

Natural Capital Financing Facility in Croatia (NCFF)



Green investments,
good for nature and investors

NCFF in brief



The Natural Capital Financing Facility (NCFF) is a Financial Instrument that combines EIB's financing and the Commission's funding under the LIFE Programme – Programme for the Environment and Climate Action.

It is intended to finance projects that contribute to the conservation and sustainable use of natural capital, as well as adaptation to climate change by using natural-based solutions. These are projects that generate revenue or cost savings for their investors, making these investments financially profitable and viable over the long-term. These include:



**Green
entrepreneurship**



**Green
infrastructure**



**Payments
for ecosystem
services**



**Biodiversity
offsets and
compensation**



HBOR's role in NCFF

HBOR and the EIB signed a loan agreement in the amount of 15 million EUR to implement the NCFF in March 2018, making it the first national development bank in the EU to be involved in its implementation.

The cooperation with the EIB is significant due to the extremely large biodiversity and Croatia's extensive contribution to the ecological network of Natura 2000, and thus represents an important area of activity of HBOR.

Who is eligible for NCFF financing?



Are you



... a city or a municipality seeking to become greener, richer in biodiversity, more resilient to climate change, and altogether a more enjoyable and attractive place for your residents and visitors?



... an entrepreneur, small business, farmer or fisherman exploring nature-based solutions to improve project performance, cut costs or drive new revenue?



... a company looking to offset a negative environmental impact of your operations?





Green entrepreneurship

... are entrepreneurial initiatives that do not consider the conservation and sustainable use of natural resources as an obstacle to development, but rather recognise them in their business vision, strategy and model, and seek to use them as a development opportunity.

... is popular and demanded in the sectors listed below, which depend on preserved natural capital.

NCFF target



**Agriculture
& sustainable
forestry**



Regenerative & ecological agriculture and forestry

**Fisheries and
aquaculture**



Sustainable fishing & aquaculture practices and technologies

Tourism



Ecotourism, agritourism & fishing tourism

Construction



Green infrastructure



Project examples



Fishing tourism

A local fisherman recently realised that he can increase his revenues, while simultaneously lowering his work effort and the pressure on fish stocks during the Summer season, by substituting part of his traditional fishing activities with fishing tours for tourists, aimed at raising awareness around marine preservation.

To achieve this, the local fisherman requires financial support to invest into upgrading his fishing vessel with facilities required to accommodate tourists at a day-long fishing tours. To cover these initial costs, the fisherman will receive an NCFF loan, which he will reimburse from the increase in revenues generated by the more profitable fishing tourism activity.

As a result, the fisherman will improve both profitability and resilience of his business while simultaneously benefitting marine biodiversity and fish stock by reducing fishing levels. The local community and tourist destination will benefit from a more attractive tourism offer while at the same time raising awareness around preserving the marine environment.



Ecological agriculture and agritourism

A small, family-run vineyard has a vision to develop high-quality organic wine, partially from the traditional local vine sorts such as maraština, crljenak and plavina. It will be a premium price product offered at the high-end local tourist market as part of the eco-tourism and wine-tasting offer developed on the farm.

To cover the costs of planting new vineyards with traditional sorts and equipment for wine production and tasting facilities, the family business applied for an NCFF loan. They are in the process of reimbursing the loan via the stable revenues they generated thanks to the market recognition, the premium price, and the exceptional wine tasting experience they now offer.

The family built a prosperous and resilient business, the local tourist offering was strengthened, as was natural capital 'via a more environmentally-friendly farming practices and the preservation of traditional grape varieties.

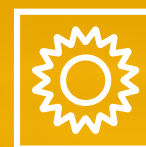


Ecotourism

A small travel agency on one of Croatia's islands is recognized as the leading provider of adventure tourism, combined with the experience of the island's rich natural and cultural heritage. Recently, the agency decided to develop their offering with experiencing with tours on a traditional fishing sailboat, with a focus on providing an experiencing the island's maritime and fishing traditions, marine biodiversity and seascape.

The agency obtained an NCFF loan to fund the initial construction costs, and foresees paying back the loan with the revenues it will generate from the new attractive tourist offer built around it.

As a result, the agency will further grow its revenues and strengthen its eco-tourism brand on the market. natural capital will be enhanced via raised awareness around the region's natural and cultural heritage, and contribution to the island's development towards an eco-tourism destination.



Green Infrastructure



... consists of a network of green spaces and water bodies, in and outside of settlements, with the purpose to enable and support natural functions and processes.

... enhances the functionality of the ecosystems and their services to society, including strengthening resilience to climate change.

... helps to reduce the amount of rainwater entering the drainage system and thus prevent flooding, improves air quality and reduces urban heat islands through shading and evaporation.

**Parks, urban forest
parks and gardens**

**Green roofs
and green facades**

**Hedges
and meadows**

**Urban watercourses
and lakes**

**Green
infrastructure**

**Lakes and
river basins**

**High conservation
value forests**

**Low-intensity
farming areas or
ecological agriculture**

**Dune systems and
coastal lagoons**



Project examples



Green solutions in the development of tourism projects– green roofs and facades

A Croatian tourism company has started renovating a neglected coastal tourist complex. The renovation will replace the dilapidated section of the existing accommodation facilities with a new building, reconstruct the restaurant, complete the horticultural renovation as well as remodel the hotel environment and beach area. The new accommodation building will incorporate green design elements such as green roofs and terraces to fit into the natural environment, as well as mitigate the effects of climate change. Together with the renewed landscaping of the whole complex, it is expected to create a more comfortable microclimate during the inevitable periods of extreme heat waves. Particular importance will be placed on protecting the wider belt of indigenous greenery in the immediate hinterland of beaches with relaxation and refreshment facilities being located in the beach area.

The investment will be partially covered by favourable NCFE loans. The attractive refurbishment of the complex and the addition of new facilities, with corresponding branding, will be the basis for the reorientation of the business model towards high value tourism. In this way, the renewal project will contribute to greater climate resilience and social sustainability through its innovative use of natural solutions, whilst simultaneously contributing to business profitability, ensuring a return on investment and repayment of loans.

As a result, all involved parties will experience economic benefits, natural capital will be enhanced through increased green infrastructure, and the owner's biodiversity objectives will be supported.



Green infrastructure supporting the cities' climate change adaptation

A coastal town is facing increasing challenges resulting from climate change-related events, including extreme weather conditions and rising sea levels. Most recently, the town was hit by an extreme weather event – approximately 250 mm/sqm of rainfall in only a few hours, incurring damages amounting to approximately HRK 10 million (EUR 1.34M).

The town has identified that its existing infrastructure, based on traditional grey drainage and wastewater treatment infrastructure, is inadequate for responding to these challenges. As such, the town intends to invest in green infrastructure projects which will support its adaptation to climate change (e.g. the construction of a retention basin in the town's watershed area, the greening of the coastal zone, etc.), but requires additional funding.

An NCFE loan will cover the required funding for these green infrastructure investments, and the town will repay the loan via the cost savings generated from the reduction in unforeseen costs incurred by damages from climate change-related events.

As a result, all involved parties will experience economic benefits and natural capital will be enhanced through increased green infrastructure.



Payments for ecosystem services



... constitutes funding for projects which involve the payment of works that result in the improvement of ecosystem services, as well as economic benefits for all parties involved. Under these projects, the beneficiaries of the ecosystem services use the funding to compensate parties which have incurred costs or damages from modifying their activities, with the objective to support positive impacts on ecosystems and their services.

Project example



A hydropower company is facing major costs as a result of riverbank erosion. Sediment entering the water as a result of the erosion is damaging the company's equipment and reducing its operational efficiency.

The company has identified that a solution to this problem is planting vegetation in the river's catchment area, which stabilises the soil and prevents erosion. To implement this solution, the hydropower company needs to enter into an agreement with a group of farmers who will stop grazing livestock and intensive agriculture on the land next to the river, and instead engage in replanting activities that support the protection of the forest belt along the river. In return for these activities, the farmers should receive annual compensation payments from the hydropower company to cover the cost of these and compensate for the losses they will incur by abstaining from breeding livestock on these surfaces.

The hydropower company will cover these costs via an NCFF loan, which will finance the annual compensation payments to the farmers in the transitional period, supporting the establishment of a protective forest belt. The loan will be repaid via the savings generated from the ensuing reduction in the hydropower company's current maintenance costs as a result of the reduced sediment levels in the water.

As a result, all involved parties will experience economic benefits, and the natural capital will be enhanced through increased water quality in the river. In addition, the state and diversity of the landscape and the river ecosystem will be improved via the establishment of a protective forest belt.





Biodiversity offsets and compensation

... target projects within which companies perform biodiversity offsetting services in the damaged area or an alternative location to entities whose projects or regular business operations cause damage to the environment.



Potential beneficiaries



Entities responsible for environmental damages and legally required to offset the negative impact of their activities



Entities with permitted interventions which are causing a loss of biodiversity, but which are consequently required to adopt biodiversity offsetting measures



Entities that, for ethical and reputational reasons, wish to offset negative environmental impacts resulting from their activities



Project example

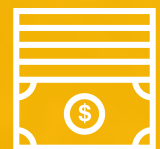


A start-up company is established with a vision to support companies in biodiversity offsetting, beyond current minimum requirements.

The company has secured initial seed funding for the purchase of land that will be subject to biodiversity offsetting measures (an abandoned quarry and surrounding areas of monoculture plantation forest) from its seed capital. However, it needs additional capital to implement these measures (e.g. quarry area rehabilitation through reforestation, etc.), and to grow its customer base (e.g. via marketing, communications etc.).

An NCFF loan will cover the required funding for these and, following the initial development stage, the company will repay the loan via payments from companies that commission its biodiversity offsetting services.

As a result, all involved parties will experience economic benefits, and the natural capital will be enhanced through biodiversity offsetting potentially beyond existing legal requirements.



How can HBOR's NCFF Financial Instrument be used?



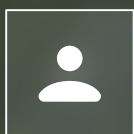
Through existing HBOR loan products*



In combination with other HBOR loan products for ineligible costs under NCFF



Favourable financing conditions compared to existing HBOR loan products and depending on the project contribution to NCFF objectives



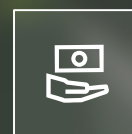
Private investors

- Projects with a high environmental impact according to NCFF criteria: interest rate defined in credit programme - less for 1.00 pp.
- Projects with medium environmental impact according to NCFF criteria: interest rate defined in credit programme - less for 0.50 pp.
- Projects with low environmental impact according to NCFF criteria: interest rate defined in credit programme - less for 0.25 pp.
- Loan application fee: 0,40% (min HRK 500) on the contracted loan amount
- No commitment fee



Public investors

- Lower interest rate regarding interest rate defined in credit programme – less for 1.00 pp.
- Loan application fee: 0,40% (min HRK 500) on the contracted loan amount
- No commitment fee



Loan amount

€ 40.000
- € 12.5M

i.e., in Kuna equivalent value



Technical assistance for final beneficiaries – key benefits



Preparation
of the project



Implementation
advice



Monitoring
of the results

Examples of Technical Assistance, provided by external experts, may include



Assessment of the eligibility and financial viability of the project



Support in the development of business plan financial analysis



Support to the market entry strategy, cost estimation and cashflow modelling/structuring



Assessment of the related revenues or cost-savings that can be achieved through the project



Assessment of the positive effects that the investment will have on natural capital



Strategic and technical advice for the enhancement of the project's positive nature-related impacts



Support in defining relevant indicators for monitoring the project's impact on natural capital

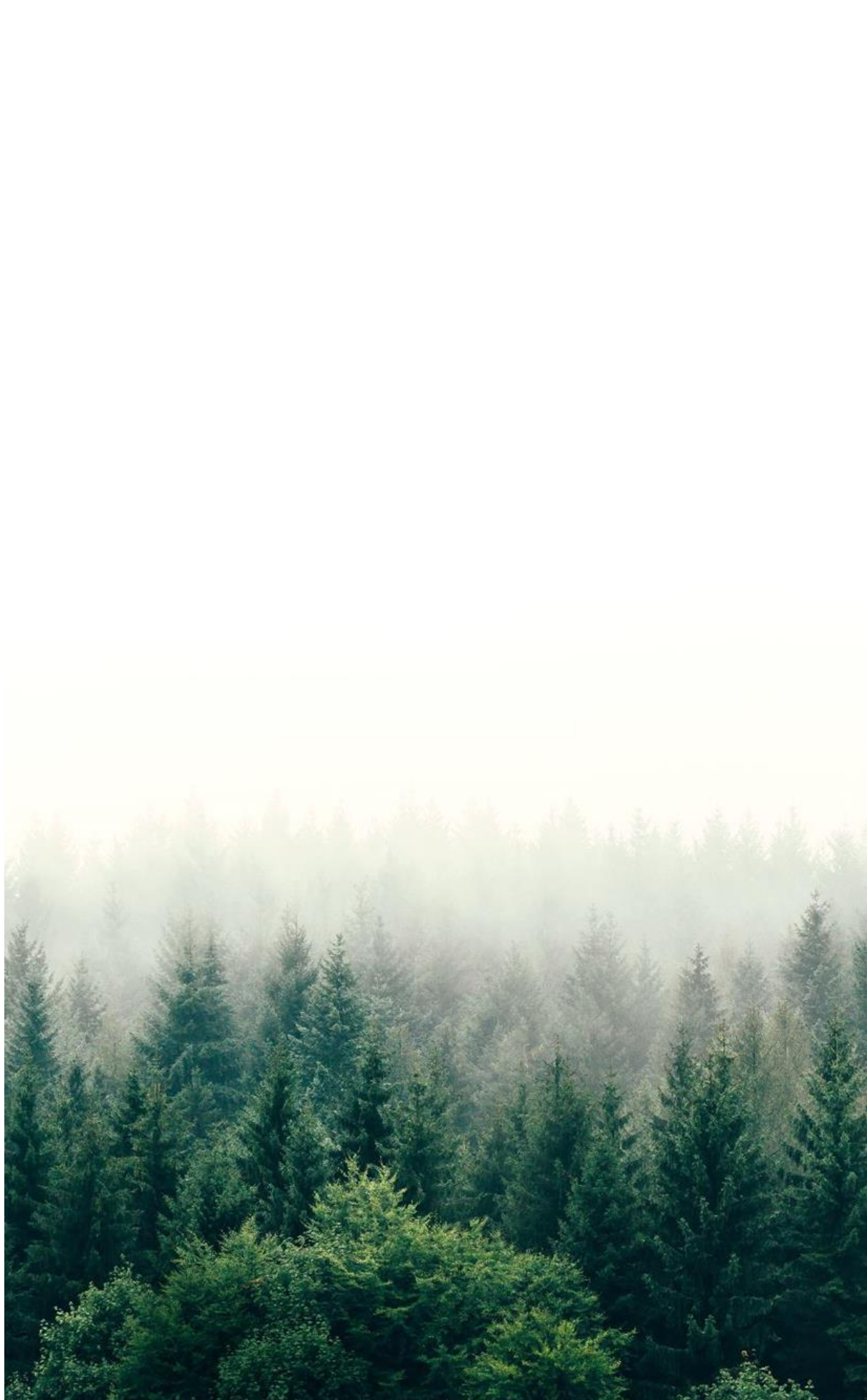


Support in the identification of additional financing sources and in the financial structuring



Ad hoc capacity building support to beneficiaries





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