loan and/or investment information that is the subject matter of loan funding, which must be publicly available

²⁰ Institutions in charge of the implementation of this financial instrument are: the Ministry of Regional Development and EU Funds, HBOR, audit bodies of the Republic of Croatia, European Commission, European Court of Auditors or OLAF.

in accordance with the relevant EU and Croatian legislation in effect or other regulations that enter into force during the lifetime of the loan contract;

- j) To initiate amendments to the loan contract if:
 - The amendments are a consequence of the amendments to the regulations that apply to the implementation of this financial instrument,
 - The amendments are imposed by the institutions/bodies in charge of the implementation of this financial instrument,
 - The commercial bank and/or HBOR establish that it is necessary to amend the loan contract in order to enable the implementation of this financial instrument;
- k) To agree that the funding approved to it under this financial instrument shall not be replaced by funding from other sources, own funds included;
- l) To reimburse the drawn down ESIF funds if this financial instrument is terminated and in other cases to be determined in the loan contract;
- m) To agree that the termination or cancellation of this financial instrument between commercial bank and HBOR constitutes valid grounds for the termination or cancellation of the loan contract;
- n) To proceed in accordance with the instructions, to use the templates and to generally act in accordance with the orders to be obtained from the financial intermediary and/or HBOR pertaining to the implementation of the financial instrument;
- o) To proceed in accordance with all other provisions of the loan contract that have not been referred to herein.