



Potential future use of Financial Instruments (FIs) in Croatia's agricultural sector in the 2014-2020 programming period

A study in support of the *ex-ante* assessment for the deployment of EAFRD resources through financial instruments during the 2014-2020 programming period

Final Report

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EUROPEAN AGRICULTURAL FUND FOR RURAL DEVELOPMENT
EUROPE INVESTING IN RURAL AREAS
RURAL DEVELOPMENT PROGRAMME OF THE REPUBLIC OF CROATIA FOR THE PERIOD 2014 - 2020
Co-financing rate: 85% EU, 15% RH
TECHNICAL ASSISTANCE



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List of acronyms

ABER	Agricultural Block Exemption Regulation
AH	Agricultural holding
CAP	Common Agricultural Policy
CBS	Croatian Bureau of Statistics
CNB	Croatian National Bank
CPR	Common Provisions Regulation
CDR	Commission Delegated Regulation
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission
EFSI	European Fund for Strategic Investments
EIB	European Investment Bank
EIF	European Investment Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
ESI Funds	European Structural and Investment Funds
ERDF	European Regional Development Fund
EU	European Union
FADN	Farm Accountancy Data Network
FAH	Family agricultural holding
FI(s)	Financial Instrument(s)
FoF	Fund-of-Funds
GGE	Gross Grant Equivalent
GVA	Gross Value Added
HAMAG-BICRO	Croatian Agency for SMEs, Innovations and Investments
HBOR	Croatian Bank for Reconstruction and Development
IFI(s)	International Financial Institution(s)
MA(s)	Managing Authority(ies)
OP(s)	Operational Programme(s)
PAAFRD	Paying Agency for Agriculture, Fisheries and Rural Development
RDP	Rural Development Programme

Executive summary

Context and objective of the report

This report has been prepared as part of the study “Assessing the potential future use of Financial Instruments (FIs) in Croatia’s agricultural sector in the 2014- 2020 programming period”.

The report analyses the economic context of Croatia’s agricultural sector, the RDP’s strategy and measures for which Financial Instruments are envisaged, as well as experiences from the establishment of other Financial Instruments for the sector. A thorough analysis of the supply side is illustrated as well as a qualitative and quantitative approach of the demand side.

Key facts related to the agriculture sector in Croatia

Agriculture is an important sector for the Croatian economy, comprising 4% of the total Croatian Gross Value Added and employing around 7.6% of the employed population in 2016. However, Croatia has been facing a declining trend of agricultural output ever since 2008 when the highest value of EUR 3.1 bn was reached, compared with only EUR 2.2 bn in 2016.

The food and beverage sector is also very important for Croatia. Consisting of 3,200 enterprises in 2015, generating 30% of the total manufacturing sector turnover and employing 61,000 people (24% of the total processing sector’s workforce), the sector is a strong driver of the Croatian economy. However, it also shows a large disparity in market power between large and small businesses, as more than 62% of total revenues are generated by 1.26% of enterprises. The food-processing industry generates around EUR 853 m of the agricultural sector annual revenue.

The Forestry sector has great potential in deriving added value for the economy with a strong orientation on exports and constant growth it has shown in the last few years.

Supply Side

On the supply side, there are several products offered to agricultural producers by commercial banks and the state owned development bank HBOR, for both investment and working capital financing. In addition, the state owned Croatian Agency for SMEs, Innovations and Investments (HAMAG – BICRO) offers a recently established individual guarantee product for farmers.

On the other hand, the supply of financial products to the agri-food processing and to the forestry sector is mainly through the commercial banks’ corporate or business banking products. The supply side analysis also showed that investments in agriculture have been highly correlated with grants from the RDP, i.e. if calls for proposals were not published or the evaluation of project proposals was late there was a noticeable decrease in investments. From 2014 to 2020, more than EUR 3.5 bn public funds will be invested in the Croatian farming sector and rural areas under the CAP. Around EUR 600 million from the Croatian RDP has been foreseen for the Sub-measures covered by this report.

According to the analysis in the report, the volume of financing for producers expected to be offered by the banking system is estimated to be approximately EUR 336 m per year. Concerning the loans disbursed by the banks, a key issue is that commercial banks require a large range of collaterals and guarantees from farmers in order to provide them with financing. Other hindering circumstances are deriving from unresolved property issues and low value of the real estate and land and lack of historical records.

Agri-food companies may expect to be offered a total financing volume by the commercial banks estimated to be approximately EUR 592 m per year. Concerning the loans disbursed by the banks, a key issue as for producers is that commercial banks require a large range of collaterals and guarantees from small and medium sized processors in order to finance them. Large processors have easier access to bank financing as they have historical records in the banking system and banks are generally willing to finance them.

Finally, the volume of financing for beneficiaries in the forestry sector expected to be offered by the commercial banks is estimated to be approximately EUR 110 m per year. The key issues are that commercial banks require a large range of collaterals and that the collaterals which may be offered by the loan applicants are often not adequate.

Farmers, processors and forestry sector participants needs for finance

Agriculture in Croatia is characterised by small farms and low capital investment. Lower agricultural productivity in Croatia, compared to other EU Member States, is correlated to the smaller average size of holdings. The economies of scale offered by modern farming practices have limited impact on the small plots of land typically used in Croatia. The market conditions seem rather unstable: the combination of volatile and declining prices with long payment deadlines makes farmers revenues uneven and uncertain.

Modernisation of production as well as the application of new methods across the value chain, generate needs for investments. Most of the farmers stated that they cannot commit their own capital for investments, since they need it to cover short-term needs. Croatian micro- and small-sized producers, food processors and forestry sector participants feel discouraged when seeking finance. Most of them state that they faced a lack of support from commercial banks and perceive interest rates offered by banks as too high. Furthermore, farmers' assets are often already mortgaged for loans granted in previous periods.

All categories of potential beneficiaries analysed in this report expressed the need for working capital financing but the size of their financing requirements varies considerably depending on their size. Commercial banks consider the agriculture sector as being highly risky, hence adopting a very selective approach to financing.

As described in the report, the total unmet credit demand per year (financing gap) for each sector is as follows: for producers the gap has been estimated to be higher than EUR 464.78 m; for processors, the estimated gap is higher than EUR 768.28 m; and for participants in the forestry sector the estimated gap is higher than EUR 51.79 m. The financing needs for all three categories may be summarised as follows:

- Short-term needs for working capital (e.g. for autumn and spring sowing, cattle breeding, row materials, repairs, etc.)
- Medium and long-term needs related to the financing of investment plans, including working capital needs - mainly for equipment purchases (machinery) and other investments in fixed assets (land purchases, plant extensions, new technology, purchase of the forest area, renewable energy sources investments, etc.)

Investment Strategy

In order to address the market gaps identified in this report, three financial instruments have been identified as potential options to support the financing of agricultural primary production, food processing and forestry activities. These instruments are:

- An **individual guarantee instrument** based on the current HAMAG-BICRO guarantee product, potentially increasing the maximum guarantee rate coverage for investments (from 50% to 70%, and up to 80% for young farmers); and working capital (up to 60% of the guaranteed stand-alone working capital loan). This product aims at reducing the unwillingness of banks to provide loans, increasing their appetite to invest in the sector and, thus, extend the reach of the operation. In addition, this guarantee would be open to the market and provided directly to final recipients. This means that no selection of financial intermediaries would be required, as the guarantee is provided by the Financial Instrument to the individual undertaking. The proposed RDP contribution, based on MA indication of available RDP funds at the time of conducting this study, is set at EUR 17,65 m.
- A **microfinance and small loans instrument** is proposed to facilitate access to finance to micro and small producers, processors and forestry sector beneficiaries, given the large number of micro entities presenting a need for this type of financing support according to our survey, as well as the limited supply. HAMAG-BICRO could potentially be in charge of the implementation of this financial instrument, which could be entirely funded through RDP funds or co-financed by HAMAG-BICRO. The proposed RDP contribution is set at EUR 17,65 m. This instrument would be highly beneficial to those holdings which are at the moment excluded from bank financing (e.g. young farmers or newly created firms with poor/no historical credit records) helping them to cover their financing needs and to enter in the banking system.
- A **co-investment loan instrument** is also proposed to provide additional capital on favourable terms to selected financial intermediaries selected for the disbursement of loans to final recipients. Indeed, further to the issues related to the perception of risk, the market assessment demonstrates that banks also require additional liquidity to finance mature projects with solid business plans. In this regard, the implementation of a loan instrument could be a solution to address the current market failure for this type of projects. This financial instrument could potentially be managed by HBOR, should the MA consider it meets the requirements of Article 7 of the CDR, and implemented through the selection of financial intermediaries. The proposed RDP contribution is set at EUR 35,3 m. In addition to the leverage effect achieved at the level of the intermediary, a co-investment by HBOR could be envisaged to increase the amount available.

As described in the report and based on the analysis performed, the financial instruments proposed, if adopted, would be intended for investment and working capital needs of small and medium agricultural producers, food processors and forestry sector participants. In addition, to assist the implementation of the financial instruments, it is recommended that the Managing Authority considers utilising technical assistance to implement the financial instruments and to support the operations.

Proposed governance structure of the Financial Instruments

Following the discussions held with the MA, the development of financial instrument created at EU level and managed directly or indirectly by the EC is not an envisaged option. The MA does also not plan to manage or implement directly the FI. Furthermore, given the existence of public institutions that have experience in the management of financial instruments, and that have put in place instruments that could be improved with additional funds from the RDP, there does not appear to be a need to invest in the capital of existing or newly created legal entities.

Therefore, assigning the execution of the tasks to mandated entities appears to be the optimal solution for the implementation of the proposed financial instruments. Furthermore, given the number of financial instrument proposed as well as their large scope of action, the Managing Authority could potentially decide to set up a Fund-of-funds (FoF) which could group together the various financial instruments.

The assignment of the execution of tasks to public institutions aiming at the achievement of public interest objectives appears to be the optimal solution, particularly given the existence of two major well-established public institutions (i.e. HAMAG-BICRO and HBOR). These public institutions could potentially fulfil the role of fund manager, subject to the MA satisfying itself that all the necessary regulatory requirements for such appointments are met.

Next steps

The final chapter outlines the steps the MA should take to ensure a rapid, successful and effective implementation of the proposed financial instruments. These steps are:

1. Modification of the RDP
2. Take ownership of the results of the ex-ante assessment
3. Communication and change management
4. Negotiation of the funding agreement
5. Organisational set-up
6. Selection of the financial intermediaries by the fund manager
7. Monitoring and evaluation

Finally, an indicative calendar for the implementation of the financial instruments is presented.

1 Background/Introduction

Financial Instruments for agriculture under EAFRD in Croatia

This Assignment aims to provide analytical support and guidance to the Ministry of Agriculture of the Republic of Croatia (“MIN AGRIC”) as the Managing Authority (“MA”) of the Rural Development Programme (“RDP”)² co-funded by the European Agricultural Fund for Rural Development (“EAFRD”) in the potential use of Financial Instruments (FIs) within the 2014-2020 programming period.

The main objective of the RDP is to support the MA in enhancing farm viability and competitiveness, preserve and enhance ecosystems and promote local development. This will be done within the RDP by:

- Restructuring and modernising the agriculture and food sectors;
- Promoting environmentally sound farming systems;
- Improving resource efficiency and climate resilience in agriculture, food processing and forestry;
- Combating rural depopulation and increasing the quality of life for economic revival; and
- Contributing to the European Union (“EU”) Priorities for rural development.

1.1 Objectives and description of the study

The objective of the study is to examine the potential implementation and use of FIs in agriculture, as specified in the six Investment Priorities of the RDP for Croatia for the 2014-2020 programming period, in support of the Ex Ante Assessment (“EAA”). The study aims to assess the existence of market gaps or deficiencies in the financing of the agricultural production, rural development, agri-food processing sector and forestry sector in Croatia to identify the appropriateness, adequacy and the necessity of the proposed FIs to achieve the investment priorities of the RDP.

On the basis of these Investment Priorities, several measures for specific investments have been created under the RDP. Although the RDP does not currently include any FIs, there is a commitment to explore their possible introduction and the MA is keen to proceed with this work. This Assignment will help the MA consider whether FIs should be developed and introduced into the RDP for Croatia.

The measures which are being investigated under this Assignment (measures that the MA considers most appropriate / relevant, based on available information on RDP implementation) are the following ones:

Mo4 Investments in physical assets, for the Sub-measures:

- 4.1 Support for investments in agricultural holdings; and
- 4.2 Support for investments in processing/marketing and/or development of agricultural products.

² Ex ante study is based on the RDP version 4.2 and therefore any mention of the term RDP allude to that version.

Mo6 Farm and business development, for the Sub-measure:

- 6.4 Support for investments in creation and development of non-agricultural activities.

Mo8 Investments in forest area development and improvement of the viability of forests, for the Sub-measure:

- 8.6 Support for investments in forestry technologies and processing, of forest products.

1.2 Definition of financial instruments and their benefits

FIs are defined as: “Union measures of financial support provided on a complementary basis from the budget in order to address one or more specific policy objectives of the Union. Such instruments may take the form of equity or quasi-equity investments, loans or guarantees, or other risk sharing instruments, and may, where appropriate, be combined with grants” (EU Financial Regulation 966/2012).

The main advantages of using Financial Instruments are the following:

- Revolving nature of funds;
- Leverage effect;
- Incentives for better performance, thus improving project quality;
- Reduce dependency on grants;
- Benefit from expertise and technical assistance.

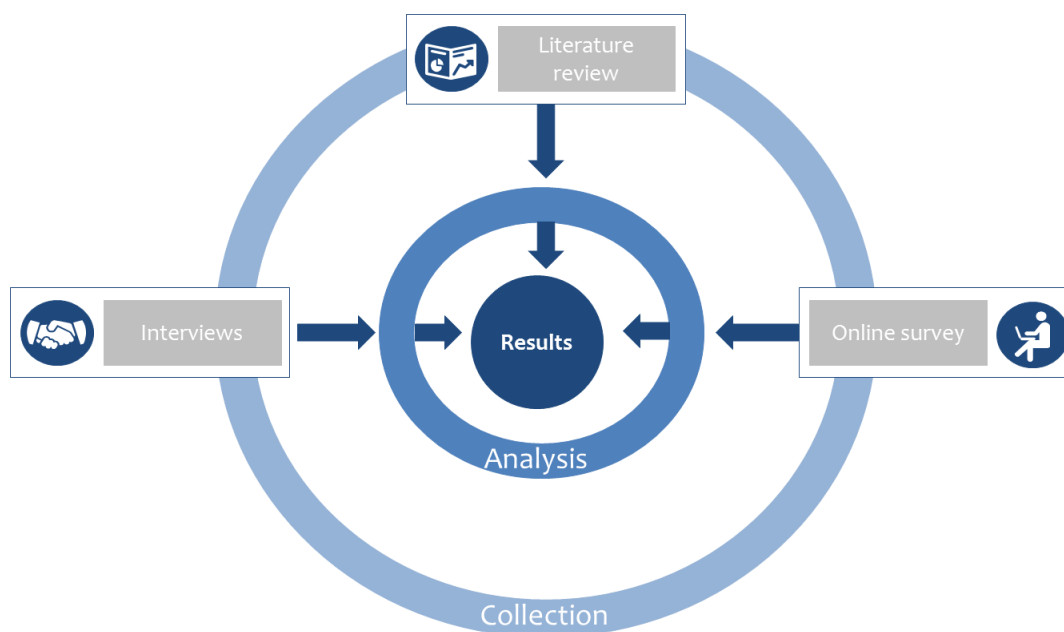
FIs co-funded by the EAFRD can contribute to several cross-cutting EU priorities for rural development:

- Fostering knowledge transfer and innovation in agriculture and rural areas;
- Enhancing farm viability and the competitiveness of all types of agriculture;
- Enhancing the organisation of the food value chain;
- Explore potential for complementarity and synergies with grants schemes;
- Promoting resource efficiency and supporting the shift towards a low-carbon and climate resilient economy in the agriculture and food sectors; and
- Promoting job creation, social inclusion, poverty reduction and economic development in rural areas, in particular through the creation and development of small enterprises, in line with the RDP.

1.3 Methodological approach

The methodological approach for this study consists of comparing the financing demand against the financing offer for the related investment projects. It is based on the principle of triangulation, which ensures that each outcome of the study presented in this report is supported by qualitative and/or quantitative inputs from the financing demand or offer side. The principle of triangulation is illustrated the figure below.

Figure 1: Principle of triangulation



The necessary data and information are collected through the following tools:

- **Desk research** covering existing documentation for the sectors analysed;
- **Interviews with relevant stakeholders**, covering both the demand-side and the supply-side, including the representatives of private and public sector bodies (banks, agricultural organisations, development agencies etc.), in order to collect qualitative data on demand and supply of financing to the agricultural sector, as well as the views of policy makers, other agencies & key experts;
- **Online surveys** targeting Croatian producers of agricultural products, rural SMEs, including those engaged in non-agricultural activities, firms processing agricultural products and forestry activities have been conducted.

These tools are presented in the following paragraphs.

Desk research

As part of the desk research, reports from the MA, EU institutions, including the EIB, statistical data from the EU (Eurostat, FADN) and other relevant sources of information identified through literature review are analysed.

The main documentation for the analysis of the economic context of the agricultural sector are the following ones:

- RDP analysis and strategy;
- Ex-ante evaluation of the RDP;
- Farm indicators extracted from the Farm Accountancy Data Network (FADN);
- EU farm economic series issued by the European Commission (EC);
- Related Eurostat indicators;

- Other documentation provided by the Managing Authority, such as RDP progress report; Studies related to the context of the agricultural sector in Croatia; Data on the financing of the measures and actions under the RDP.

For the supply side, the data and information was collected from FADN, Eurostat and national databases, while national studies and FADN database were consulted for the demand side.

Interviews

A total of 36 interviews have been carried out with the relevant stakeholders:

- Both state-owned and private financial institutions and their associations, representing the supply side;
- Industry and business associations of enterprises from sub-sectors in the scope of this study, which represented the demand side; and
- Governmental authorities, regulatory authorities, representatives of the private sector, such as project contractors, consultants and developers, etc.

To this purpose, the stakeholders were stratified into three tiers:

- **Tier 1:** Key stakeholders (who play a central role in the agricultural sector in Croatia) including policy makers.
- **Tier 2:** Agricultural cooperatives, other policy makers, non-specialised agricultural sectorial banks, agencies & key experts.
- **Tier 3:** Micro-level/ individual stakeholders.

Initial focus was on the **Tier 1 stakeholders**, who provided a good and holistic vision of the sector. Interviews with Tier 2 and additional stakeholders were conducted only if they could provide additional insight regarding situation in the sector. The intention was to gather at least 80% of sector information from Tier 1 stakeholders, and through Tier 2 and Tier 3 to confirm the relevance of the data and cover eventual gaps. The complete interview list is provided in Annex 3.

Online surveys

Online surveys were designed in order to define the financing needs of the potential beneficiaries of the RDP measures examined under this EEA. Six surveys have been performed, covering the following targeted groups:

- Producers (farmers producing agricultural products) and rural SMEs including rural SMEs engaged in non-agricultural activities (503 responses);
- Processors of agricultural products (52 responses) and;
- Three different types of beneficiaries in the forestry sector: private forest owners, licensed forest services providers and pre-industrial producers (85 responses).

All amounts in Croatian kuna (HRK) in this study have been converted to euro using the exchange rate of 7.41 HRK per euro.

2 Key indicators related to the agriculture sector in Croatia

Croatia has a land area of 56,594 km², out of which 63% (35,613 km²) is rural. The country has a population of 4.2 m, out of which approximately 43% live in rural regions, which is around 1.82m inhabitants³. The sector of agriculture, forestry and fishing contributed 4%⁴ to the total Croatia Gross Value Added (GVA) in 2016, which is higher than the EU-28 average of 1.5%. Agriculture in Croatia employed around 7.6% of employed population in 2016, which is also above the average of EU-28 (4.3%).⁵

2.1 Overview of the primary agricultural production in Croatia

2.1.1 Main sectoral data

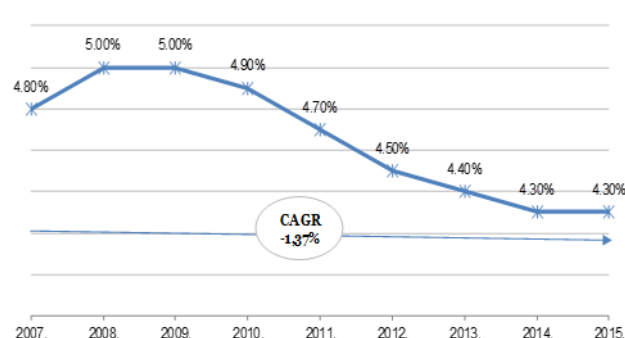
The key indicators of the agricultural sector in Croatia are presented in the following tables and charts.

Table 1: Main agricultural indicators in Croatia

157,450 agricultural holdings in 2013
€ 2.2 bn Agricultural output in 2015
€ 2 bn Standard Output
4.3% the share of agriculture in total GVA
388,370 total farm labour force in 2013

Source: Eurostat, 2013

Figure 2: Sector added value (as % of total GVA)



Source: The World Bank

Table 2: Land utilisation in Croatia

Total agriculture area	Utilised agricultural area	Utilisation %
1,728,100 ha	1,571,200 ha	91%

Source: Eurostat, 2013

Croatian agricultural output has been declining ever since 2008 when it reached its highest value at EUR 3.1 bn. In 2016, EUR 2.2 bn has been achieved (estimated by Eurostat), which is below the value of the output in 2005. Out of all the Member States, Croatia has had the largest drop in agricultural output in 2008-2015 (~ 27%). For the period 2008-2016, the drop is estimated at ~30%.⁶ This could be due to the economic situation and the declining number of agricultural producers.

³ Eurostat (2017): Demographic balance and crude rates by urban-rural typology.

⁴ European Commission (June 2017): Statistical Factsheet – Croatia, available at: https://ec.europa.eu/agriculture/sites/agriculture/files/statistics/factsheets/pdf/hr_en.pdf

⁵ Ibidem.

⁶ Eurostat, 2017.

In the period 2008-2013, gross fixed capital formation fell by EUR 320 m (~ 62%) in agriculture. However, gross fixed investment in agriculture reported growth of ~ 11% in 2014 and then of ~1% in 2015, which could indicate a slow recovery of investments in agriculture.⁷

Most of the supplementary activities of rural SMEs (i.e. non-agricultural) relates to rural tourism. Rural tourism (including mountain areas) represents approximately 3% of total international tourism worldwide, with an annual growth rate of approximately 6%. However, Croatian rural tourism faces underdeveloped domestic demand and an unstimulating environment. Consequently, the rural tourism offer is only developing slowly in Croatia, except in Istria and partially in the Osijek-Baranja County, where growth of the sector is stronger.⁸

2.1.2 Structure and characteristics of the primarily agriculture production

Different institutions monitor farm industry data and/or registers in Croatia, such as the Croatian Bureau of Statistics (CBS), the Paying Agency for Agriculture, Fisheries and Rural Development (PAAFRD) and the Advisory Service. These data could differ from an institution to another one due to the methodology used. According to the preliminary data of the Farm Structure Survey (carried out in 2016 by the CBS) ⁹, there were 148,668 commercial and non-commercial¹⁰ agricultural producers in Croatia. The surveyed farms used 1,571,200 ha of land, with an average of 10 ha per farm, below the average of EU-27 (16.1 ha). 69.4% of farms have less than 5 ha, which is not significantly different from the EU-27 average of 66.3%. Additionally, in Croatia only 0.86% of the holdings are larger than 100 ha, nevertheless covering 40.1% of the total land used.¹¹

According to the PAAFRD data, 170,515 agricultural holdings (AHs) were registered¹² in Croatia at the end of 2016. Most of the agricultural holdings in Croatia (96.86%) were structured as family agricultural holdings (FAHs), 1.50% structured as companies and 1.29% operated as crafts. Only 0.23% of agricultural holdings were structured as cooperatives.

⁷ Croatian Bureau of Statistics, 2017.

⁸ Ministry of Tourism: Croatian Tourism Development Strategy until 2020.

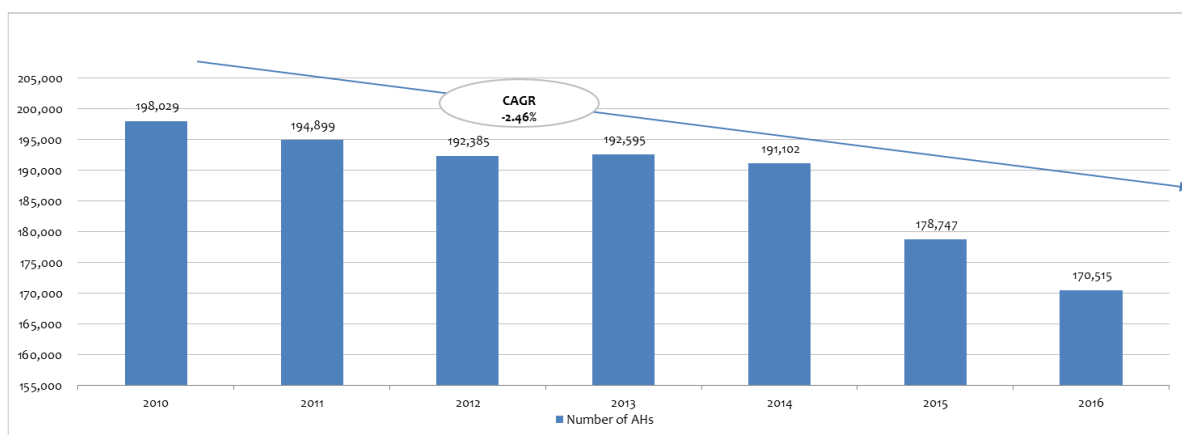
⁹ Findings of the FSS report are preliminary and are not publicly available yet. CBS provided us with data for this assessment.

¹⁰ Many, especially elderly, farmers make only personal use of their agricultural products. Also quite a few farmers are employed in other sectors and see their activity in agriculture only as a secondary activity for their personal and friend's use and or/as a hobby.

¹¹ Ministry of Agriculture: Draft of Strategic Guidelines for Agriculture and Food Processing Industry for the Period 2017-2027.

¹² AHs registered in the Registry of Agricultural Holdings.

Figure 3: Number of agricultural holdings in 2010-2016



Source: PAAFRD - Register of Agricultural Holdings, 2017.

As shown in the figure above, the number of registered agricultural holdings has been decreasing, mainly due to a reduction of the number of family agricultural holdings. Based on the consultations with the interviewed market experts, the reasons for this trend might be the following ones:

- A large number of AHs went out of the business due to a drop in prices of agricultural products;
- Price volatility of agricultural products;
- Low productivity (the lowest level in the EU for some sectors);
- Rural depopulation;
- Break in the agriculture value chain between agricultural producers, processing industry and retail (except in large integrated systems), as the food processing industry relies heavily on imported agricultural products;
- Obsolete technology with high costs for introducing quality and food safety standards;
- Resistance of the agricultural producers to join or form associations and cooperatives;
- Inability to satisfy market demand and ensure continuity of deliveries in the required quantity due to the small size of farms;
- Poor infrastructure, e.g. irrigation, storage capacities, refrigerators, logistics;
- Relatively high labour cost;
- High tax burden.

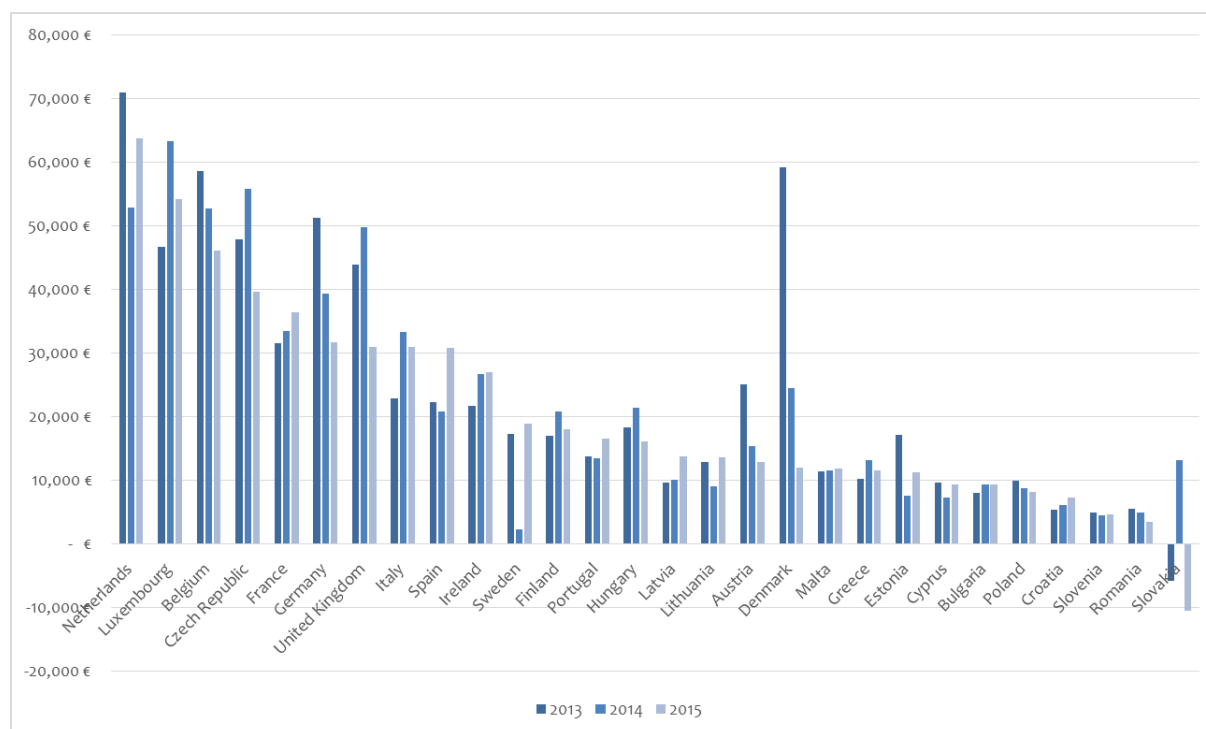
Furthermore, during interviews the PAAFRD representatives highlighted that only around 106,000 are considered as active out of the 170,000 AHs registered in 2016¹³. There seems to be a small number of “major” commercial agricultural producers (up to 10,000) and a predominant part of the agricultural sector is focused on the traditional non-commercial production.

¹³ Under the term “active AHs”, PAAFRD considers the AHs that apply for direct payments.

2.1.3 Financial situation of the sector

Both farm net income¹⁴ and farm net value added¹⁵ registered a slight increase from 2013 to 2015. Compared to other MSs, the value of the Croatian farm net income (in 2015, last available data) was less than a half of the EU average (around 35% of the EU average) and nine times lower than the net farm income in the Netherlands, the country with the highest value. In 2015, the value of the farm income in Croatia was higher than in Slovakia, Romania and Slovenia.¹⁶

Figure 4: Farm net income per MS for 2013-2015



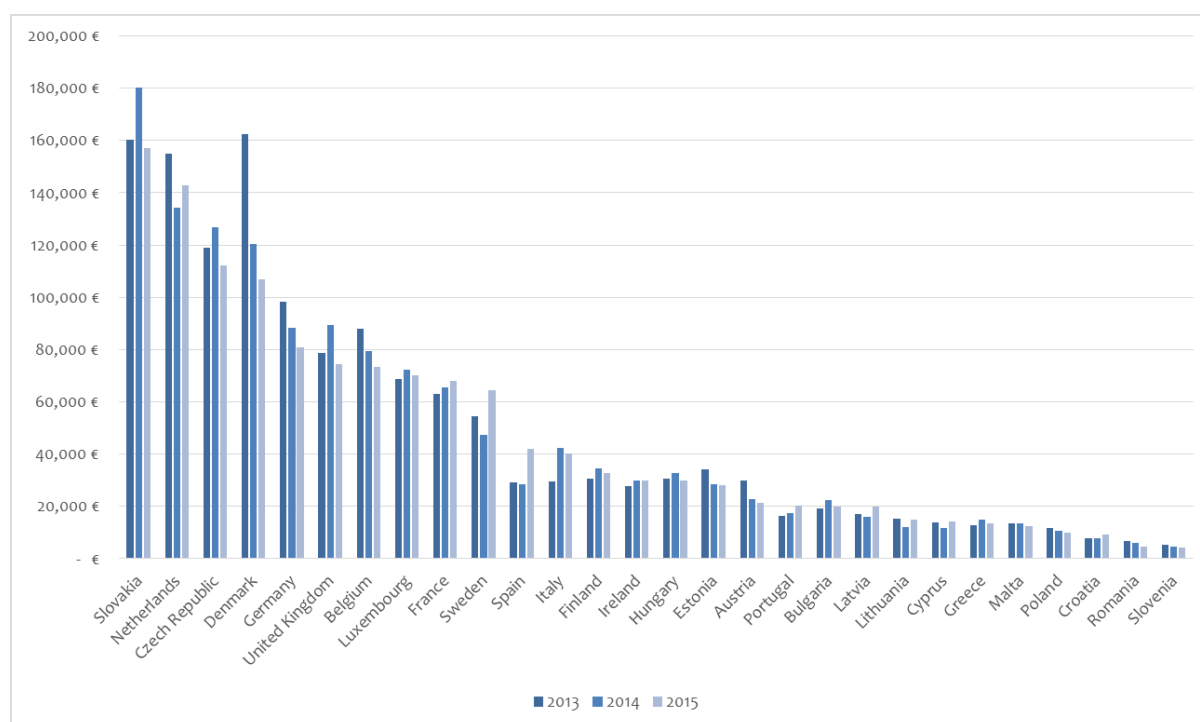
Source: Analysis based on data from the EUFADN Database.

In 2015, the farm value added in Croatia was among the lowest in the EU, the value added was only lower in Slovenia, Slovakia, and Romania. In terms of progress, the value added slightly increased when compared to 2013, as indicated in the figure below.

¹⁴ Farm net income (FNI): After deduction of the external factors of production from the farm net value added and by adding the balance of subsidies and taxes on investments, we get the remuneration of family labour, own land and own capital which can be considered as farm net income.

¹⁵ Farm net value added (FNVA) is used to remunerate the fixed factors of production (labour, land and capital) whether they are external or family factors. In order to obtain a better measurement of the productivity of the agricultural workforce and to take into account the diversity of farms, FNVA is also calculated by annual working unit (AWU, work of one person occupied full time on a farm).

¹⁶ Analysis based on data from the EUFADN database.

Figure 5: Farm net value added per MS for 2013-2015

Source: Analysis based on data from the EUFADN Database.

Overall, the presented farm indicators in Croatia are below the EU average. This is due to the sector's low productivity and its structure, i.e. smaller farms dominate the Croatian agricultural sector.

2.2 Overview of the food processing sector in Croatia

2.2.1 Main sectoral data

The food and beverage sector¹⁷ generates 4%¹⁸ of the Croatian GDP. Its main indicators are presented in the table and the figure below.

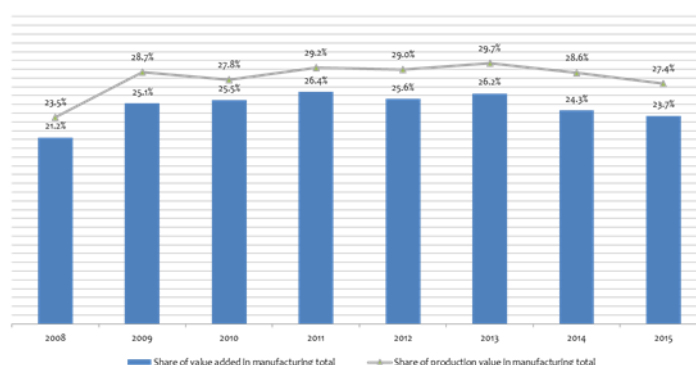
¹⁷ Companies operating in NACE activities c10 (Manufacture of food products) and c11 (Manufacture of beverages). This general section of the study is based on publicly available sources which only include data for the entire Food and Beverage industry. However, the ongoing online survey is being implemented for enterprises which operate under NACE codes for the Food and Beverage industry and process products listed in the Annex I of the Treaty on the Functioning of the European Union.

¹⁸ Ministry of Agriculture: Draft of Strategic Guidelines for Agriculture and Food Processing Industry for the Period 2017-2027.

Table 3: Main indicators for food & beverage industry in Croatia

Data for 2015
3,256 ¹⁹ - Number of enterprises
€ 5.34 ²⁰ bn - Turnover
60,966 ²¹ - Number of employees
€ 1.07 ²² bn - Exports
€ 1.9 bn ²³ - Imports

Figure 6: Share of value added and production value in manufacturing sector



Source: Eurostat - Structural Business Statistics, 2017.

In 2015, the food and beverage sector consisted of approx. 3,200 enterprises, which generated 30% of the total manufacturing sector turnover and which employed approx. 61,000 employees, constituting 24% of the total processing sector's workforce.²⁴

The food-processing industry generates around EUR 853 m annual revenue. Additionally, the agricultural sector accounts for 38% of the total intermediate consumption of the food-processing sector. Moreover, this sector has an impact on the development of the sectors whose products are supplied for packaging. As a result, it further generates 11% of the paper industry revenue and 21.5% of the rubber and plastic production revenue. These figures are significant because of its multiplying effect on other sectors: if the demand for food products increased by HRK 1 m (~ EUR 135,000), that would lead to a total GDP growth of approx. HRK 1.96 m (~EUR 265,000) and would generate additional 1.95 work places. Compared to other industrial sectors, this is the third largest multiplier effect on total GDP and employment.²⁵

2.2.2 Structure and characteristics of the Croatian food processing sector

More than 62% of total revenues generated in the food and beverage sector come from 1.26% of enterprises as presented in the figure below.

¹⁹ Eurostat: Structural Business Statistics, 2017.

²⁰ Ibidem.

²¹ Ibidem.

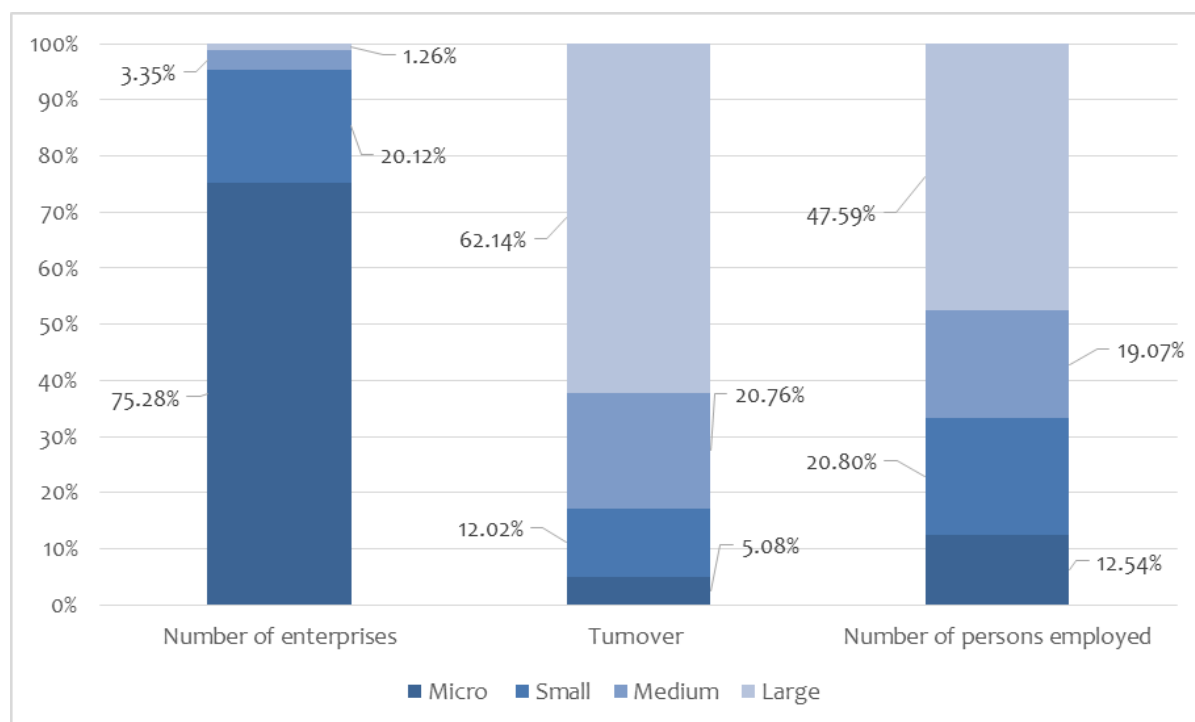
²² Croatian Bureau of Statistics: Statistical Yearbook of the Republic of Croatia 2016, page 403.

²³ Ibidem.

²⁴ Eurostat, 2017.

²⁵ Ministry of Agriculture: Draft of Strategic Guidelines for Agriculture and Food Processing Industry for the Period 2017-2027.

Figure 7: Companies' segmentation based on the total number of employees, 2015



Source: Eurostat, Small Medium Enterprises Analysis, 2017.

2.2.3 Financial situation of the food processing sector in Croatia

Companies in the Food & Beverage sector have managed to restructure their liabilities after a challenging period of economic crisis. EBITDA, total revenues and total assets of the F&B industry experienced an increase in 2015.²⁶

Figure 8: Total revenues in EUR bn

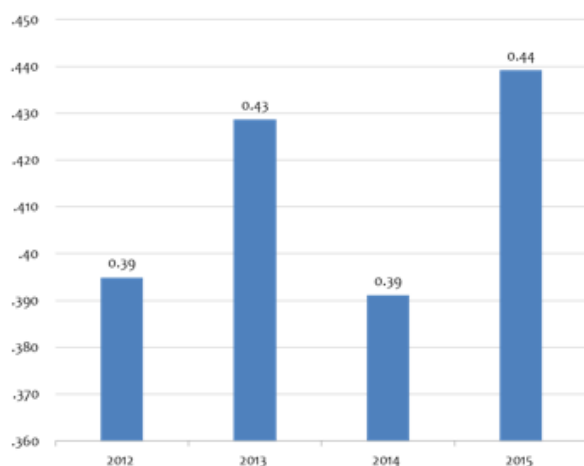
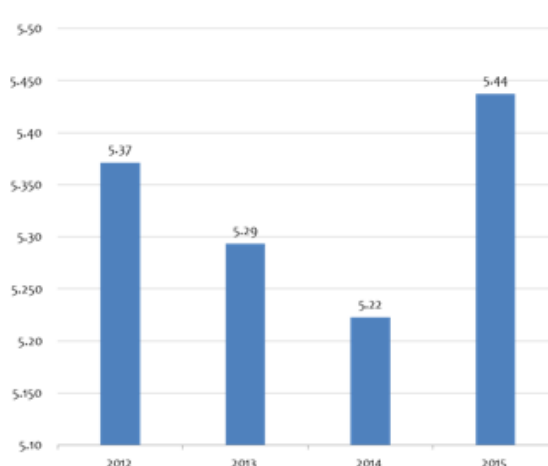


Figure 9: EBITDA in EUR bn

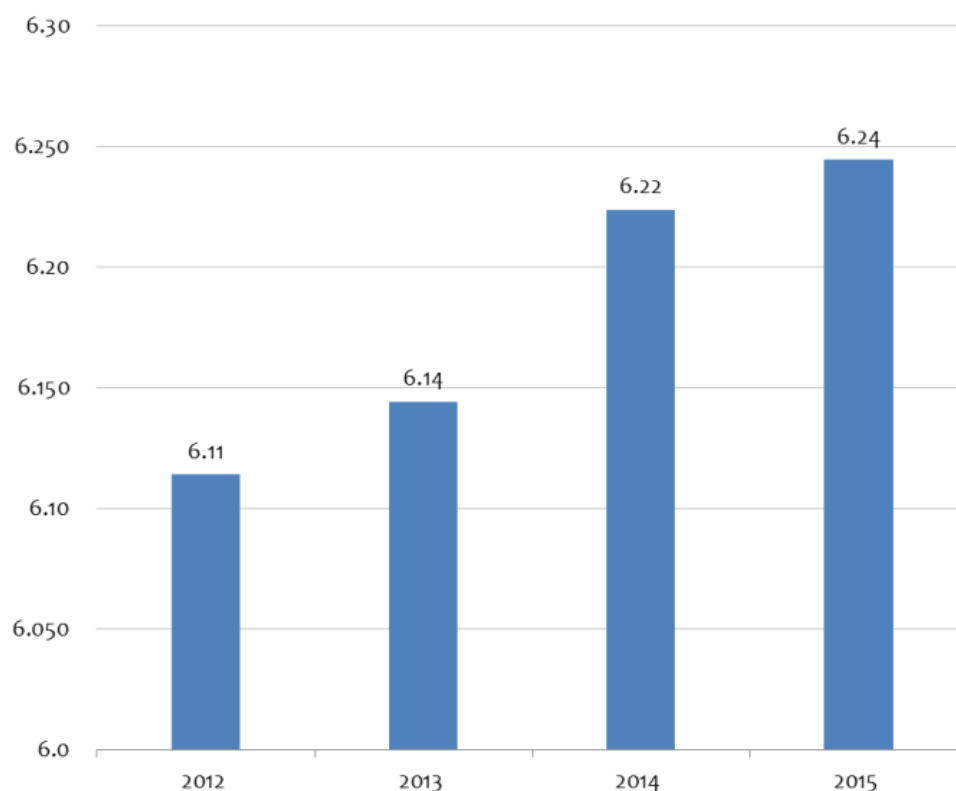


Source: Analysis based on data from Fininfo, 2017.

²⁶ Please note that the 2016 data were not considered, as the companies included in a major regional holding, Agrokor Group have not published their financial statements for 2016, due to the financial crisis in that holding. These companies have a large share in the F&B sector.

The total revenues of the food & beverage sector increased by 1.22% in the 2012-2015 period, while the total manufacturing industry experienced a decrease of 4.96% in the same period. They constituted 23.18% of the total revenues of the manufacturing industry in 2012, while in 2015 they amounted to 24.82%.

Figure 10: Total assets in EUR bn



Source: Analysis based on data from Fininfo, 2017.

In 2015, the return on assets (ROA) for the total manufacturing industry equalled to 1.53%, the ROA for the food sector was 1.13%, while for the beverage sector the ROA amounted to 0.13%.

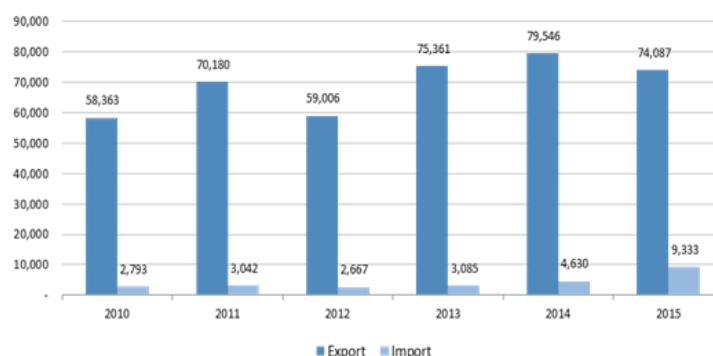
2.3 Overview of the forestry sector and related activities

2.3.1 Main sectoral data, structure and characteristics

The key indicators of the forestry sector are presented in the following table and chart.

Table 4: Main data on forestry in Croatia (in 2015)

€ 122 m – Interm. consumption
€ 190 m - Gross Value Added
€ 17 m - Consumption of fixed capital
€ 172 m - Net Value Added
€ 311 m - Total output

Figure 11: Export and Import of Forestry and Logging (in EUR '000)

The total forestland area in 2016 amounted to 2.8 million hectares. Around 78% of forests and forestland is owned by the state, while the remaining 22% is privately owned. In 2014, the share of forestry sector in GDP was 1.5%.²⁷

2.3.2 Structure and characteristics of the forestry sector in Croatia

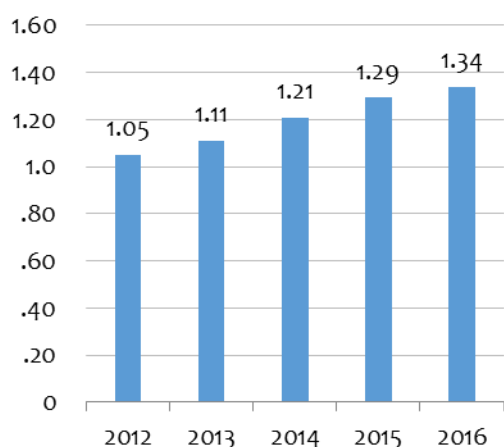
Approximately 96% of the state-owned forests are managed by the state owned company Croatian Forests. Total logging in both state-owned and privately owned forests in 2016 decreased by 0.3% in comparison with 2015. Expressed in round wood, it was a decrease of approx. 14,000 m³. The total value of wood sold in 2016 as compared to 2015 increased by 5.8%, while average prices decreased by 0.6%. An increase in values was recorded for every type of wood except for pulpwood and coniferous firewood.

2.3.3 Financial situation of the sector

The forestry sector records continuous growing rates on a yearly basis, only slightly declining from the steady progress in 2016, when EBITDA decreased by EUR 0.13 bn in comparison to 2015. Total revenues have increased by 27.6% in the period from 2012 to 2016. Positive trends in the sector are presented in the figures below.

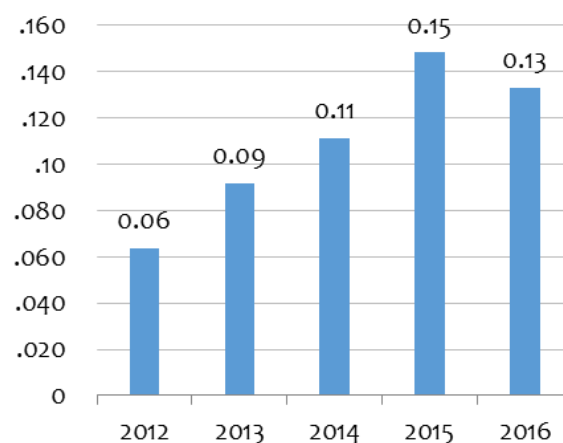
²⁷ European Forest Institute: Forest Land Ownership Change in Croatia, 2016.

Figure 12: Total revenues in EUR bn

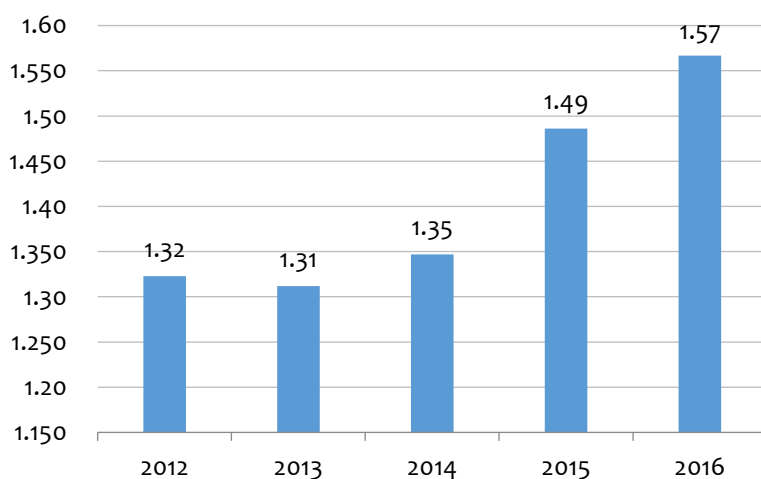


Source: Analysis based on data from Fininfo, 2017.

Figure 13: EBITDA in EUR bn



Source: Analysis based on data from Fininfo, 2017.

Figure 14: Total assets in EUR bn²⁸

Source: Analysis based on data from Fininfo, 2017.

2.4 Main outcomes

The key features of the agricultural sector in Croatia are listed below:

1. The agriculture is an important sector for the Croatian economy, comprising 4% of the total Croatian Gross Value Added (GVA) and employing around 7.6% of the employed population in 2016;
2. Croatia is facing a declining trend of agricultural output ever since 2008 when the highest value of EUR 3.1 bn was reached, with only EUR 2.2 bn in 2016; As estimated by Eurostat Croatia's agricultural output dropped by approximately 30% during this period;
3. The food and beverage sector is very important for the Croatian economy. Consisting of 3,200 enterprises, which generated 30% of the total manufacturing sector turnover and

²⁸ Companies in forestry sector engaged in forestry and logging, sawing and planning of wood.

employing 61,000 people (24% of the total processing sector's workforce), the sector is a strong driver of the Croatian economy.

The food-processing industry generates around EUR 853 m of the agricultural sector annual revenue. However, it also shows a large disparity in market power between large and small businesses, as more than 62% of total revenues is generated by 1.26% of enterprises;

4. The Forestry sector has great potential in deriving added value for the economy with a strong orientation on exports and constant growth it has shown in the last few years.

3 Investment priorities for the agricultural sector in Croatia in the 2014-2020 programming period

3.1 Common Agricultural Policy in Croatia

The Common Agricultural Policy (CAP) is the agricultural policy of the European Union. The CAP helps EU farmers through income support and market measures, while ensuring a sustainable rural development. It strengthens the competitiveness and sustainability of the agricultural sector by providing direct payments aimed at stabilising farm revenues and financing projects responding to country-specific needs through Rural Development Programmes, which also cover wider rural economy.

Prior to Croatia's accession to the European Union on 1 July 2013, the EU invested into the rural development of the country through the Instrument for Pre-accession Assistance in Rural Development (IPARD)²⁹. From 2014 to 2020, more than EUR 3.5 bn³⁰ shall be invested in the Croatian farming sector and rural areas under the CAP.³¹

According to the CAP, a country has the flexibility to adapt both direct payments and their Rural Development Programme to its specific needs. Among other measures, Croatia opted for a transfer of 15% of its rural development allocation to its direct payment allowance in the period 2015-2020, which represents a shift of EUR 299 m over the period.³²

3.2 Rural Development Programme for Croatia under the Common Agricultural Policy

The Rural Development Programme for the 2014-2020 programming period was adopted by the EC in May 2015. The RDP presents the priorities for the use of EUR 2.3 bn dedicated funds (EUR 2 bn from the EAFRD and EUR 0.3 bn of national contribution).

The main objective of the RDP is to restructure and modernise the farm and food sectors, while putting an emphasis on the restoration, preservation and enhancement of biodiversity³³. In particular, it is foreseen that approximately 2,000 agricultural holdings will receive investment support, 5,000 farmers will receive a start-up aid for the development of small farms and around 1,000 young farmers will also be able to benefit from this support to launch their agri-businesses. Furthermore, investment support for the conversion and maintenance of organic farming will be provided on nearly 60,000 ha, whereas agri-environment-climate measures will be implemented on a further 40,500 ha. 10% of the funds will be earmarked for renewable energy production and around 42,000 people will be trained on farming and forestry. In addition to these support measures, Croatia will also implement the European Innovation Partnership, which is expected to support the diversification process and the development of rural activities through the creation of 2,000 non-agricultural jobs.

²⁹ IPARD was launched in Croatia in 2007 and in total 54 million euros of its funds have been disbursed to end users

³⁰ Total allocation of direct payments and rural development for the period 2014-2020 (in current prices)

³¹ European Commission, the Common Agricultural Policy (CAP) in your country - Croatia: https://ec.europa.eu/agriculture/sites/agriculture/files/cap-in-your-country/pdf/croatia_en.pdf

³² Ibidem.

³³ European Commission, Croatia's Rural Development Programme for 2014-2020

3.3 Investment Priorities of the Rural Development Programme in Croatia

3.3.1 Presentation of the six main investment priorities

The RDP is structured into six main investment priorities and several focus areas under each investment priority. By combining the focus areas and the investment priorities, several measures for specific investments have been created under the RDP. The following paragraphs present the six main investment priorities of the Rural Development Programme.

1. Knowledge transfer and innovation in agriculture, forestry and rural areas

The RDP aims to support transfer of knowledge, information, advisory services, farm management and farm relief services and co-operation. In order to achieve this objective, around 42,000 people will be trained to raise awareness, knowledge and skills of employees in these sectors. In addition, 109 co-operation projects and 33 Operational Groups are foreseen under the European Innovation Partnership.

2. Competitiveness of agricultural sector and sustainable forestry

As mentioned in the previous sub-section, approximately 2,000 holdings are expected to receive investment support within the priority to modernise their business and foster their competitiveness. Start-up aid will be provided to a large number of small farmers and around 1,000 young people will benefit from the support to launch an agricultural activity. In addition to activities linked to the agricultural sector, more than 1,200 holdings will benefit from support to investments in non-agricultural activities in rural areas. Support is also foreseen for modernisation of forest technologies and construction of forest infrastructure.

3. Food chain organisation, including processing and marketing of agricultural products, animal welfare and risk management in agriculture

In order to reduce the distance within the agricultural supply chain, approximately 1,500 farms will receive support to participate in quality schemes, local markets, short supply chains and producer organisations³⁴. Nearly 1,000 farms will benefit from quality schemes for farm products while around 110 farms will participate in cooperation projects and local promotion related to the supply chain. In addition to this, provision of support is also foreseen for setting up 33 producer groups. Around EUR 118 m will be used to restore agricultural infrastructure damaged by natural disasters and catastrophic events, whereas 3.5% of farms will participate in risk management schemes.

³⁴ Through the EU quality schemes, the Common Agriculture Policy provides tools to help highlight the qualities and tradition associated with registered products and to assure consumers that these are the genuine products, not imitations seeking to benefit from the good name and reputation of the original. As a result, these schemes and their logos help producers/groups of producers market their products better, while providing them legal protection from misuse or falsification of a product name.

4. Restoring, preserving and enhancing ecosystems related to agriculture and forestry

Support for conversion to organic farming will cover 16,496 ha, while the maintenance of organic farming will be supported on 41,648 ha, leading to an increase of the organic area by 40%. Agri-environment-climate measures will be implemented on 40,500 ha. Investments which improve the resilience and environmental value of forest ecosystems will be supported through more than 4,500 projects covering 6,300 ha, while payments for areas with natural constraints are planned to cover 422,000 ha.

5. Resource efficiency and climate

Renewable energy production will be supported via almost 800 operations for investments. The management of 3.7% of the country's livestock will be improved which will reduce greenhouse gas and/or ammonia emissions. Nearly 1% of agricultural and forest land under management contracts will contribute to carbon sequestration and conservation.

6. Social inclusion and local development in rural areas

The Programme aims to create more than 2,000 non-agricultural jobs through the diversification and development of small enterprises. Forty-five LEADER Local Action Groups will be selected to implement local development strategies, covering 40% of the rural population. Approximately 30% of the rural population will benefit from improved infrastructure.

These priorities of the RDP are briefly presented in the table below, extracted from the Annex I of the Factsheet on the 2014-2020 Rural Development Programme for Croatia.³⁵

Table 5: Indicative public support for the Croatian Rural Development Programme

Target	Measure	€ total public	%
Priority 1: Knowledge transfer and innovation in agriculture, forestry and rural areas		No financial allocation shown for Priority 1 as the expenditure is distributed across other focus areas.	
1A: Fostering innovation, cooperation, knowledge base - 1.80% of RDP expenditure	01 knowledge		
	02 advisory		
	16 cooperation		
1B: Strengthening links (with research etc.) - 109 cooperation projects	16 cooperation		
1C: Training - 14 999 participants trained	01 knowledge		
Priority 2: Farm viability, competitiveness and sustainable forest management		711,003,205	29.8
2A: Economic performance, restructuring & modernisation - 0.78% of holdings with RDP support	01 knowledge	4,000,000	0.2
	02 advisory	2,117,647	0.1
	04 investments	358,877,647	15
	06 farm / business development	79,764,705	3.34

³⁵ European Commission: Factsheet on 2014-2020 Rural Development Programme for Croatia

Target	Measure	€ total public	%
	16 cooperation	7,500,000	0.3
	18 CNDPs	13,975,000	5.9
2B: Generational renewal - 0.43% of holdings with RDP supported business development plan/investments for young farmers	01 knowledge	2,000,000	0.1
	02 advisory	2,117,647	0.1
	06 farm / business development	50,222,222	2.1
2C+: Improve the sustainability and competitiveness of forest enterprises and promote Sustainable Forest management	04 investments	21,345,882	0.9
	08 forest investments	43,182,453	1.8
Priority 3: Food chain organisation, including processing and marketing of agricultural products, animal welfare and risk management		278,956,380	11.7
3A: Improving competitiveness of primary producers - 0.63% of agricultural holdings receiving support for participating in quality schemes, local markets and short supply circuits, and producer groups/organisations	01 knowledge	666,666	0.03
	03 quality schemes	7,058,823	0.03
	04 investments	86,717,647	3.6
	09 producer groups	8,888,888	0.4
	16 cooperation	833,333	0.03
3B: Farm risk prevention and management - 3.54% of farms participating in risk management schemes	05 restoring agric. potential	118,117,647	5
	17 risk management	56,673,373	2.4
Priority 4: Restoring, preserving and enhancing ecosystems in agriculture and forestry		659,748,724	27.7
4A Biodiversity - 0.25% of forest/other wooded area under contracts - 7.68% of agricultural land under contracts	01 knowledge	6,666,666	0.3
	02 advisory	16,941,176	0.6
	04 investments	26,682,352	1.1
4B Water management - 5.18% of agricultural land under contracts 0.25% of forestry land under contracts	08 forest investments	47,881,224	2
	10 AEC	111,667,680	4.7
	11 organic farming	128,309,623	5.4
4C Soil erosion and management - 5.18% of agricultural land under contracts 0.25% of forestry land under contracts	13 ANC	321,600,000	13.5
Priority 5: Resource efficiency and shift to low carbon and climate resilience economy in agriculture, food and forestry sectors		278,956,380	11.7
5C Renewable energy - Total investment in renewable energy production	04 investments	94,055,294	3.9

Target	Measure	€ total public	%
5D Reducing GHG and NH₃ - 3.71% of LU (Live-stock Unit) concerned by investments in live-stock management in view of reducing GHG (Green House Gas) and/or ammonia emissions - 0.91% of agricultural land under management contracts targeting reduction of GHG and/or ammonia emissions	04 investments	79,380,000	3.3
	10 AEC	9,930,000	0.4
5E Carbon conservation and sequestration - 0.92% of agricultural and forest land under management contracts contributing to carbon sequestration or conservation	10 AEC	17,232,600	0.7
Priority 6: Social inclusion, poverty reduction and economic development in rural areas		468,241,752	19.6
6A Diversification, creation of small enterprises and jobs - 2014 jobs created in supported projects	06 farm / business development	132,941,176	5.6
	08 forest investments	1,877,497	0.07
6B LEADER - 39.63% rural population under local development strategies - 29.78% rural population with improved services/infrastructure - 180 jobs created (via LEADER)	07 basic services	265,882,352	11.2
	19 LEADER and CLLD	67,540,725	2.8
Technical Assistance		64,746,543	2.7
Total public expenditure in €		2,383,294,499	100

Source: European Commission (EC): Factsheet on 2014-2020 Rural Development Programme for Croatia.

3.3.2 Measures that will be examined for FIs

The MA has not programmed the use of FIs within the RDP. However, in line with the purpose of this study, it was proposed that the possibility of implementing FIs could be assessed during Programme implementation within the evaluation activities planned in the Evaluation Plan, particularly concerning measures relating to Priority 2 and – if so – propose the modification of the RDP. At the moment, there is a commitment to explore a possible introduction of Financial Instruments and the MA is keen to proceed with this work³⁶. This report will help the MA consider whether FIs should be developed and introduced into the RDP for Croatia.

The sub-measures for which the use of FI is envisaged and that have been examined under this Assignment are presented below.

³⁶ The process of the RDP modification has to be further defined with the MA. It could start in December 2017.

Mo4 – Investing in physical assets

This measure has a significant weight within the framework of the RDP, given its importance to foster and consolidate the whole agricultural, food-processing and forestry system in Croatia, increasing competitiveness, productivity and economic viability of the sector. A detailed description of the existing sub-measures, including the envisaged types of support, the targeted beneficiaries as well as the eligibility conditions and the applicable amounts and support rates are detailed in the RDP of the Republic of Croatia for the period 2014-2020³⁷.

Support will be provided to increase the competitiveness of farms through an increased production capacity, the modernisation of existing farms and the improvement of the quality of the product by introducing new technologies and innovation, leading to the creation of sustainable market economies. Further to this, the replacement of fossil fuels with renewable sources of energy, as well as an easier access to newly-constructed and better-maintained forest roads will lead to a more efficient way of producing and supplying, reducing production costs in forest/poorly communicated areas. The overarching objective of this measure is to facilitate the integration of primary producers into the food chain through processing and placement of agricultural products on the market and promotion of the local market chain and short supply chains.

Within the Mo4, the use of FI is envisaged for the following sub-measures under this assignment:

- Sub-measure 4.1 - Support for investments in agricultural holdings;
- Sub-measure 4.2 - Support for investments in processing/marketing and/or development of agricultural products.

A detailed description of these Sub-measures, including the envisaged types of support, the targeted beneficiaries as well as the eligibility conditions and the applicable amounts and support rates are detailed in the 2014-2020 Croatian RDP.

Mo6 – Farm and business development

The structure of the rural economy in Croatia is unfavourable compared to other EU countries. The agricultural sector is composed by a very high number of small agricultural holdings presenting a weak economic sustainability, resulting in poor living and working conditions for the population, low employment opportunities and a significant migration trend of younger people to cities. Hence, the creation and development of new economic activities in the form of new farms and businesses, and the development of non-agricultural activities are essential to foster the competitiveness of rural areas.

In addition to the development of agricultural activities and small farms which are potentially economically sustainable, there is a need to encourage the diversification into non-agricultural activities in rural areas, therefore contributing to the creation of new jobs and responding to the slowdown of economic activities that rural areas are facing. To tackle the migration trend, the

³⁷ European Commission, Rural Development Programme of the Republic of Croatia for the Period 2014-2020 http://ruralnirazvoj.hr/files/documents/Programme_2014HR06RDNP001_3_1_en.pdf

support of young farmers is needed to contribute to the generational renewal in the agricultural economy.

Within the Mo6, the use of FI is envisaged for the following sub-measure under this assignment:

- Sub-measure 6.4 - Support for investments in creation and development of non-agricultural activities.

A detailed description of this Sub-measure, including the envisaged types of support, the targeted beneficiaries as well as the eligibility conditions and the applicable amounts and support rates are detailed in the 2014-2020 Croatian RDP.

Mo8 – Investments in forest area development and improvement of the viability of forests

Forest ecosystems have become increasingly sensitive. Therefore, a special attention must be taken to preserve them and increase their resilience and environmental value. In addition to the economic role of the forest, their value is also represented by the ecosystem services they provide. Given its importance, Forest Management Plans are being implemented to ensure revenue stability and ecologically and socially responsible forest management while preserving and enhancing biodiversity, hence ensuring forest functions for the public benefit and the long-term economic value of forest ecosystems.

In addition to the protection of forest ecosystems, there is a need for increasing efficiency, environmental friendliness, ergonomics and the safety of work processes in wood and silvicultural works through the modernisation of existent and the introduction of innovative and environmentally friendly technologies, machines, tools and equipment. Investments in these technologies are expected to increase the availability and utilisation of wood as a material, but also of wood as a renewable source of energy (wood biomass). This should lead to a sustainable increase of the economic value of forests and the efficiency of wood harvesting.

Within the Mo8, the use of FI is envisaged for the following sub-measure under this assignment:

- Sub-measure 8.6 - Support for investments in forestry technologies and processing of forest products.

A detailed description of this sub-measure, including the envisaged types of support, the targeted beneficiaries as well as the eligibility conditions and the applicable amounts and support rates are detailed in the 2014-2020 Croatian RDP.

Remaining allocations for the sub-measures 4.1, 4.2, 6.4 and 8.6

The remaining allocations as at 31st October 2017, based on calculation for the presented sub-measures, by Type of Operation are presented in the following table.

Table 6: Remaining allocation for the presented sub-measures within Mo4, Mo6 and Mo8 in EUR

Type of operation (TOP)	Indicative plan for 2014-2020 (EU + national)	Indicative plan for 2014-2020 (EU)	Indicative plan for 2014-2020 (national)	Potential of utilisation based on implemented / announced Calls for Proposals %	Indicative remaining allocation (EU + national) (€)
4.1.1. Restructuring, modernisation and increasing competitiveness of agricultural holdings	226,800,000	192,780,000	34,020,000	82.91%	38,768,421
4.1.2. Disposal, handling and use of manure fertilizer in order to reduce the harmful effects on the environment	79,380,000	67,473,000	11,907,000	81.55%	14,643,158
4.1.3. Use of Renewable Energy Sources	47,027,647	39,973,500	7,054,147	20.20%	37,527,647
4.2.1. Increase of added value of agricultural holdings	86,717,647	73,710,000	13,007,647	100.00%	0.00
4.2.2. Use of Renewable Energy Sources	47,027,647	39,973,500	7,054,147	0.00%	47,027,647
6.4.1. Development of non-agricultural activities in rural areas	66,470,588	56,500,000	9,970,588	0.00%	66,470,588
8.6.1. Modernisation of technology, machinery, tools and equipment for wood harvesting and forestry works	21,591,227	18,352,543	3,238,684	32.60%	14,551,753
8.6.2. Modernisation of technologies, machines, tools and equipment in pre-industrial wood processing	21,591,227	18,352,543	3,238,684	18.28%	17,643,858

Source: Data delivered by the MA, remaining allocation as at 31st October 2017.

The process to amend the RDP has been initiated by the MA and it is understood that engagement between the MA and DG AGRI is underway. The interim findings of this Assignment have been previously shared with the MA with a view to informing the review of the allocation of resources. This Final Report will similarly contribute to the process to revise the RDP.

Following discussions with the MA this Assignment assumes that EUR 60 million will be committed to Financial Instruments for the remainder of the 2014-2020 programming period.

4 Experiences from the establishment of financial instruments in the agricultural sector

4.1 Previous experiences with financial instruments in Croatia

So far in Croatia, there were no ESIF funded FIs dedicated to the agricultural sector. However, Croatia has recent experience with FIs under the Thematic Objective 3 ('TO3'- Enhancing the competitiveness of small and medium-sized enterprises) of the Operational Programme Competitiveness and Cohesion 2014-2020 (OPCC), co-financed by the ERDF. The implementation of those FIs has been entrusted to Croatian Agency for SMEs, Innovations and Investments (HAMAG-BICRO) and to the Croatian Bank for Reconstruction and Development (HBOR)³⁸. HAMAG-BICRO has been managing an FI in the form of a guarantee programme dedicated to SMEs since 2016. Additionally, HBOR has recently (as of December 2017) been appointed as the manager for the implementation of an FI (loan programme) for Energy Efficiency under the Thematic Objective 4 (TO4), Priority axis 4 of the OPCC. Both HAMAG BICRO' and HBOR's programmes will be presented in more details later in this chapter.

Furthermore, Croatia has completed an ex-ante assessment in 2015 for the introduction of FIs in the following Thematic Objectives³⁹:

- Strengthening research, technological development and innovation ('TO1');
- Supporting the shift towards a low-carbon economy in all sectors ('TO4');
- Promoting sustainable transport and removing bottlenecks in key network infrastructures ('TO7').

The FIs in scope of that study have not been implemented by December 2017..

HBOR has been financing the agricultural sector through several lending programmes, notably within the framework of pre-accession and accession instruments, such as the Instrument for Pre-Accession Assistance for Rural Development (IPARD) and the Special Accession Programme for Agricultural and Rural Development (SAPARD).

HAMAG-BICRO also offer financial products (guarantees) financed from the national budget, dedicated to the agriculture sector.

4.1.1 Croatian Bank for Reconstruction and Development (HBOR)

HBOR was founded by the Republic of Croatia and is entirely state-owned. Within the Croatian banking system, HBOR plays the role of a development and export bank established to support the reconstruction and sustainable development of Croatia. HBOR's lending activities cover a large segment of the Croatian economy, including areas of interest for this study, such as the agri-food sector and the forestry sector.

³⁸ The ex-ante assessment for the introduction of FIs under TO3 of the OPCC may be found at the following link: http://www.strukturnifondovi.hr/UserDocImages/Documents/2_FINAL_Ex%20ante%20Assessment%20Report_v.1.2_change_log_19%2004%202017.pdf

³⁹ The ex-ante assessment for the introduction of FIs under TO1, TO4 and TO7 may be found at the following link: http://www.strukturnifondovi.hr/UserDocImages/Za%20web/4%20-%20Assessing%20the%20potential%20of%20future%20use%20of%20FI%20in%20Croatia_TO1_TO4_TO7.pdf

From the beginning of its credit activity in 1992 to the end of 2016, HBOR approved 8,864 loans (23.5% of total loans approved) for agriculture. The loans were approved for a total amount of HRK 7.17 bn (EUR 968 m) or around 7% of HBOR's total credit activity.

The total number of approved loans accompanying IPARD (measures 101⁴⁰ and 103⁴¹), SAPARD, and Rural development measures until the end of 2016 was 349, with the total amount of HRK 2,097 m (EUR 283 m).

From 2005 to 2010, within the national Operative Programmes⁴² dedicated to pig-breeding, cattle breeding, perennial plantations, HBOR approved 493 loans. HAMAG-BICRO issued guarantees equalled to 50% of the approved loan amount. Guarantees were approved to 367 loan beneficiaries (75%). Out of the total number of extended loans, 87% were loans granted to FAHs.

Experience with financial instruments for SMEs

As stated above HBOR manage an FI for SMEs, co-financed by the OPCC that provides "Growth and Expansion Loans". Three banks were chosen as financial intermediaries for this fund: Zagrebačka banka, Privredna banka Zagreb and Erste & Steiermärkische Bank.

The fund was launched in October 2017. The total allocation of the fund is approximately EUR 200m (50% provided by ERDF and 50% provided by financial intermediaries). The targeted beneficiaries are SMEs with at least two years of business track-record. The main features of this FI are as follows:

- The FI aims to finance investments into fixed assets, but up to 30% of the loan amount may be used for working capital financing;
- The loan amount shall be from EUR 100,000 – EUR 3 m, and for the tourism sector the loan amount can reach EUR 10 m;
- The interest rate will range from 1% to 2%; thanks to ERDF contribution at a 0% interest rate and competitive pricing from the selected banks;
- The maturity of the loan shall be up to 12 years, including a two-year grace period (with exception for the tourism sector (17-year maturity with a 4-year grace period)).

Primary agricultural producers and processors engaged in activities referred to in Annex 1 to the EU Treaty will not be eligible for loans in scope of this programme. Initial lessons learned identified through the interviews are as follows:

- HBOR noted that the technical assistance for implementing the FI for SMEs, provided by external parties / experts in scope of OPCC was helpful and could have been even higher;
- The procurement process would have resulted with only a financial intermediary if HBOR had not decided to split the planned EUR 100 m contribution from banks into three lots. By doing so, banks could compete for each lot, but could get only one lot.

⁴⁰ Measure 101 - Finances investments in agricultural holdings to restructure and to upgrade to EU standards.

⁴¹ Measure 103 - Finances investments in processing and marketing of agricultural and fishery products to restructure those activities and to upgrade them to EU standards.

⁴² The National Operational Programmes are explained in detail below in the text

Lending programmes for agricultural sector

Currently, HBOR is carrying out three lending programmes specifically designed for the promotion and development of agricultural activities, which finance fixed assets and working capital. These programmes are as follows:

- Agriculture and Balanced Development;
- Financing the Preparation of Agricultural Production;
- Financing of EU Rural Development, Fisheries and Wine Envelope Projects.

The performance of these programmes between 2014 and 2016 was not as expected (see later description). This particularly applies to Agriculture and Balance Development Programme and Financing the Preparation of Agricultural Production. As explained by HBOR, the performance of these two lending programmes was influenced by the following external factors:

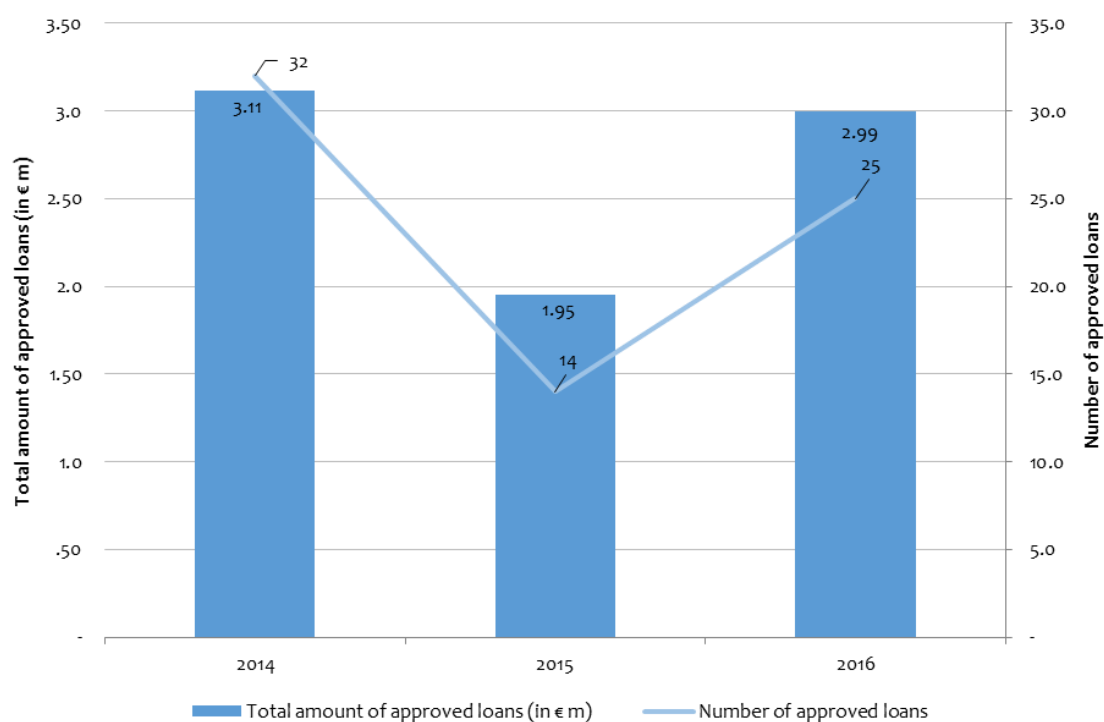
- Upon the accession of the Republic of Croatia to the EU, farmers started to receive direct payments from the CAP. This raised interest of commercial banks for financing agricultural activities (farmers have become more bankable because of the assured yearly income from direct payments);
- At the same period, farmers had access to grants in scope of the RDP and financed their investment needs through RDP measures;
- Additionally, as of 2016 HBOR has been financing the agricultural sector subject to state aid provisions which ask for a lower use of support in relation to the investment and for a significantly higher interest rate if farmers opt for financing their entire investment.

1. Agriculture and Balanced Development Programme

The final borrowers of this loan are SMEs: companies, craftsmen, co-operatives, institutions, FAHs and fishermen.⁴³ The disbursement of this loan product per year is shown in the following figure.

⁴³ HBOR loan programmes, 2017. Available at: <https://www.hbor.hr/en/agriculture-and-balanced-development/>

Figure 15: Disbursement of Agriculture and Balanced Development loans



Source: Croatian Bank for Reconstruction and Development (HBOR), 2017.

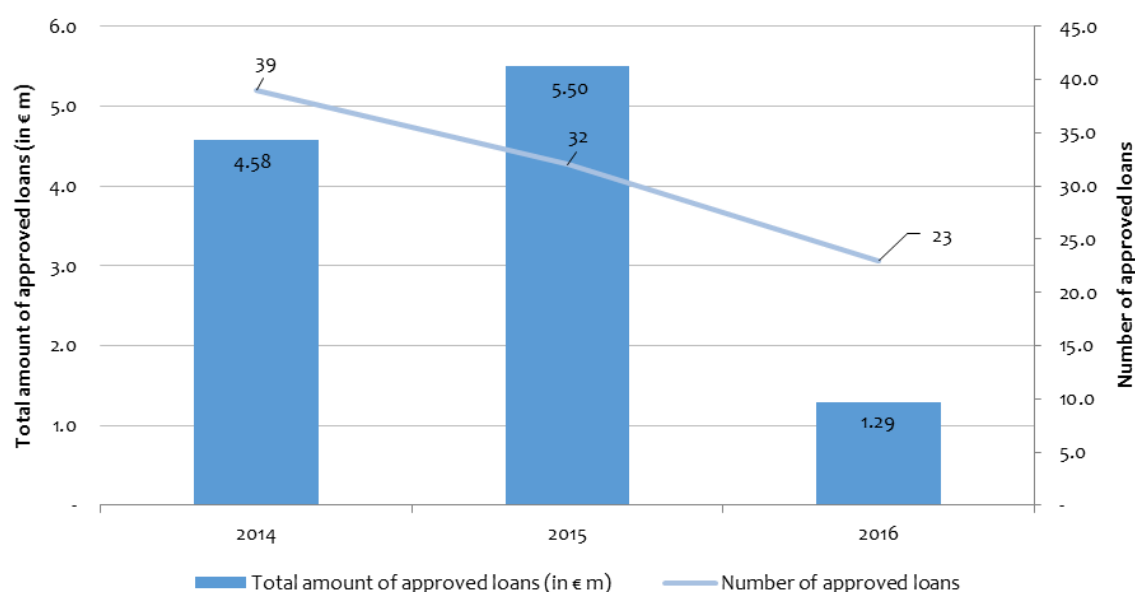
As it may be seen from the figure, both the number and the amount of the approved loans were low in the considered period.

2. Financing the Preparation of Agricultural Production

Final borrowers for this loan are natural persons and legal entities (AHs within the VAT system, crafts, companies and co-operatives) in the size of micro, small or medium-sized enterprises.⁴⁴ The disbursement of this loan product per year is shown in the following figure.

⁴⁴ HBOR loan programmes, 2017. Available at: https://www.hbor.hr/en/kreditni_program/financing-the-preparation-of-agricultural-production/

Figure 16: Financial allocation of Preparation of Agricultural Production loans



Source: Croatian Bank for Reconstruction and Development (HBOR), 2017.

Looking at the total annual short-term lending activities in the Croatian agriculture sector for this period (presented below in Chapter 7), it seems that this product has not been very attractive to the AHs. As explained by HBOR, the reason for this are the same external factors that affected the performance of the above described Agriculture and Balanced Development Programme (increased activity of commercial banks, open RDP calls in this period and state aid regulation).

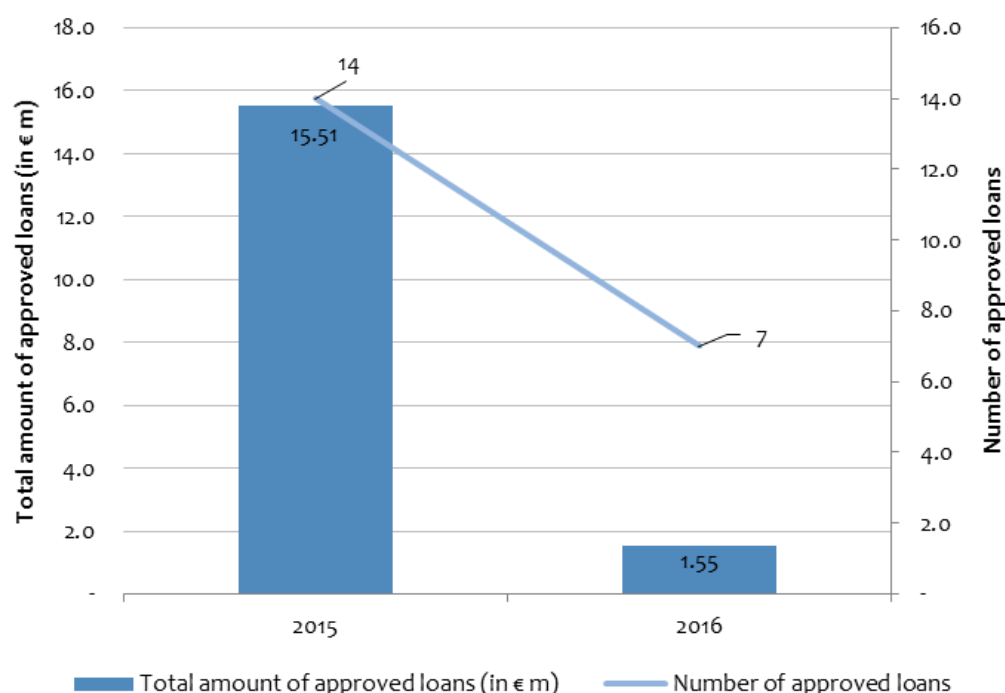
3. Financing of EU Rural Development, Fisheries and Wine Envelope Projects

This loan programme is designed to finance projects whose promoters applied for co-financing from the European Agricultural Fund for Rural Development, the European Agricultural Guarantee Fund and the European Maritime and Fisheries Fund. Final borrowers for this loan are applicants who meet the requirements of the relevant calls for proposals.⁴⁵

The total financial allocation of this lending programme per year is shown in the following figure.

⁴⁵ HBOR loan programmes, 2017. Available at: https://www.hbor.hr/en/kreditni_program/financing-of-eu-rural-development-fisheries-and-wine-envelope-projects/

Figure 17: Financial allocation of loans from programme for EU Rural development, Fisheries and Wine Envelope Projects



Source: Croatian Bank for Reconstruction and Development (HBOR), 2017.

Although having more market success at its launch than the mentioned two programmes, the Financing of EU Rural Development, Fisheries and Wine Envelope Projects Programme has still to prove to be interesting for investors. According to HBOR, additional circumstances, which have affected the decline in the number and total amount of approved loans in 2016, in scope of this loan programme, were:

- Long process of project evaluation by the PAAFRD;
- Calls for proposals were not published according to dynamics planned in scope of the RDP (some AHs postponed investment activities till formal decisions on approved grants that were confirmed in 2017).

HBOR has lowered the interest rates of this lending programme in September 2017, due to the reduction of the base rate for Croatia, which is currently 0.59%. Interest rates have been reduced:

- from 2.4% to at least 1.7% for loans repayable up to 10 years and;
- from 2.7% to at least 1.9% for loans repayable over 10 years.

These loans do not contain state aid support,

Furthermore, HBOR launched an initiative for entrepreneurs operating in accordance with the Income Tax Law to have the same credit conditions as entrepreneurs operating in accordance with the Profit Tax Law (Income tax payers will be assessed according to their business results and assets, ultimately resulting in better credit rating and lower reference interest rates).

Source: Croatian Bank for Reconstruction and Development (HBOR), 2017.

During consultations, several challenges were identified with HBOR's agricultural lending programmes:

- Decline of the total lending to agricultural holdings (direct lending and lending through commercial banks). The total lending to the primary sector in 2012 amounted to ~EUR 144 m and in 2016 to ~EUR 35 m;
- Decline of the demand for these types of loans through the cooperating banks;
- Overall decline of HBOR's lending in favour of the commercial loans, but with the total lending in agriculture stagnating.

The reasons behind these challenges could be the following ones:

- The traditional lending products are not suitable for small family farms (e.g. due to lack of business track record they cannot apply for a loan);
- The lengthy loan application (based on the interviews conducted, it seems that, in some cases, 6 to 12 months could be needed for going through the process). According to HBOR the average duration of the loan approval is between 3 and 4 months;
- A small number of call for proposals under grant schemes – financing requests for loans are directly proportional to grants requested;
- There were no guarantee schemes dedicated to the agriculture sector from HAMAG-BICRO until November 2017.

HBOR stated several reasons that have influenced the decline in lending:

1. Launching of two programmes with commercial banks during 2012 (Programme of economy development and Lending programme for agricultural production preparation), that financed working capital under more favourable conditions than those usually offered on the market;
2. Approving loans to AHs intended for co-financing IPARD projects in the period 2012-2015;
3. Reduced number of loan applications in 2016 due to delays in grant approvals in the scope of the RDP calls (AHs postponed their investment activities);
4. HBOR's lower loan activity, as a result of increased interest of commercial banks for financing the agricultural sector (triggered by EU accession of Croatia – AHs became more bankable due to direct payments especially for short-term loans).

Experience with National Operational Programmes

Based on the Operational Programmes of the Government of the Republic of Croatia⁴⁶, between 2005 and 2006 HBOR had adopted loan programmes⁴⁷ with favourable conditions (HBOR loans were approved with a tenor of 12-15 years and the interest rate was 4% per annum, compared to higher interest rates of commercial banks, from 7% to 11% per annum in that period).

The following table shows the total number and amount of approved loans per sub-sector.

⁴⁶ Operational Programmes of the Government designed to develop agriculture, in particular cattle breeding, building of perennial plantations and pig breeding.

⁴⁷ HBOR: Operational Programme Report, 2017.

Table 7: Amount of approved loans within National Operative Programmes

Loan programme	Number of approved loans	Amount of approved loans in € m
Cattle breeding	231	67.25
Perennial plantations	216	24.66
Pig breeding	46	27.54
Total	493	119.45

Source: Croatian Bank for Reconstruction and Development (HBOR), 2017.

Over the past few years, due to the economic situation and disturbances in the agricultural products market, there was an increasing number of borrowers that were unable to meet their loan obligations towards HBOR connected to this loan programme. Out of 493 approved loans, 124 loan contracts were terminated (25%) due to various reasons (e.g. bankruptcy proceedings, foreclosures, etc.) in the total amount of EUR 16.86 m. Additionally, there was a large number of approved loan reprograms and there are currently still quite a few requests for loan reprograms that are being reviewed by HBOR.

Table 8: Amounts based on reprogrammed loans within National Operative Programmes

Loan programme	Number of approved reprograms	Reprogrammed amount of loan principal in € m
Cattle breeding	252	51.08
Perennial plantations	101	15.84
Pig breeding	45	17.68
Total	398	84.59

Source: Croatian Bank for Reconstruction and Development (HBOR), 2017.

Borrowers cited the following main reasons for having difficulties in production and loan repayment:

- Low purchase price of the agricultural products in the previous years;
- Price volatility;
- Significant variance between the planned and produced quantity of products (e.g. milk);
- High production costs;
- High loan indebtedness;
- Poor capacity in relation to the plans;
- Incompatibility of cash inflows from sales and loan repayment periods;
- Lack of agricultural land;
- Agricultural product market distortion and payment delays;
- High costs (mechanisation, facilities, overhaul of sheep, purchase of heifers);
- Low financing incentives and delay of incentive payments;
- Weather disasters (drought, flood, frost, thunder);
- Health problems in the herd (leucosis, Q fever, low fertility, etc.);

- Illiquidity of buyers.

Moreover, during the adoption of National Operational Programmes HBOR marked some shortcomings in the programmes, which were also confirmed by other interviewed stakeholders. In the later phase, these noted weaknesses were identified as being a major reason for problems in loan repayment:

- Excessive and unrealistic investments in fixed assets (Cattle breeding and Pig-breeding) or in large plantations (Perennial plantations);
- Lack of borrower's equity participation (loans covered by 100% of financing including VAT);
- Irrationality regarding investment planning and high construction costs;
- Failure in accepting the HBOR's initiative for the construction of model facilities, by the policymakers (which would have led to a lower cost of facility construction and preparation of project documentation);
- Insufficient supervision from the Ministry of Agriculture, the Advisory Agency and the Croatian Agricultural Agency during the construction of objects and raising crops.

Experience with pre-accession and accession instruments⁴⁸

Despite the poor performance of the National Operational Programmes and the related loans, the experience with pre-accession and accession instruments (shown below) differs in the context of defaults on approved loans. This indicates that certain lessons learnt have been implemented by HBOR in the programmes that followed.

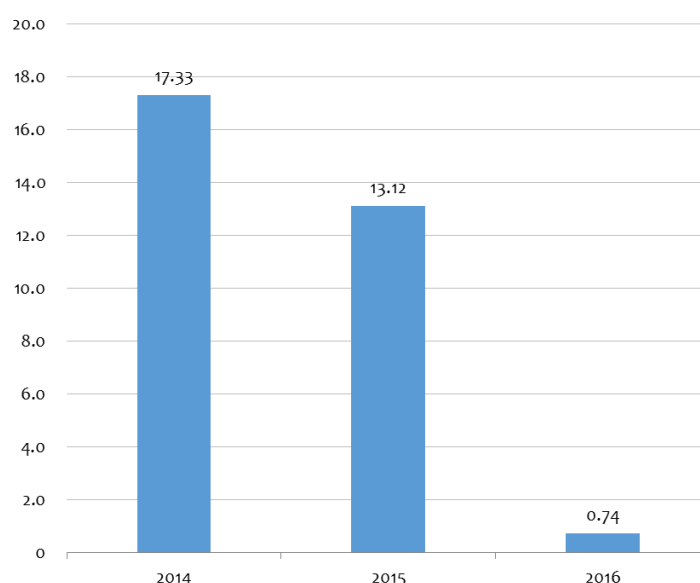
Over the past years, HBOR carried out loan programmes for financing projects that applied for pre-accession and accession funds (SAPARD⁴⁹ and IPARD⁵⁰). Loans had favourable conditions, which included funding of both eligible and ineligible investment costs under the IPARD programme, low interest rates (2% or 1% per annum) and possibility of financing up to 100% of the total investment amount in cases when this was allowed by the State Aid (for rest of the projects 75% of the investment cost).

As the following figure shows, loan disbursement within IPARD measures decreased in the past few years, because the financial resources from Pre-accession funds were depleted and the Programme ended.

⁴⁸ HBOR: Operational Programme Report, 2017.

⁴⁹ SAPARD Programme was implemented in the Republic of Croatia from 2006 to 2009.

⁵⁰ IPARD Programme was implemented in the Republic of Croatia from 2007 to 2013.

Figure 18: Financial allocation of programmes within IPARD measures 101 and 103 (in EUR m)

Source: Croatian Bank for Reconstruction and Development (HBOR), 2017.

Within IPARD projects related to loans, there were 270 approved loans by HBOR in the total amount of EUR 189.98 m. Within SAPARD projects related to loans, there were 25 approved loans in the total amount of EUR 29.54 m. HBOR's participation in project financing under SAPARD amounted up to 69% of all bank financing, while for projects within IPARD (Measures 101 and 103) it equalled 68%.

Table 9: Approved loans within SAPARD and IPARD loan programmes

Instrument	Number of approved loans	Amount of approved loans in € m	HBOR's participation in project financing
SAPARD	25	29.54	69%
IPARD (Measures 101 and 103)	270	189.98	68%
TOTAL	295	219.52	

Source: Croatian Bank for Reconstruction and Development (HBOR), 2017.

Although HBOR's participation in providing financing for IPARD projects may be considered as quite successful, there were also loan applicants who were refused. The reasons why HBOR declined some applicants are the following ones:

- The projects did not meet the conditional criteria of liquidity, sensitivity, and profitability;
- High loan amounts, low owner's equity participation;
- The applicants were beginners in agriculture (they had no income in the first years of business, a high share of incentives in the planned revenues, and unsatisfactory repayment potential);
- High existing loan indebtedness;

- The financial structure of the project was not closed (investors often did not have the funds for VAT, to cover the loan costs (intercalary interest and fee for the provision of funds, fees for HAMAG-BICRO) and working capital needed to start production);
- Insufficient collateral for loan repayment.

Total lending volume

Aside from the products listed above, HBOR provides loans to investors engaged in agricultural activities through 13 other, general lending programs, which are not custom made for the agricultural sector but provide loans to investors engaged in agricultural activities. HBOR's total lending to the agricultural sector is provided in the table below.

Table 10: HBOR's total lending to the agricultural sector in EUR

	2014	2015	2016
Total lending	38,088,198	62,114,169	35,575,229

Source: Croatian Bank for Reconstruction and Development (HBOR), 2017.

4.1.2 Croatian Agency for SMEs, Innovations and Investments (HAMAG – BICRO)

HAMAG-BICRO is an independent institution acting under the supervision of the Ministry of Entrepreneurship and Crafts. Among its other activities, HAMAG-BICRO facilitates the set-up of small business entities and finances their operations and development through loans and guarantees. HAMAG-BICRO currently provides guarantees for AHs through the recently developed Programme “Farmers”, active as of November 2017. HBOR also finances food-processing activities by SMEs through the ERDF co-financed financial instruments. Other HAMAG-BICRO's experience in providing financial products that targeted specifically the agricultural sector is presented below.

Experience with financial instruments for SMEs

During 2016, HAMAG-BICRO worked on the harmonisation of its product portfolio with the measures and priorities of the Operational Programmes in Croatia co-financed by ESIF in order to shift the source of funds in all HAMAG-BICRO programs from the national budget to ESI Funds. This enabled them to provide financing for micro, small and medium-sized businesses through four new FIs: individual guarantees, portfolio guarantees, micro and small loans. They are presented below.

1. ESIF Guarantee Programme (individual and portfolio guarantees)

In November 2016, HAMAG-BICRO provided ESIF individual guarantees which are funded under the Operational Programme Competitiveness and Cohesion 2014 - 2020. Within this FI, HAMAG-BICRO provides guarantees to SMEs to cover part of their principal loan. Eligible applicants are SMEs, crafts, physical persons, cooperatives and other similar economic entities.

ESIF individual guarantees are divided into two measures within the FI itself:

- Measure A refers to the individual guarantee for investment loans. The guarantee amount ranges from EUR 150,000 up to EUR 2,000,000 with a maximum guarantee being equal to 80% of the principal loan. The guarantee period is from one up to ten years. Additionally, an interest

rate subsidy is also possible, but only for specific target groups of entrepreneurs (e.g. manufacturing industry and accommodation and food preparation services);

- Measure B refers to the individual guarantees for working capital. The guarantee amount ranges from EUR 150,000 up to EUR 1,000,000 with maximum guarantee amount up to 65% of the loan principal. An interest rate subsidy is not applicable within this measure. The guarantee period is from one up to five years;

HAMAG-BICRO issues ESIF portfolio guarantees to banks and leasing companies to cover part of the principal loans to SMEs that meet the criteria of HAMAG-BICRO. The FI targets SMEs (including newly established entities) with more than 50% of private ownership.

The following table shows the amount of issued guarantees from January to December 2017. During that period, 43 applicants received guarantees within the ESIF Guarantee Programme to the value of EUR 17.76m. Furthermore, out of the total number of beneficiaries, 37 of them were eligible applicants for an interest rate subsidy.

Table 11: Number and amount of issued instruments within ESIF Guarantee Programme

Form (instrument) of support	Number of issued instruments	Total disbursement in € m
Guarantees	43	15.57
Indirect interest subvention	37	2.19
Total	43	17.76

Source: HAMAG-BICRO (data from 1st December 2017)

The total amount of funds allocated to the ESIF Guarantee is as follows:⁵¹

- ESIF individual guarantees - EUR 57 m;
- ESIF portfolio guarantees - EUR 58 m;
- Indirect interest subvention – EUR 10 m.

So far HAMAG-BICRO has only directly disbursed funds to financial beneficiaries and not provided funding to financial intermediaries. A call for tenders related to the financial intermediaries was published on 20th July 2017 for ESIF individual guarantees and a further call was published on 7th August 2017 for ESIF portfolio guarantees.

2. ESIF micro and small loans

i. ESIF Micro Loan for Working Assets

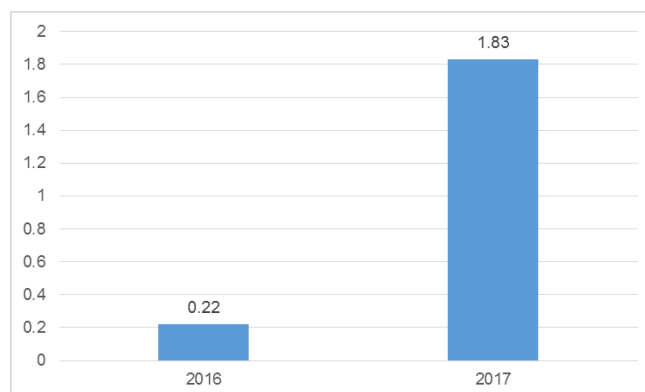
The final borrowers of this programme are micro-entities, small business entities, crafts, physical persons performing activities of free professionals, and other similar business entities.

The loan amount ranges from EUR 1,000 up to EUR 25,000. The repayment period is from one to three years including grace period (up to six months provided that the repayment is at least two years). The interest rate varies across counties from 1.5% to 3.5% depending on the regional development index.

⁵¹ HAMAG – BICRO: „Novi financijski instrumenti HAMAG-BICRO-a“. Available at: <http://www.raza.hr/content/download/4737/44933/version/1/file/Prezentacija+Marijana+Oreb++FI+-5.7.2016.pdf>

The following table shows the amount of approved ESIF Micro Loans for Working Assets in the period from November 2016 until September 30th 2017.

Figure 19: Amount of approved ESIF Micro Loans for Working Assets between Nov 16 and Sep 17 (in EUR m)



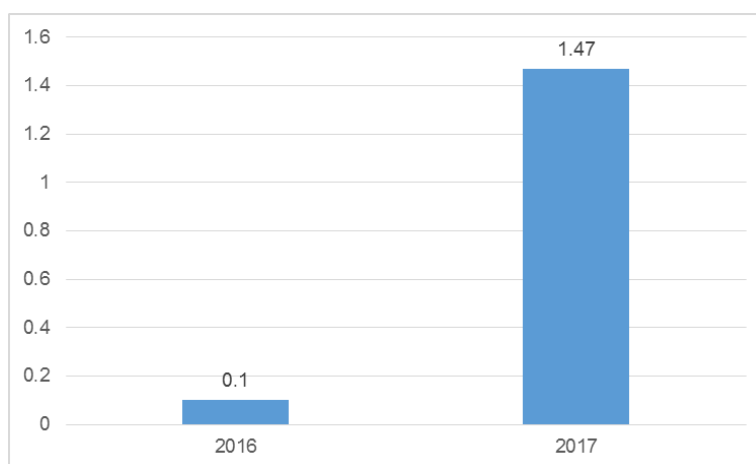
Source: HAMAG-BICRO (data from 1st December 2017).

ii. ESIF Micro Loan for Investment

The final borrowers of this programme are small business entities. The loan amount ranges from EUR 1,000 up to EUR 25,000. The repayment period is from one to five years including a grace period (up to twelve months provided that the repayment is at least two years). The interest rate varies across Counties from 0.5% to 1.5% depending on the regional development index.

The following figure shows the amount of approved ESIF micro loans for investments between November 2016 and September 30th 2017.

Figure 20: Amount of approved ESIF micro loans for investment between Nov 16 and Sep 17 (in EUR m)



Source: HAMAG-BICRO (data from 1st December 2017).

iii. ESIF Small Loan

The final borrowers of this programme are micro, small and medium enterprises.

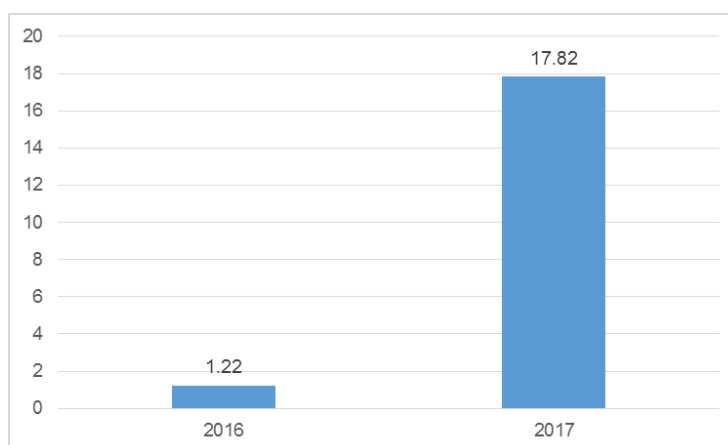
The purpose of the loan is to finance long-term investments, property and permanent working capital (up to 30 % of the loan amount). The investment loans are intended to finance tangible assets, i.e. for investments in land, buildings and equipment. In addition to tangible assets, it is

possible to obtain an ESIF Small Loan also for intangible assets (development of products or services, patents, licenses, concessions, copyrights and franchises).

The loan amount ranges from EUR 25,000 up to EUR 50,000. The repayment period is from one to ten years maximum including a grace period (up to twelve months provided that the repayment is at least two years). Interest rate varies across counties from 0.5% to 1.5%.

The following figure shows the amount of approved ESIF Small Loans for investment between October 2016 and September 30th 2017. Out of all ESIF loan programmes, the ESIF Small Loan programme represents the programme with the most approved loans and with the greatest financial disbursement.

Figure 21: Amount of approved ESIF Small Loans between Oct 16 and Sep 17 (in EUR m)



Source: HAMAG-BICRO (data from 1st December 2017).

According to HAMAG-BICRO, the two main reasons for refusing loans (notably for applications to the ESIF Small Loans) are the following ones:

- Poor historical background (e.g. the applicant opened a new enterprise alongside the one already in financial troubles);
- Poor quality of business plans

The ESIF micro and small loans are directly disbursed to the final recipients by HAMAG-BICRO. Initially a total of EUR 12.5 m was allocated for ESIF small loans. However, because of the increased demand for this product, approximately EUR 20 m of additional funds were allocated to ESIF small loans. For ESIF micro loans a total of EUR 12.5 m of funds was allocated.

Guarantee Programme "Farmers"

The Guarantee Programme 'Farmers' started in 2012 was concluded in June 2016. The beneficiaries of the guarantee programme were micro (154) and small (59) enterprises. The results of the Programme are summarised in the following table.

Table 12: Results of the Guarantee Programme 'Farmers' between 2012 and 2016

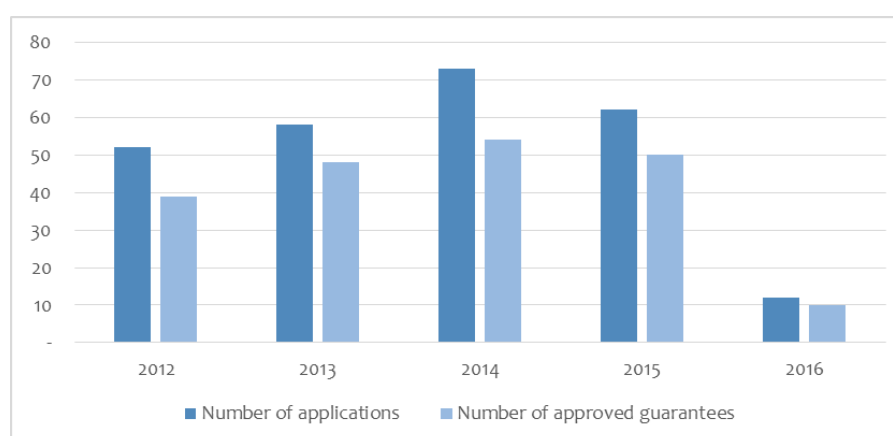
Year	Total value of issued guarantees (€)	Average value of issued guarantees (€)	Total value of issued loans (€)	Average value of a loan (€)
2012	10,367,250	265,827	19,944,999	511,410

2013	8,749,238	182,276	23,243,832	484,246
2014	9,089,961	168,333	18,267,914	338,295
2015	10,055,769	251,394	19,562,670	489,067
2016	1,230,945	123,094	2,461,889	246,189
Total / average	39,493,164	198,185	83,481,305	413,841

Source: HAMAG-BICRO, (data from 21st August 2017).

The guarantee program “Farmers” was targeted small enterprises investing in agriculture and fisheries. The maximum guarantee was 50% of the loan, up to HRK 1.75 m (EUR 0.24 m). In case a project applied for IPARD measures the maximum guarantee was HRK 10 m (EUR 1.35 m).

Figure 22: Number of applications for the guarantee programme



Source: HAMAG-BICRO (data from 21st August 2017).

Between 2012 and 2016, there were 257 applications for guarantees from the Guarantee Program Farmers. During that period, 56 applications were rejected. According to HAMAG-BICRO, the main reasons for rejection were:

- Administrative and legal reasons such as uncompleted documentation, the application was submitted after the Programme finished, etc.;
- Business reasons such as poor business track record, projects were not bankable, poor quality of business plans, financial structure of the projects was not closed, etc.;
- In case of the projects that were financed with grants, the Paying Agency for Agriculture, Fisheries and Rural Development had criteria, which could be met with “lighter business plans” when applying for grants. On the other hand, HAMAG-BICRO did not issue guarantees to projects that were not profitable and bankable. This led to a situation that some projects were approved for grants, but could not get guarantees.

The Programme ended in June 2016, because the new state aid regulation came into force. In the period from the beginning of the EU membership (July 1st 2013) until June 30th 2016, HAMAG-BICRO could extend guarantees to economic entities from the primary agricultural production sector according to the pre-accession aid scheme. The guarantees could be granted only during the transitional period of three years after the accession of the Republic of Croatia to the EU. In 2016-2017, HAMAG-BICRO worked intensively with the Ministry of Agriculture on developing a programme to stimulate the agricultural sector that is in line with the new state aid rules. This

programme was launched in November 2017 is funded by state funds and will be active until the Financial Instruments for agriculture financed by EAFRD are set-up.

4.2 International experiences and best practices for the implementation of financial instruments in agriculture

Financial instruments have become widely used in many sectors, covering multiple thematic objectives. However, the use of FIs to support the agricultural sector remains limited. During the previous programming period (2007-2013), loans coming from EAFRD FIs were rarely used, whereas guarantees were more prominent, having national schemes in most MS. In addition to the “classic” financial instruments (e.g. loans, microcredit, guarantees, equity), FIs may also be offered in combination with grants and other forms of support, which is often a pre-requisite for enhancing their attractiveness for investors. This is particularly important in the agricultural sector, as the limited number of private investors as well as the difficulties to access to finance hinder the development and the transformation of the sector. Under the EAFRD, FIs can also contribute to the diversification of the sector, opening new market opportunities, while at the same time reducing the high risk perceived by banks/other financial institutions in relation to this sector.

It is possible to gather lessons learnt from past experiences in the implementation of Financial Instruments co-funded by the EAFRD through the case-studies developed by FI-compass⁵². FI-compass provides horizontal, multi-regional and programme-specific assistance to MS, MA and other ESIF stakeholders with regards to the development of FI. In addition to the development of guidance and manuals, as well as awareness raising and learning opportunities through training, FI-compass develop case studies and examples of good practices.

The following examples⁵³ of FIs could be valuable for the development of FIs in the agricultural sector in Croatia.

Estonia EAFRD loan fund⁵⁴

The main objective of this fund was to fill the market gap in financing for agricultural and rural enterprises (agricultural holdings, processing and marketing of agricultural products and diversification towards non-agricultural activities) with an envelope of EUR 36 m from the Estonian RDP funds. The financial instrument should overcome this issue by improving the access to credit of these enterprises and the credit conditions provided by banks.

The ex-ante assessment concluded that about 60% of the targeted producers and rural SMEs encountered problems with financing investments, whereas 50% of the producer groups have encountered problems with financing for investments. Despite the preliminary assessment of off-the-shelf instruments, the development of a tailor-made financial instrument was finally selected, while incorporating many elements from the off-the-shelf in terms of governance and delivery. In addition, the analysis recommended the development of a financial instrument in complement to non-refundable support. This had two major advantages: (1) completed grant schemes with a contribution of the beneficiaries, extending the limited budget available for non-reimbursable

⁵² <https://www.fi-compass.eu>

⁵³ Along with other emerging cases including the operation in Occitanie

⁵⁴ Loans for rural Development 2014-2020, Estonia Case study https://www.fi-compass.eu/sites/default/files/publications/case-study_Estonia.pdf

support (i.e. grants) and (2) increased the number of grants applications and hence funded projects.

However, the implementation process took longer than expected, particularly given the lack of previous experience of the MA and the need for reviewing some of the recommendations, particularly those related to State aid implications. It was highlighted that the financial instrument may include State aid or *de minimis* aid to the final recipient, depending on the type of investment. This particularly concerns investments under measures related to diversification and processors, as loans can have an interest rate which is lower than the normal market interest rate. Hence, the gross grant equivalent for each loan needs to be calculated in compliance with State aid rules.

The main challenge in selecting the implementing body was to understand how the regulatory implementation options and the general rules on public procurement applied to MES, given its status as a public state foundation.

Two types of financial instruments were finally proposed: (1) a growth loan scheme for micro and small enterprises, and (2) a long-term investment loan for SMEs.

Table 13: Financial instruments proposed in the Estonian EAFRD loan fund

	Growth loan of micro and small enterprises	Long-term investment loan
4-year target	EUR 14.2 million	EUR 16.1 million
Target group	Micro and small enterprises	SMEs
Amount of loan	EUR 5,000 – 100,000 Direct loan or co-lending	EUR 250,000 – 1,000,000 (EUR 250,000 – 1,000,000 for producer groups) Co-lending at least 50%
Duration	Up to 5 years (+ up to 3 years' grace period)	1 to 15 years (+ up to 5 years' grace period)
Collateral	At least 50%	At least 80% (30% for producer groups)
Interest	6% + ECB refinancing rate (lower than the market)	Market conditions (bank interest)
Other conditions	Lower interest rate for start-ups and microenterprises, disabled people, women (4% + ECB); young farmers and producer groups (2% + ECB)	Lower interest for start-ups and microenterprises, handicapped people, women (2% + ECB); young farmers and producers groups (1% + ECB)

Source: Loans for rural Development 2014-2020, Estonia Case study.

The first months of implementation showed that final recipients clearly needed such instrument. The conditions are generally suitable for agricultural and rural entrepreneurs, helping to overcome

the existing financial market gap. The financial instrument was launched in February 2016, and as of September 2016, the level of absorption was as follows:

- 46 submitted applications (EUR 13.2 m);
- 26 applications for growth loans (approx. EUR 2 m) and 20 applications for investment loans (approx. EUR 11 m);
- 30 applications have been approved, accounting for EUR 6.5 m, or 18% of the total allocation;
- 9.4% (EUR 3.4 m) of the whole budget was disbursed;
- EUR 5.5 m private co-investment was attracted.

Latvia's Rural Credit fund⁵⁵

The Rural Credit Fund was composed by EUR 44.7 m from the EAFRD and the European Fisheries Fund (EFF) to counteract negative effects of the 2008-2009 crisis, particularly with regards the access to finance. The market assessment revealed that many projects were not eligible for grants as those where provided only after the completion of the project, which limited the number of potential beneficiaries. Hence, before these instruments, commercial credit through banks was the sole option for many farmers to finance their projects. In addition, banking sector was reluctant to finance these activities, which were considered as being of high-risk, contributing to the increase of the market failure.

The objective of the Rural Credit Fund was to complement the investment grants already provided to overcome liquidity issues faced by potential beneficiaries of these grants during the implementation of the projects. In addition, the implementation of this financial instrument contributed to address the lack of existing loans in the market while at the same time reducing the interest rates, ensuring the availability of funds to implement projects. The precise measures targeted by the financial instrument contributed to the following objectives of the RDP:

- Improve the competitiveness of agricultural and forestry businesses;
- Diversify and develop business activities in rural territories and improve existing rural infrastructure;
- Enhance the competitiveness of fishery and aquaculture product processing.

In addition to the financial support provided through the instrument, beneficiaries could also benefit from other national schemes, such as state guarantees or microcredits. The establishment of this financial instrument addressed the existing gap given its attractiveness (reduced interest rates and much longer repayment periods). However, only 71% of the allocated funds were actually delivered because (1) commercial loans became more accessible following the crisis and (2) the grants supplemented came to an end.

Even if this approach is no longer permitted under the 2014-2020 ESIF regulations, this case study shows that market gaps can be addressed through the combination of traditional forms of support (grants) with innovative and more sustainable (revolving funds) financial instrument. In addition, an effective awareness-raising strategy, particularly through the organisation of conferences with

⁵⁵ The Latvian Credit Fund: Case Study – https://www.fi-compass.eu/sites/default/files/publications/case_study_the_latvian_credit_fund_latvia_1.pdf

associations of potential recipients, was also a key element for the success of this financial instrument.

Romania's fund of funds facility⁵⁶

Romania's agricultural sector is one of the pillars of the economy, employing 1/3 of the total workforce. However, upon the entrance of the Romania in the EU (2007), the country's rural sector was in high need of modernisation. The low productivity, combined with an aging, declining and low-income population, represented a significant barrier for the development of this sector. In order to tackle this issue, the NRDP 2007-2013 identified three key priorities to foster the development of the sector:

- Helping transform and modernise the agricultural and forestry sectors, as well as their corresponding processing sectors in order to make them more competitive;
- Improving environmental conditions in rural areas;
- Increasing diversification in the rural workforce, moving away from agriculture towards other sectors.

In addition to these three priorities, the fourth priority axis is the 'LEADER' programme, which enables rural communities to coordinate parts of rural development programmes.

The analysis performed by the MA showed that commercial banks were reluctant to provide loans to this targeted group even if funds for doing so were available. One of the major issues for banks was the assessment of the risk as these structures were – in many cases – not able to provide a solid financial record. In addition, administrative costs were seen as particularly high, limiting the demand for this type of financing.

Given this, the MA decided to implement a new guarantee scheme to improve access to finance by increasing confidence of banks while at the same time attracting additional private funds.

This decision was based on (1) market signals received from the previous guarantee instrument, and (2) consultations with the banks, that indicated that a guarantee scheme was the best option to address the existing market gap. This scheme was split into two types of guarantees: one targeting agriculture and one for SMEs. These two guarantees were fully funded using EAFRD funds (80%) and national funds (20%), with a total allocation of EUR 116 m, divided in EUR 97.1 m for the agricultural guarantee scheme, and EUR 18,9 m for the SME guarantee scheme, with a total revolving effect of 249.7%. In addition, agricultural guarantees have a fixed fee set by the MA, while SMEs are charged according to their perceived risk.

The revolving effect of the guarantee scheme was also an essential factor for its success, as funds from the initial guarantee are released back into the fund and used to guarantee other loans. In addition, the beneficiaries who take most advantage of the guarantee schemes are SMEs that also made use of EU grant co-financing for their projects.

In the end, the guarantee scheme supported the use of EU resources by creating a leverage effect of 4.56 times more in loans than the EAFRD allocation, and by granting over 1,100 guarantees to some 694 beneficiaries. In addition, a shift was observed with regards to the type of support

⁵⁶ Rural Credit Guarantee Fund, Case Study https://www.fi-compass.eu/sites/default/files/publications/case_study_rural_credit_guarantee_fund_romania_o.pdf

available, as now farmers and rural SME can find more divergent types of credit for financing their activities. In addition, the full alignment with State Aid rules was also a factor of success, ensuring procedural stability for both beneficiaries and financial institutions. Given its success, this guarantee scheme was extended until the end of 2015.

4.3 Omnibus Regulation

On 29 December 2017, the Omnibus Regulation⁵⁷ was published by the European Commission which introduces a number of flexibilities in relation to the use of financial instruments in the context of EAFRD. These include:

- Flexibility for investments with input being non-Annex 1 products (Art 17(1)(b))
- Allowing the use of FIs for supporting start-ups by young farmers, also in combination with grants (Art 19(4))
- Possibility of funding large-scale investments in rural infrastructure and services (Art 20(4))
- Flexibility to allow the purchase of animals, annual plants etc. and giving up the need for listing eligible items (Art 45(7))
- Allowing working capital support also for FI investments into non-agricultural businesses and infrastructure (Art 45(5))
- Dropping for FIs the cross-link between legal obligations under the RD framework and environmental assessments (Art 45(7)) and
- No application of grant-specific selection criteria (Art 49(4)).

The MA is advised to consider new available options of programming FI related measures derived from one or more of these new flexibilities in force.

⁵⁷ Regulation (EU) 2017/2393 of the European Parliament and of the Council of 13 December 2017 amending Regulations (EU) No 1305/2013 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD), (EU) No 1306/2013 on the financing, management and monitoring of the common agricultural policy, (EU) No 1307/2013 establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy, (EU) No 1308/2013 establishing a common organisation of the markets in agricultural products and (EU) No 652/2014 laying down provisions for the management of expenditure relating to the food chain, animal health and animal welfare, and relating to plant health and plant reproductive material

4.4 Main outcomes

Recent experiences using financial instruments in the agricultural sector have proved their potential for improving the access to finance of agricultural SMEs, opening new market opportunities and contributing to the diversification of the sector.

The following success factors of these instruments should be taken into account when elaborating the investment strategy:

- Limitations of the “off-the-shelf” financial instruments to cover the specificities of the agricultural sector;
- Attractiveness of loans combined with other forms of support, such as non-reimbursable support (grants);
- Use of guarantees to reduce the perception of risks of banks given the lack of solid financial record of agricultural holdings, while at the same time attracting additional private funds;
- Importance of complying with State aid regulation to facilitate a rapid implementation and ensuring procedural stability for beneficiaries and financial institutions;
- Interest rate below market conditions and a comfortable grace period to ensure the absorption of the funds;
- Need to develop an effective awareness-raising strategy.

5 Analysis of the supply of agricultural financing

The supply-side analysis provides an overview of the existing subsidies available for the financing of the agricultural sector at national and local level. Precisely, this chapter will shed light on the products available in the Croatian market to finance agricultural activities. In a first step, an overview of existing subsidies available is presented. Then, the overall supply of existing financial products – particularly bank financing – is summarised and, finally, a quantification of the total supply of agricultural financing is presented, highlighting the potential weaknesses that may contribute to market failures and sub-optimal investment situations.

5.1 Existing subsidies available for the financing of the agricultural sector

In addition to the measures under the Rural Development Programme, direct payments are granted directly to farmers under the Common Agricultural Policy with the aim to ensure a safety basic income. These payments are decoupled from production and Member States benefit from a certain degree of flexibility in implementing such schemes.⁵⁸

In 2016, out of the total CAP expenditures market measures (sector-specific support) accounted only for EUR 10.3 m. The distribution of these amount by type of agricultural production is presented in the table below.

Table 14: Market measures under CAP expenditure in Croatia, 2016

Type of agricultural production	Amount (EUR m)
Fruit and vegetables	4.60
Wine sector	3.20
Milk and milk products	1.85
Pigmeat, eggs, poultry and other	0.65
Total	10.30

Source: EC, Statistical factsheet Croatia, 2017

In 2015, direct payments amounted to EUR 159.34 m. The distribution of these payments by size of the envelope is presented in the table below.

Table 15: Distribution of direct payments to the producers (financial year 2015)

Size-class of aid (all direct payments)	Beneficiaries		Payments	
	In '000	% of total	In € '000	% of total
< 0 €	0.15	0.2%	-	0.0%
≥ 0 and < 500 €	51.04	53.0%	12,660	7.9%
≥ 500 and < 1,250 €	25.92	26.9%	20,052	12.6%

⁵⁸ EC, DG AGRI, Direct payments : https://ec.europa.eu/agriculture/direct-support/direct-payments_en

Size-class of aid (all direct payments)	Beneficiaries		Payments	
	In '000	% of total	In € '000	% of total
≥ 1,250 and < 2,000 €	6.70	7.0%	10,402	6.5%
≥ 2,000 and < 5,000 €	6.93	7.2%	21,828	13.7%
≥ 5,000 and < 10,000 €	3.33	3.5%	23,384	14.7%
≥ 10,000 and < 20,000 €	1.58	1.6%	21,561	13.5%
≥ 20,000 and < 50,000 €	0.53	0.6%	15,112	9.5%
≥ 50,000 and < 100,000 €	0.09	0.1%	6,160	3.9%
≥ 100,000 and < 150,000 €	0.02	0.0%	2,430	1.5%
≥ 150,000 and < 200,000 €	0.02	0.0%	3,304	2.1%
≥ 200,000 and < 250,000 €	0.01	0.0%	1,778	1.1%
≥ 250,000 and < 300,000 €	0.01	0.0%	1,394	0.9%
≥ 300,000 and < 500,000 €	0.01	0.0%	2,928	1.8%
≥ 500,000 €	0.01	0.0%	16,343	10.3%
Total	96.33	100.0%	159,336	100.0%

Source: EC, Statistical factsheet Croatia, 2017.

According to the presented distribution, more than the half of total beneficiaries (53%) received aid up to EUR 500. However, this only constitutes 7.9% of the total aid disbursed. On the other hand, 51.4% of disbursed payments is concentrated in aid classed from EUR 2,000 to EUR 50,000.

Aside from subsidies that are covered by the CAP, AHs can also benefit from local subsidies. Subsidies disbursed to AHs per County are presented in the following table.

Table 16: Disbursed subsidies to agriculture per county in EUR

County/Region	2014	2015	2016
Continental Croatia	1,590,754	1,685,069	1,865,201
Bjelovar – Bilogora County	59,808	58,228	137,054
Brod – Posavina County	60,234	69,521	104,587
City of Zagreb	1,344	499	-
Karlovac County	82,136	91,484	92,933
Koprivnica – Križevci County	167,717	162,269	82,367
Krapina – Zagorje County	40,340	20,637	19,680
Međimurje County	7,926	134,315	-
Osijek – Baranja County	37,281	166,304	7,886
Požega – Slavonia County	-	-	-
Sisak – Moslavina County	465,627	454,714	459,095
Varaždin County	130,890	94,308	120,376
Virovitica- Podravina County	68,360	13,763	23,041
Vukovar – Srijem County	180,087	185,713	233,869
Zagreb County	289,005	233,314	584,314
Adriatic Croatia	398,491	844,348	1,179,206
Dubrovnik – Neretva County	58,328	63,828	27,006

County/Region	2014	2015	2016
Istria County	-	424,968	742,654
Lika- Senj County	-	-	-
Primorje – Gorski Kotar County	-	-	-
Šibenik – Knin County	136,376	141,779	135,733
Split – Dalmatia County	87,521	97,569	126,116
Zadar County	116,266	116,203	147,697
Total	1,989,245	2,529,417	3,044,407

Source: Croatian County Association: Open budget, 2017.

Local subsidies for agriculture are more limited in the Adriatic area than in Continental Croatia. Nevertheless, local subsidies cannot be seen as a relevant source of financing for AH compared to other types of subsidies and financial products given its relative small size.

Furthermore, there are no tailor made subsidies for the agri-food processing and forestry sector in the country. Therefore, the sector participants only benefit from grants and subsidies that are available to business in general.

5.2 Commercial financing

The structure of the banking sector in Croatia, as well as main financial products available in general and those specifically designed for agricultural stakeholders are presented below.

5.2.1 Banking sector structure and its positioning in the agricultural sector

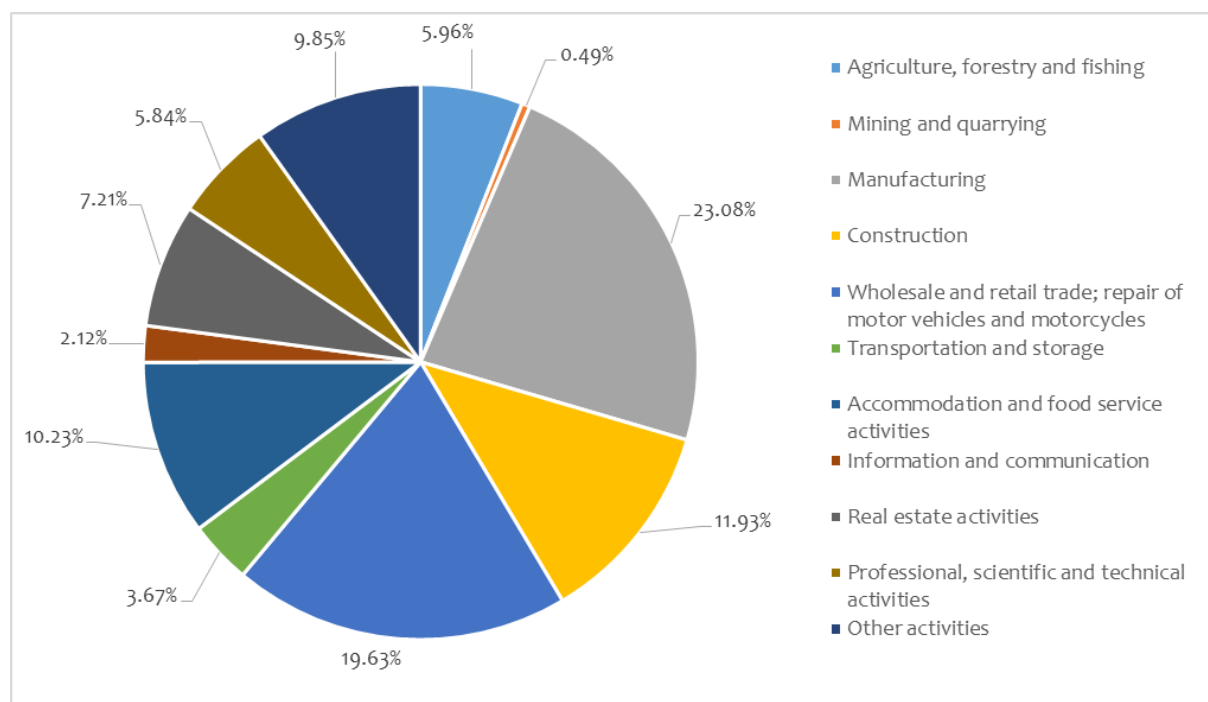
There are 26 banks (including one savings bank) operating in Croatia. Foreign owned banks have an 89.7% share in terms of total banking sector assets. Bank assets decreased by 1.7% in 2016 to HRK 388.78 bn (~ EUR 52.49 bn), trending downward for the fifth year in a row. This decrease was strongly impacted by the deleveraging of the retail and corporate sectors, the conversion of loans in Swiss francs into loans in EUR, by the sale of irrecoverable claims and the exit of some banks from the banking system.

The Croatian banking system is characterised by higher capitalisation compared to other EU Member States. Indeed, the capitalisation level reached in the first quarter of 2017 its all-time high of 23.1%⁵⁹. In addition, the level of interest rates has been constantly decreasing during the last years (the present average interest rate for non-financial enterprises is 4.4%⁶⁰) following the international market rates, the decreasing country risk of Croatia, the liquidity of the banking system and the lending appetite of the banks.

At end of 2016, outstanding bank loans to non-financial corporations reached HRK 83.38 bn (~ EUR 11.26 bn), while outstanding bank loans to households amounted HRK 112.90 bn (~ EUR 15.25 bn). Outstanding loans to the primary sector – based on data provided by the Croatian National Bank – are presented in the following figure.

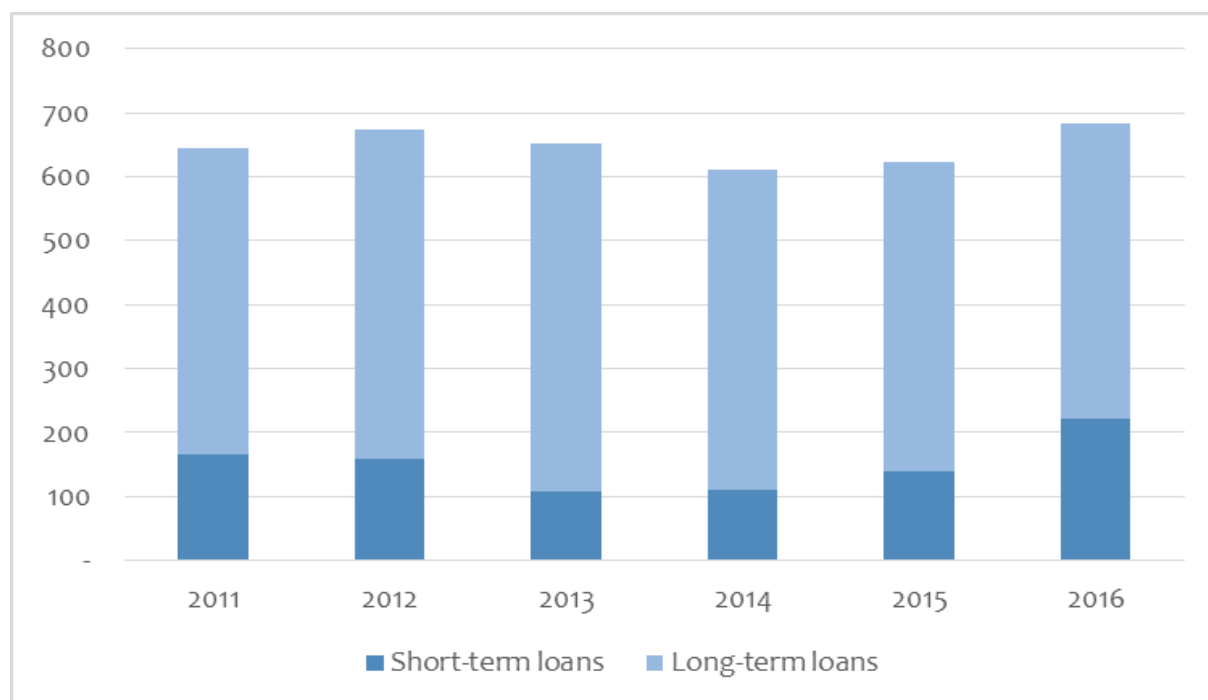
⁵⁹ Croatian National Bank, 2017.

⁶⁰ Ibidem

Figure 23: Structure of bank loans to non-financial corporations by activities, end of 2016

Source: Croatian National Bank, 2017.

Agricultural, forestry and fishing activities represented 5.96% of the total amount of outstanding bank loans at end of 2016, reaching EUR 683 m. Additionally, the sector presented a share of 2.71% of partly and fully irrecoverable loans out of the total amount of partly recoverable and fully irrecoverable loans in the market at the end of 2016.

Figure 24: Total outstanding loan balances in the agriculture, forestry & fishing sector (EUR m)

Source: Croatian National Bank, 2017.

Based on this data, it appears that the lending to the sector has stagnated during the period. Additionally, short-term loans are increasing in the recent years, which could indicate that there are working capital issues in the sector.

As shown by the figure below, lending to borrowers from the agricultural sector seems most prominent in two sub-sectors.

Figure 25: Distribution of liabilities, per sector in EUR m

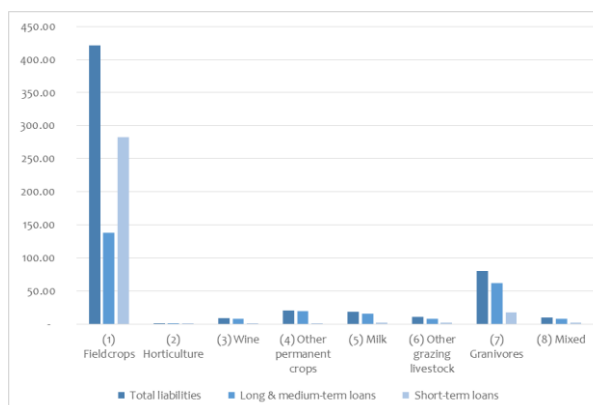
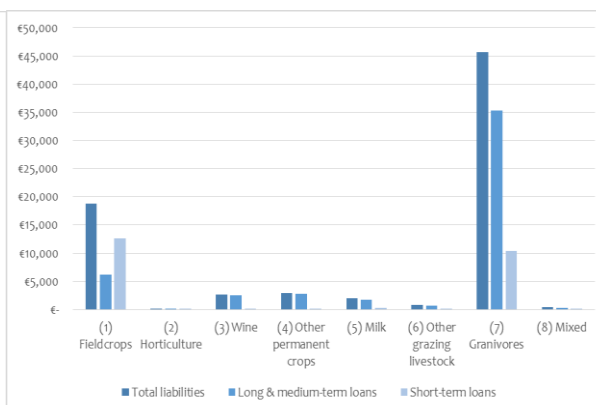


Figure 26: Distribution of liabilities, average per farm, per sector



Source: EU FADN database, 2017.

The highest liabilities per farm are concentrated in the Granivores⁶¹ and the Fieldcrops⁶² sectors, respectively. Conversely, the highest liabilities are concentrated in the Fieldcrops sector, i.e. the sector with the highest agricultural output and the highest number of farms.

5.2.2 Summary of the commercial financial products available in the Croatian market

Short, medium and long-term loans

Croatian commercial banks provide a product portfolio, as in some other MS. Additionally, most commercial banks provide additional lines of financing, which are based on the cooperation with ministries, HBOR, HAMAG-BICRO, municipalities, counties, and international financial institutions.

Disbursement of long-term and short-term loans to small, medium and large enterprises in Croatia is subject to the following financing terms.

⁶¹ Granivores sector includes: pigs, poultry and various granivores combined.

⁶² Fieldcrops sector includes: specialised cereals, oilseeds, protein crops, general field cropping and mixed cropping.

Table 17: Summary of financing terms of loans offered to SMEs by the Croatian commercial credit institutions

Loan type	Characteristics	Collateral
Long-term loans	Maturity Up to 15 years.	1:1 -1:1.5; promissory notes, debentures, deposits, property rights (mortgages), insurance policy, bills of exchange, etc.
	Interest rate Depending on the creditworthiness of the client. Average interest rate on long-term loans to companies is currently 4.41%.	
	Loan limit Mainly from HRK 37,000 ⁶³ (~ EUR 5,000), while the maximum amount is not limited and depends on the specific investment project and client's creditworthiness.	
Short-term loans	Maturity Up to 12 months.	Deposit, pledge of securities, promissory notes, debentures, etc.
	Interest rate It can vary from 1.6% to 10%.	
	Loan limit For SMEs mainly from HRK 10,000 (~EUR 1,300) to HRK 150,000.00 (~ EUR 20,000), depending on client's creditworthiness.	

Source: PwC analysis based on publicly available information, SMEs and Entrepreneurship Policy Centre (CEPOR), and conducted interviews

Leasing

Croatia accounted a total of 20 leasing companies by the end of 2016, which in total held 112,436 contracts (46,970 were in operating leasing, and 65,466 in financial leasing). In 2016, 44,684 new leasing contracts were signed, with a total amount of EUR 878.72 m. In addition, the total outstanding contractual value in operating leasing amounted to EUR 432 m, while the outstanding receivables in financial leasing amounted to EUR 1.46 bn.⁶⁴

Factoring

In first six months of 2017, the total transaction volume of factoring companies in Croatia amounted to EUR 129.55 m.

Bank guarantees

Credit institutions in Croatia offer a comprehensive range of bank guarantees, which include advance and payment guarantees, tender guarantees, performance guarantees, etc.

⁶³ SMEs and Entrepreneurship Policy Centre (CEPOR): Small and Medium Enterprises Report – Croatia 2016

⁶⁴ Croatian Financial Services Supervisory Agency, 2017. Available at: <http://www.hanfa.hr/publications/statistics/#section4>

Microfinance

Compared to other actors in the financial market, the share of credit unions providing microfinance is very small, only 0.1% of the total assets of the Croatian financial system. In Croatia, there were 25 credit unions operating at the end of 2015. Total assets of credit unions at the end of 2015 amounted to EUR 94.79 m. In 2015, credit unions that are members of the Croatian Association of Credit Unions granted 9,425 loans in the total amount of EUR 40.57 m (the average loan amount was EUR 4,300).⁶⁵

Additionally, under the EU Progress Microfinance initiative⁶⁶, the European Investment Fund (EIF) has signed agreements with Zagrebačka banka, SG Leasing and Sberbank, which offer support to micro-entrepreneurs and the self-employed, many of whom face difficulties in accessing credit from traditional banking sources. EIF's total commitments to microfinance in Croatia from 2011 to June 2016 amounted to EUR 16.4 m.⁶⁷

Private Equity

The Croatian government unveiled in 2010 an initiative to reinforce the confidence of investors in venture capital and private equity markets, launching the Economic Cooperation Funds project. The underlying the public intervention – worth approximately EUR 130 m (HRK 1 bn) – was a pari passu co-investment into PE/VC vehicles that would subsequently invest in companies to create jobs, strengthen existing business and start-ups. On a strategic level, the initiative aimed to position Croatia as a PE/VC hub in the South East Europe. The initiative resulted in the establishment of five Economic Cooperation Funds totalling approximately EUR 260 m (HRK 2 bn).⁶⁸ At the end of 2016, the total net assets of Economic Cooperation Funds amounted to EUR 140.72 m.⁶⁹

5.2.3 Existing financial products available for the financing of the agricultural sector

Loans

Based on the publicly available information, eight commercial banks offer loans, which are tailor made for the agricultural sector. A complete overview of the loan products can be found in Annex 5 and a summary may be found below. Aside from those loan products, HBOR offers three different lending programmes dedicated to the agricultural sector, which are disbursed directly by HBOR and/or by the cooperating banks. Existing commercial banks loan products dedicated to financing of the agricultural sector are summarised in the following table.⁷⁰

⁶⁵ SMEs and Entrepreneurship Policy Centre (CEPOR): Small and Medium Enterprises Report – Croatia 2016

⁶⁶ CIP initiatives are not included here.

⁶⁷ European Investment Fund: EIF in Croatia. Available at: http://www.eif.org/news_centre/publications/country-factsheets/eif_factsheet_croatia_en.pdf

⁶⁸ Ex-ante Assessment Report: Financial Instruments, Business Competitiveness, Employment, Social Enterprise ESIF 2014-2020

⁶⁹ HANFA, 2017.

⁷⁰ Note: The summary doesn't include HBOR loans because they were covered in chapter 6.1

Table 18: Summary of financing terms of agricultural loans offered by the Croatian credit institutions

Loan type	Characteristics	Collateral
Investment loans Long-term loans	Maturity The most common maturity of these loan products is up to 10 years. Only Zagrebačka banka offers agricultural loans up to 15 years.	Declaration on seizure of revenues, 10% of the deposit money pledged in favour of the bank, guarantee deposits, guarantors, mortgage, bills of exchange and debentures, insurance policy, etc.
	Purpose Investments in agriculture, e.g. purchase of agricultural land, equipment and mechanisation, construction or adaptation of commercial facilities for agricultural purposes, etc.	
	Interest rate The interest rate on these loans varies from 4.95% (variable interest rate) to 9.00%. The lowest fixed interest rate according to banks web pages is 5.45%. However, interest rates depend on the borrower's creditworthiness; in some cases, the interest rate may be as low as 2%.	
	Loan limit Loan limits usually depend on borrower's creditworthiness. The upper limit may go up to € 150,000 for SMEs	
Working capital loans Medium & short-term loans	Maturity The most common maturity of these loan products is up to a year. However, OTP bank also offers two different loans with maturity up to 1.5 years and 3 years.	Lien or fiduciary transfer of real estate or movable property, bills of exchange, promissory notes, co-debtors, guarantors, insurance policies and other security instruments depending on the creditworthiness of loan seekers.
	Purpose Maintaining current liquidity, current payments, procurement of materials and raw materials used for investment in production, sowing, milk production, cattle breeding, etc.	
	Interest rate Interest rate on these loans varies from 5.99% (variable interest rate) to 11.00%. The lowest fixed interest rate according to banks web pages is 7%. However, interest rates depend on the borrower's creditworthiness and may vary between 2%-11%.	
	Loan limit Loan limit usually depends on borrower's creditworthiness. Loan limits may go up to € 30,000 for small enterprises	

Source: PwC analysis based on publicly available information and conducted interviews

Leasing

At the end of 2016, leasing companies had 4,228 active contracts (833 were in operating leasing and 3,395 were in financial leasing) with clients from the agriculture, forestry and fishing sector. During 2016, 1,126 new leasing contracts were signed in the total amount of EUR 38.74 m. At the end of the same year, the outstanding contractual value for the sector amounted to EUR 8.15 m in

operating leasing, while the outstanding receivables in financial leasing amounted to EUR 73.44 m⁷¹. According to the conducted interviews, there is a demand for leasing products from Croatian farmers.

Factoring

In Croatia, there are no factoring products specifically dedicated to the agricultural sector. In the first six months of 2017, out of the total transaction volume of factoring companies only 0.66% referred to agriculture, forestry and fishing. According to the conducted interviews and the survey results, there does not seem to be a significant demand for this product.⁷²

Guarantees

According to publicly available data, outside the Farmers Guarantee Programme of HAMAG-BICRO (which is covered in chapter 6.1), there is no guarantee product designed to target the agricultural sector.

Microfinance

Microfinance for agricultural sector is covered through banks' "regular" short-term and medium-term loans. According to the stakeholders interviewed, banks usually disburse loans in agriculture from several thousand euros, and there seem to be a need for this type of financing in the sector.

Private Equity

Based on the conducted interviews and findings from the survey, there seems to be a very limited demand for private equity financing in agriculture.

5.2.4 Existing financial products available for the financing of the agri-food processing sector

Croatian banks provide a wide range of financing products to businesses in general. However, there are no tailor-made loan products for the agri-food processing sector. Therefore, the same financing terms outlined in the chapter 5.2.2 apply also for this sector.

5.2.5 Existing financial products and subsidies available for the financing of forestry activities

In Croatia there are no tailor made loan products for the forestry sector.

5.3 Quantification of the supply of agricultural financing in Croatia

Two methods for calculating the supply side of agricultural financing in Croatia were applied:

1) a quantification based on the Methodological handbook in case no relevant data from national financial institutions about average volume of landing per year was available.

⁷¹ Croatian Financial Services Supervisory Agency, 2017. Available at: <http://www.hanfa.hr/publications/statistics/#section4>

⁷² Please note that this part does not include discounted bills of exchange

b) the second calculation is based on obtained data from the CNB and should be more relevant.

5.3.1 Quantification based on the Methodological handbook⁷³

Primary agricultural production (including supplementary activities)

Loans are the most dominant financial product used by Croatian AHs. In this section of the study the quantification of the loan supply is presented based on the methodology for quantifying the funding available to agricultural holdings as outlined in the Methodological handbook for implementing an ex-ante assessment of agriculture financial instruments under the EAFRD.⁷⁴

According to the methodological handbook, the supply of funding should be quantified by using the FADN database. According to this approach, the quantification of the total estimated loan volume is outlined in the following table.

Table 19: Quantification of the total loan volume

Category	FADN 2015 ⁷⁵	Farms not in FADN 2015	Total estimated loan volume
Farms represented	81,460	67,208	
Long- and medium-term loans (average/farm) in €	3,207	285	
Short-term loans (average/farm) in €	3,806	7	
Total liabilities (average/farm) in €	7,013	292	
Total volume of long- and medium-term loans (€ m)	261.24	18.60	279.85
Total volume of short-term loans (€ m)	310.04	0.46	310.49
Total volume of liabilities (€ m)	571.28	19.06	590.34

Source: PwC analysis based on EUFADN Database.

The total number of farms (FADN 2015 + Farms not in FADN 2015) is based on the most comprehensive survey for agricultural holdings, the Farm Structure Survey.⁷⁶ The most recent Farm Structure Survey (FSS) was carried out for the year 2016⁷⁷, and it estimated 148,668⁷⁸ commercial and non-commercial agricultural producers in Croatia. The number of farms outside the FADN Database was calculated as follows: 148,668 (total number of farms) - 81,460 (farms represented by the EUFADN Database) = 67,208 (farms not represented by the EUFADN Database).

⁷³ Methodological handbook for implementing an ex-ante assessment of agriculture financial instruments under the EAFRD recommends this method if no data about average volume of lending per year can be obtained from the relevant financial institution.

⁷⁴ Published by the European Commission - Directorate-General Agriculture and Rural Development, and the European Investment Bank - Advisory Services (fi-compass).

⁷⁵ Data for 2015 is used because at the time of writing this Report, data for 2016 was unavailable.

⁷⁶ This is also the survey upon which FADN sample is based.

⁷⁷ Data are preliminary and not publicly available. The data was delivered from CBS upon request.

⁷⁸ There were 144,588 FAHs and 5053 enterprises out of which 4080 were active.

The average volume of loans outstanding for farms not represented by the FADN Database was based on the smallest size class in FADN, as recommended by the methodological handbook.

Based on the aforementioned approach, the overall size of agricultural credit market has been estimated at EUR 590.34 m.

The average maturity of loans (in years) was calculated using data collected through the survey for producers. The actual average maturity in years could be lower than 4.54 years, since it might be the case that AHs did not report on short term loans up to 1 year. The variation in this number automatically affects the amount of average volume of lending when using this methodology, i.e. the higher the average maturity, the lower the average volume of lending per year. Based on this data the quantification of average lending per year was estimated. The results are presented in the following table.

Table 20: Estimated lending per year

Category	Amount/Years
Total outstanding loans to agricultural holdings	€ 590.34 m
Average maturity of loans in years	4.54
Average volume of lending per year	€ 129.91 m

Source: PwC analysis

Based on this methodology, the average volume of lending per year for agricultural holdings is estimated at EUR 130 m⁷⁹.

5.3.2 Quantification based on the data received from the Croatian National Bank

Primary agricultural production (including supplementary activities)

Quantification is based on the latest data from the CNB on newly approved loans of financial institutions to the agricultural sector by year.

Table 21: Newly approved loans of financial institutions to the agricultural sector by year in € m

Category	Jan 2014 – Dec 2014 (cumulative)	Jan 2015 – Dec 2015 (cumulative)	Jan 2016 – Dec 2016 (cumulative)
Loans for working capital	€ 165.73	€ 145.97	€ 239.14
Investment Loans	€ 47.35	€ 61.05	€ 106.75
Other new loans	€ 46.48	€ 122.11	€ 75.79
Total lending	€ 259.56	€ 329.13	€ 421.68
Average volume of lending (per year)	€ 336.60		

⁷⁹ This is estimation based on methodology described in this section. As explained, average maturity of loan can be lower than 4.54 years, which consequently raises the amount of average volume of lending per year.

Several factors need to be taken into account when using the average volume of lending per year for primary agricultural production:

- The CNB data on newly approved loans does not contain information about newly-approved loans to natural persons and small family AHs (but only to enterprises)
- All data about newly-approved loans refer only to the A risk group (other risk groups are excluded – B, C).⁸⁰

Considering the above mentioned factors, the € 336.60 m represents the lower estimate amount of average volume of lending per year, i.e. the financial supply might be even higher.

Agri-food processing sector

The quantification is based on the latest data from the CNB on newly approved loans to the processing sector by year.

Table 22: Newly approved loans of financial institutions to the agri-food sector by year in € m

Category	Jan 2014 – Dec 2014 (cumulative)	Jan 2015 – Dec 2015 (cumulative)	Jan 2016 – Dec 2016 (cumulative)
Loans for working capital	€ 359.29	€ 405.29	€ 460.02
Investment Loans	€ 25.04	€ 93.17	€ 95.12
Other new loans	€ 74.53	€ 159.57	€ 105.04
Total lending	€ 458.85	€ 658.03	€ 660.19
Average volume of lending per year	€ 592.36		

Forestry sector

The quantification is based on the latest data from the CNB on newly approved loans to the forestry sector by year.

Table 23: Newly approved loans of financial institutions to the forestry sector by year in € m

Category	Jan 2014 – Dec 2014 (cumulative)	Jan 2015 – Dec 2015 (cumulative)	Jan 2015 – Dec 2015 (cumulative)
Loans for working capital	€ 37.31	€ 48.25	€ 101.36
Investment Loans	€ 17.37	€ 22.26	€ 50.73
Other new loans	€ 9.14	€ 21.06	€ 25.12
Total lending	€ 63.82	€ 91.58	€ 177.22
Average volume of lending per year	€ 110.87		

⁸⁰ <http://old.hnb.hr/propisi/odluke-nadzor-kontrola/2014/h-odluke-klasifikaciji-plasmana-izvanbilancnih-obveza-KI-41A-2014.pdf>

The data about newly-approved loans refer only to the A risk group (other risk groups are excluded – B, C) and do not include information about newly-approved loans to natural persons (private forest owners), so the amount of final average volume of lending per year is presumably even higher.

5.4 Main outcomes

Key messages on the supply of financing in the agricultural sector:

- 1) There are several financial products offered to agricultural sector by commercial banks, but AHs are predominantly interested in loans;
- 2) Small agricultural holdings (predominantly FAHs) mostly prefer short-term loan products tailor-made for agriculture, such as short-term loans from commercial banks for autumn and spring sowing, cattle breeding etc.;
- 3) Investments in agriculture could be correlated with grants from RDP, i.e. if calls for proposals are not published or the evaluation of project proposals is late then there is a noticeable decrease in investments;
- 4) Most of the larger AHs use funding for purchase of agricultural mechanisation, and for working capital;
- 5) Amounts of financing in the sector can vary from several thousand EUR to EUR 100 thousand, for SMEs;
- 6) Interest rates for agricultural loans vary from 4.95% (variable interest rate) to 9% for long term loans for capital investments (maturity up to 15 years). Interest rates depend on the borrower's creditworthiness, and in some cases, the interest rate may be as low as 2%. The interest rates for financing working capital can amount to 11%, with loan limits up to € 30,000 for small enterprises and maturity up to 1.5 or 3 years.
- 7) Banks tend to perceive large and medium AHs as any other enterprise in any other industry. On the other hand, micro and small AHs, predominately family agricultural holdings (FAHs) are often perceived as natural persons;
- 8) Direct payments in agriculture are considered as revenues and farmers frequently use them for operational costs and for repayment of loans, which leads to a high level of dependence on direct payments;
- 9) Usually larger agricultural holdings use loans to finance investment projects in the scope of Sub-measures 4.1. and 4.2. Conversely, smaller agricultural holdings with smaller investments usually finance their projects with their own equity and RDP grants;
- 10) Banks generally request an equity participation from 15% to 30% for AH's investment projects. Often AHs do not have sufficient equity to finance investments cost not covered by the grant and the loan;
- 11) AHs regard property insurance as unnecessary, and often too expensive;
- 12) The processors' access to finance does not differentiate from businesses in other sectors;
- 13) The main reasons for rejecting loan applications are:
 - a. Collateral and unresolved property issues and low value of the real estate and land (the value does not cover the investment);

- b. AHs usually do not have enough own resources to finance investment costs that are not covered by the loan;**
- c. Poor business models i.e. business models based on only one supplier or on one client;**
- d. Bad credit history, e.g. investment projects of clients who have previously defaulted on their loans will not be financed even though their new projects are bankable.**

6 Analysis of the demand of agricultural financing

Findings on the demand side of agricultural financing are based on the information obtained through interviews with key stakeholders in the agricultural sector, as well as through the surveys conducted with producers, processors and pre-industrial forestry processors (including licenced work providers for cutting, pulling, transporting and exporting of wood) active in the Croatian market.

6.1 Demand for financing identified for Agricultural producers

This section presents the findings on the demand side of agricultural financing for primary agricultural production, eligible for the Sub-measures 4.1 – Investment in agricultural holdings – and 6.4. – Investment in non-agricultural activities in rural areas –.

6.1.1 Key findings from interviews with key stakeholders

This chapter presents a general overview of the agricultural sector, its key issues, bottlenecks, possible solutions and identified financing needs based on the information gathered during the interviews with key stakeholders:

Situation in the agricultural sector

- The market conditions are unstable:
 - Prices are volatile and declining (changes on a yearly basis, e.g. changes of wheat and milk prices);
 - Long payment deadlines imposed by large buyers;
 - Revenues are uneven and uncertain;
- The tax system is maladjusted for the situation in agriculture. Taxation of every profitable year leaves farmers without the possibility of generating savings to cover unprofitable years;
- VAT of 25% for agricultural products in Croatia, which makes the final product more expensive for end user
- Large agricultural producers have obtained the majority of grants under the first call for proposals, suggesting a lack of capacity of smaller producers to develop viable proposals for investment;
- Only 2.9% of the owners of agricultural holdings have obtained a higher education qualification.

Key issues and bottlenecks identified regarding access to finance

- The collateral sought from banks is too high for indebted farmers; and agricultural producers face difficulties to prove property ownership;
- The financial sector adopts a highly selective when financing agricultural producers. Banks are in general risk averse to finance the agriculture sector due to bad experiences in the past;
- The interest rates are high (usually loans with an interest rate of 7% - 8% are approved, but there are even cases in which interest rates amount to 10%);
- Interest rates presented by commercial loans for working capital may amount up to 7%. Farmers have the possibility of borrowing from producer organisations, however interest rates may then reach up to 10% - 12%;

- IPARD analysis highlights that approximately 50% of the applicants withdrew their applications due to the inability to close the financial structure of the project. Data from the first RDP calls have not been processed yet;
- Several associations of agricultural producers interviewed stated that commercial loans are more attractive to agricultural producers compared to HBOR's loans (even if these commercial loans present higher interest rates) given their speed of approval and lower administrative burden⁸¹;
- Loan processing fees and various related insurance policies increase investment costs;
- Decline in turnover caused by high oscillations in prices (up to 40% in some cases) – and bad debt/turnover ratio;
- Lack of own equity contribution of agricultural producers;
- Lack of agricultural land;
- Financial literacy in some cases presents a problem, but it should be noted that the level of financial literacy in Croatia overall is also on a low level.

Expected financing needs

- Working capital financing;
- Ensure debt consolidation, refinancing;
- Purchase of equipment or intangible assets;
- Purchase of livestock;
- Purchase of office;
- Purchase of production space;
- Purchase of cultivable agricultural area;
- Rent machinery/equipment;
- Launch a new product / service;
- Develop international activities / enter a new market (geographic expansion);
- Improve energy efficiency of companies.

6.1.2 Key findings from the online survey

Survey findings for agricultural producers⁸²

- The vast majority of AHs (more than 90%) do not participate in markets outside the Republic of Croatia;
- Lots of “n/a” answers related to external financing conditions indicate that AHs tend not to use such type of financing. In addition, the AHs' internal financial situation has been deteriorating or stagnating;
- According to the AHs, the main reasons for them being unsuccessful in obtaining loans are the lack of own equity capital, the high interest rates and the insufficient guarantees;
- Those who have obtained financing over the past years did not experience major changes in bank financing terms;

⁸¹ HBOR's position on this comment was reported in section 4.

⁸² Findings based on 503 responses to the online survey (100% of planned sample).

- The results show a very high dependency of AHs on public grants, while the use of all other sources of financing seems insignificant;
- Excluding grants, over the past three years, AHs benefited the most from capital/loans from family or friends (7% of responders), short-term loans (4.9%) and mid/long-term loans (4.7%)
- The vast majority of those who applied for some kind of financing needed assistance for the application;
- Despite they have not used external non-grant financing, the AHs seem to be interested in various forms of financing, predominantly for financing working capital, new equipment and machinery and purchasing of livestock;
- AHs prefer (94%) to fully own their business despite financial difficulties;
- Forms of financing that would be the most relevant for producers – excluding public grants – are micro loans, small loans, short/mid/long-term loans and loans guaranteed by public or private entity (such as HAMAG-BICRO).

LTV and Economic Sustainability

The Methodological handbook presents indicators based on FADN data that can provide indications on the viability of demand; these are:

- **Loan to value (LTV)** is calculated as the liabilities/assets ratio in the AHs' balance sheet. This is also called debt-to-asset ratio and shows the financial risk of a company by measuring how much of its assets have been financed through debt.
- **Economic Sustainability** is related to cash flow and liquidity of AHs and is calculated as [net cash income] – ([change⁸³ in asset use] + [change in debt use]). This shows what the farmer has left for private consumption after all costs have been covered.

Loan to value (LTV)

The Loan to value (LTV) index for Croatian farms is presented in the table below. This index has been calculated for Croatia based on the EUFADN Database as of 2013.

Table 24: Loan to value (LTV)

Year	Total fixed assets (average per farm) in €	Total current assets (average per farm) in €	Total liabilities (average per farm) €	Loan to Value all assets	Loan to Value fixed assets
2013	135,972	13,373	4,190	3%	3%
2014	135,964	8,411	3,829	3%	3%
2015	150,671	8,708	7,013	4%	5%

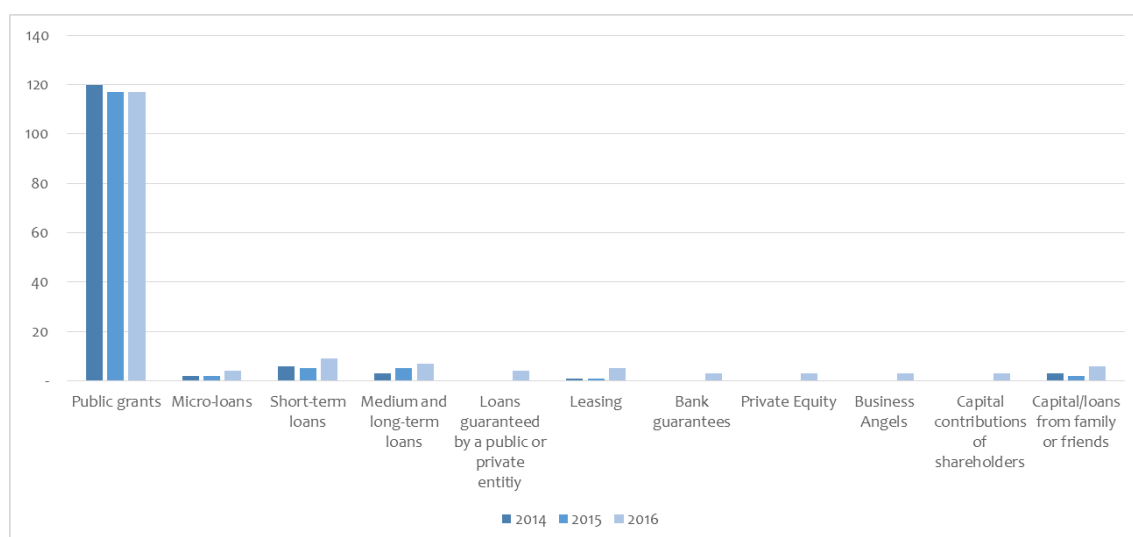
Source: PwC analysis based on the EUFADN Database.

⁸³ The difference in the value of assets between the current and the previous year.

In Croatia, the LTV on fixed assets is very low⁸⁴, reaching 5% in 2015. Typically, this indicates that any market failure is probably not related to collateral, which does not seem to be entirely in line with the interview findings. However, this could be explained with the fact that the collateral required by banks may not be easily liquidated/sold on the market due to low demand. This issue was already highlighted by HBOR in their Operational Report regarding National Operative Programmes (chapter 6.1). In these Programmes, borrowers used their own farms as collateral for investment loans. As previously mentioned, most of the borrowers defaulted on their loans. This led to a situation in which HBOR offered the farms of defaulted borrowers on auctions. Until the end of 2016, none of the farms were sold due to lack of demand.

Additionally, low LTV indicator can be explained when put it the context of the survey results for AHs, which are shown below.

Figure 27: Has your business benefited from any of the following sources of financing over the last three years (2014, 2015, 2016)?



Source: PwC online survey for producers

As shown, the majority of AHs do not use credit to finance their operations, as they seem to rely heavily on public support. This shows the aversion towards credit financing among Croatian farmers, which may also be caused by the presence of a market failure which prevents AH from obtaining credit. Furthermore, the farmers that use credit financing could have collateral issues as indicated by the interviews findings.

Economic Sustainability

The analysis of Economic Sustainability shows the level and regularity of the cash flow of Agri-holdings, which is of major importance for the risk assessment carried out by the financial institutions. This index provides insights with regards to the viability of the demand. Indeed, an overall low Economic Sustainability of AHs would be likely to increase the rejection rate for the applicants. The Economic Sustainability of Croatian farms is calculated in the following table.

⁸⁴ For example, in 2012, LTV indicator was 3% in Romania which is considered low, and it was 70% in Denmark which is considered high.

Table 25: Economic sustainability in EUR (average per farm)

Category	2013	2014	2015
Total output	23,010	21,013	23,012
Total inputs	21,400	19,301	20,658
Total subsidies - excluding on investments	4,314	4,974	5,335
Farm Income⁸⁵	5,924	6,686	7,689
Total fixed assets	135,972	135,964	150,671
Total current assets	13,373	8,411	8,708
Change in assets		(4,970)	15,004
Long & medium-term loans	4,106	3,522	3,207
Short-term loans	84	307	3,806
Change in debt		(361)	3,184
Economic Sustainability⁸⁶		12,017	(10,499)

Source: PwC analysis based on EUFADN Database.

In 2014, the Economic Sustainability index was positive and remains high despite the relatively low farm income. This is explained by the negative change in assets (Farmers sold/impaired their assets or total depreciation was high). On the other hand, 2015 was marked by a strong positive change in assets, and normal income levels could not cover the change. Based on the limited data available (only for three years), it could be concluded that the Economic Sustainability is negative in the Croatian agricultural sector, in line with the interview findings.⁸⁷

Quantification of the demand

The demand for financing of Croatian farmers was estimated following the approach proposed in the Methodological handbook for implementing an ex-ante assessment of agriculture financial instruments under the EAFRD. The demand quantification is based on findings from the online survey, based on 503 received responses (100% of the targeted number).

⁸⁵ Farm Income = Total output – Total inputs + Total subsidies - excluding on investments

⁸⁶ Economic Sustainability = Farm Income - ([change in assets] + [change in debt])

⁸⁷ Usually the debt/turnover ratio of businesses (which is a similar indicator to economic sustainability) was highlighted as an issue.

Table 26: Quantification of unmet credit demand based on the target group survey

Parameters	€ m ⁸⁸	% of potential credit demand
Credit AHs APPLIED for during the last three years	8.18	
Credit AHs did NOT APPLY because of the expected rejection during the last three years	4.87	
Credit AHs OBTAINED during the last three years	5.48	42%
Total potential credit demand during the last three years ⁸⁹	13.05	100%
Total unmet credit demand during the last three years ⁹⁰	7.57	58%

Source: PwC analysis based on the results from the online survey.

According to the survey data the total percentage of met credit demand is 42% of the potential credit demand. Unmet credit demand is estimated at 58% of the potential credit demand. Based on these percentages the quantification of potential and unmet credit demand per year was calculated. This quantification is presented below.

Total unmet credit demand per year – Approach A

The total unmet credit demand per year is calculated using the supply quantification based on the Methodological handbook.

Table 27: Quantifying the total unmet credit demand of the agricultural sector

Parameters	€ m	% of potential credit demand
Average volume of lending per year ⁹¹	129.91	42%
Total potential credit demand per year	309.30	100%
Total unmet credit demand per year ⁹²	179.38	58%

Source: PwC analysis based on the results from the online survey.

The total unmet credit demand amounts to EUR 179.38 m per year. This approach uses a quantification of average volume of lending per year as explained in Section 5.3.1., which explains why the total unmet credit demand calculated by using this approach is higher.

Total unmet credit demand per year – Approach B

According to this approach total unmet credit demand per year is calculated using the supply quantification based on the CNB data.

⁸⁸ Total amounts of the target group.

⁸⁹ Total potential credit demand = Value of credit AHs APPLIED for + Value of credit AHs DID NOT APPLY because of expected rejection

⁹⁰ Total unmet credit demand = Total potential credit demand - Credit AHs OBTAINED

⁹¹ This amount was estimated in the Chapter 5.3, Table 21.

⁹² Total unmet credit demand per year = Total potential credit demand per year * 40%

Table 28: Quantification of the total unmet credit demand of the agricultural sector

Parameters	€ m	% of potential credit demand
Average volume of lending per year ⁹³	336.60	42%
Total potential credit demand per year	801.38	100%
Total unmet credit demand per year ⁹⁴	464.78	58%

Source: PwC analysis based on the results from the online survey.

According to this approach, the total unmet credit demand amounts to EUR 464.78 m per year. The total unmet credit demand per year calculated based on this approach appears to be more accurate, as the average volume of lending per year obtained by CNB provides a more precise estimation than the estimation based on FADN data (Supply quantification recommended in the Methodological handbook, when data on average lending per year can be obtained otherwise).

However, as already stated, the CNB data does not include natural persons and family AHs, meaning that the average volume of lending per year could be higher and that would also increase the number of total unmet credit demand per year. Given this, it is not possible to determine the upper limit of the financing gap for producers, but it may be stated that this upper limit is higher than the estimated 465 million EUR of unmet credit demand per year.

The difference in the total unmet credit demand calculated using the two approaches is mostly affected by the difference in amounts on the average volume of lending per year, calculated using the average maturity of loans from the producers' survey (approach A) and the same data obtained from the CNB (approach B).

6.2 Demand for financing identified for food-processors

The findings on the demand side of agricultural financing for processors are presented below, eligible for the sub-measure 4.2 “support for investment in processing, marketing and / or development of agricultural products”.

6.2.1 Key findings from interviews with sectoral experts

Situation in the food processing sector

- The food industry is the largest manufacturing industry in Croatia and employs more workers than any other manufacturing industry. It plays an important role in the balanced development of Croatia due to its widespread distribution in all parts of the country;
- The vast majority of the enterprises operating in this sector are SMEs;
- The share of food and beverage production in the GDP of the whole manufacturing industry was 26.9%;
- The food and beverage sector participated in total employment of manufacturing industry with a share of 21% in 2016;

⁹³ This amount was estimated in the Chapter 5.3, Table 22.

⁹⁴ Total unmet credit demand per year = Total potential credit demand per year * 40%

- Labour productivity grew by 4.1% in 2016 compared to 2015;
- The food and beverage industry participated in 2016 with 11.2% of overall export of the manufacturing industry;
- The total production of food industry in 2016 increased by 3.5 % compared to 2008. Increased production has had a positive impact on employment and wages;
- The import / export coverage ratio was 58% in 2016.
- The difference in productivity, that is determined on the basis of the realised value added per employee, is significant. Productivity in Croatia is 2.6 times lower than the European average (Eurostat data).

Expected financing needs

- In order to cater for such a big difference in productivity, significant investment in new technologies and research and development is needed. In this sense, it is necessary to provide significant resources for technological advancements in process equipment, technological solutions, organisational solutions, software and marketing;
- Processors primarily need funds for investment, delivered through favourable long-term loans;
- Also, financing of working capital, supporting the internationalisation of business, preparation for export and marketing activities are needed;

6.2.2 Key findings from the online survey⁹⁵

- Food processors are more inclined to export in comparison to producers, and 50% of them participate in markets outside the Republic of Croatia;
- Most respondents testified that their financial situation has improved over the last 3 years (the financing conditions and administrative burden remained unchanged);
- In the last three processors mostly benefited from the following external sources of financing mid-term/long-term bank loans, public grants, leasing and short-term bank loans;
- The main reasons for being unsuccessful in obtaining loans were lack of own capital, insufficient guarantee and high interest rates;
- Food processors mostly sought financing for procurement of new equipment (82.2%), working capital (48.9%) and investments in production facilities (37.8%);
- In general respondents do not feel that they have sufficient access to sources of funding like microloans (< €25.000), mid-term and long-term bank loans or loans guaranteed by a public or private entity (HAMAG-BICRO). The only form of financing they consider sufficiently accessible is leasing;
- 54% of food processors appear to be willing to give a share in ownership to investors;
- Processors believe that the following types of financing are the most relevant for their enterprises: public grants, mid-term and long-term bank loans, loans guaranteed by a public or private entity (HAMAG-BICRO), microloans.

⁹⁵ Findings based on 52 responses to the online survey (32% of the planned sample). Regardless of intense efforts to gather as many responses as possible and all mitigation risk measures, two reminders an additional survey distribution via County chambers and direct calls to some of the stakeholders, processors were reluctant to give feedback. The Croatian Chamber of Economy explained that this stakeholder group is disappointed with the current situation in the agricultural sector and generally shows resistance to any kind of survey because they do not see the benefits of such activities.

Quantification of the demand

The demand quantification is based on findings from the online survey, based on 52 responses (32% of the planned sample). Although the targeted sample was not reached, an even representation of industries and geographic distribution was ensured.

Table 29: Quantification of unmet credit demand based on the target group survey

Parameters	€ m ⁹⁶	% of potential credit demand
Credit AHs APPLIED for during the last three years	45.20	
Credit AHs did NOT APPLY because of the expected rejection during the last three years	17.73	
Credit AHs OBTAINED during the last three years	27.39	44%
Total potential credit demand during the last three years⁹⁷	62.93	100%
Total unmet credit demand during the last three years⁹⁸	35.54	56%

Source: PwC analysis based on the results from the online survey.

According to the survey data estimated percentage of met credit demand is 44% of the total potential credit demand. Unmet credit demand is estimated at 56% of the potential credit demand. Based on these percentages the quantification of potential and unmet credit demand per year is presented below.

Table 30: Quantifying the total unmet credit demand of the food processors sector

Parameters	€ m	% of potential credit demand
Average volume of lending per year⁹⁹	592.03	44%
Total potential credit demand per year	1,360.30	100%
Total unmet credit demand per year¹⁰⁰	768.28	56%

Source: PwC analysis based on the results from the online survey.

Estimated total unmet credit demand amounts to EUR 768.28 m per year.

⁹⁶ Total amounts of the target group.

⁹⁷ Total potential credit demand = Value of credit AHs APPLIED for + Value of credit AHs DID NOT APPLY because of expected rejection

⁹⁸ Total unmet credit demand = Total potential credit demand - Credit AHs OBTAINED

⁹⁹ This amount was estimated in the Chapter 5.3, Table 23.

¹⁰⁰ Total unmet credit demand per year = Total potential credit demand per year * 40%

6.3 Demand for financing identified for forestry activities

This section provides an overview of findings on demand side of agricultural financing for stakeholders operating in forestry sector, eligible for the Sub-measure 8.6. “Support for investment in forestry technology and processing of forest products”.

6.3.1 Key findings from interviews with key stakeholders

A general overview of the forestry sector, its key issues and bottlenecks, possible solutions and identified financing needs based on the conducted interviews and literature review are presented below.¹⁰¹

Situation in the forestry sector

- The total area of forests and forestland is 2,688,687 ha (47% is in the continental part). The Republic of Croatia owns the majority of the forest area (2,106,917 ha), while private forest owners own 581,770 ha;
- The main issues of the sector are: unclear property-legal relations, large share of degraded forests owned by private forest owners, lack of forest management plans, fragmented forest ownership (0.5 ha per property) and high existing indebtedness of enterprises in the forestry sector;
- It is estimated that there are approximately 500,000 private forest owners, however, less than 2,300 are registered in the Register of private forest owners;
- So far, private forest owners have had low awareness of the Rural Development Programme and funds it offers to the sector. The Croatian Alliance of Association of Private Forest Owners and Advisory Service are raising awareness about the RDP among the private forest owners. As a result, the interest among the licensed contractors and business entities in pre-industrial activities is increasing.

Key issues and bottlenecks identified regarding access to finance

- Investments in machinery for forestry activities is costly and may range from EUR 100,000 up to EUR 1 m;
- There is no forest market and therefore no value estimates. The forests are not recognized as collateral for obtaining financial credit;
- Generally, banks do not have banking products specially developed for forestry. Only few banks have solutions for financing new or even used forestry machines¹⁰²;
- A large share of primary wood processing present a significant export of low-grade products, low productivity and lack of investments;
- Small-scale economy;
- High existing indebtedness of enterprises in the forestry sector.

Expected financing needs

- Equipment/machinery;
- Purchase of the forest area.

¹⁰¹ Two surveys have been launched for the forestry sector. So far 23 responses were received for licenced contractors in forestry and 15 responses for pre-industrial processors).

¹⁰² For example Raiffeisen bank Austria

6.3.2 Key findings from the online survey¹⁰³

Three stakeholders' groups were identified in scope of sub-measure 8.6, for which potential use of FIs was investigated under this ex-ante assessment.

- Private forest owners;
- Pre-industrial processing of wood;
- Licensed work providers for cutting, pulling, transporting and exporting of wood.

The online survey was conducted only for pre-industrial processing of wood and licensed work providers. However, according to sectoral experts, there are approximately 500,000 private forest owners in Croatia, most of them having a very limited or practically no substantial interest in investment. Therefore, it is estimated that data received from other two stakeholder groups is sufficient and will reflect the actual situation in the sector regarding the demand for financing.

- The preindustrial processors are predominantly export oriented (89% are involved in markets outside the Republic of Croatia);
- In past three years, forestry stakeholders benefited mostly from mid-term/long-term loans and leasing;
- Among most common reasons for being unsuccessful in obtaining loans, pre-industrial processors and licensed work providers highlighted: lack of own equity, high interest rates, insufficient guarantee and poor credit history;
- Two main reasons for applying for financing among both groups are purchase of equipment or intangible assets and financing working capital. The pre-industrial processors would also like to finance new production facilities;
- Both groups are not inclined in selling an equity share in exchange of equity financing;
- The sources of financing that are most relevant for financing activities in the pre-industrial production are: medium/long-term bank loans, leasing and short-term loans;
- The sources of financing that are most relevant for financing activities among licensed work providers are: medium/long-term bank loans, micro loans and short-term loans.

Quantification of the demand

The quantification of the demand is based on the information gathered through the online survey, which reached 85 responses (62 responses from the pre-industrial forestry processors and 23 responses from the licensed work providers).

¹⁰³ Findings based on 62 survey responses from the pre-industrial forestry processors (100% of the targeted sample) and 23 responses from the licensed work providers (77% of the targeted sample).

Table 31: Quantification of unmet credit demand based on the target group survey

Parameters	€ m ¹⁰⁴	% of potential credit demand
Credit AHs APPLIED for during the last three years	80.73	
Credit AHs did NOT APPLY because of the expected rejection during the last three years	23.47	
Credit AHs OBTAINED during the last three years	71.03	68%
Total potential credit demand during the last three years ¹⁰⁵	104.20	100%
Total unmet credit demand during the last three years ¹⁰⁶	33.18	32%

Source: PwC analysis based on the results from the online survey.

According to the survey data estimated percentage of met credit demand is 68% of the total potential credit demand. Unmet credit demand is estimated at 32% of the potential credit demand. Based on these percentages the quantification of potential and unmet credit demand per year is presented below.

Table 32: Quantifying the total unmet credit demand of the forestry sector

Parameters	€ m	% of potential credit demand
Average volume of lending per year ¹⁰⁷	110.87	68%
Total potential credit demand per year	162.66	100%
Total unmet credit demand per year ¹⁰⁸	51.79	32%

Source: PwC analysis based on the results from the online survey.

Estimated total unmet credit demand amounts to EUR 51.79 m per year.

¹⁰⁴ Total amounts of the target group.

¹⁰⁵ Total potential credit demand = Value of credit AHs APPLIED for + Value of credit AHs DID NOT APPLY because of expected rejection

¹⁰⁶ Total unmet credit demand = Total potential credit demand - Credit AHs OBTAINED

¹⁰⁷ This amount was estimated in the Chapter 5.3 Table 24.

¹⁰⁸ Total unmet credit demand per year = Total potential credit demand per year * 40%

7 Proposed investment strategy

The objective of the investment strategy is to present one or multiple financial instruments that could address the issues related to access to finance and other identified needs that have been identified in the market assessment.

This investment strategy proposal intends to help the Managing Authority to take a well-informed decision in regards to the implementation of financial instruments to support the primary agricultural, food processing and forestry sectors in Croatia. The investment strategy proposed in this report reflects the needs identified in the market by the study; the current assumptions (agreed with the MA) in relation to the RDP funds that will be available; and the scale needed to effectively attract financial intermediaries to deploy and co-invest into the instruments.

The precise characteristics of the financial instruments proposed, including the funds allocated per financial instrument, the governance structure, the proposed interest and co-financing rates and the repayment periods, are based on the current understanding of these conditions. However, it is a matter for the Managing Authority to decide on the final characteristics of the investment strategy and the precise modalities in which each financial instrument should be implemented¹⁰⁹, based on the circumstances existing at the relevant date of implementation.

When implementing each financial instrument, the Managing Authority should recognise the possibility to modify any of the propositions presented below. When considering the design and implementation of the selected financial instruments, it is recommended that the MA takes into account the following additional aspects:

- Its policy orientations for the funding of the targeted beneficiaries, in particular ensuring alignment with the RDP grant programme;
- The viability of the financial instruments presented in this investment strategy, and in particular with regards to the appropriate amounts for each financial instrument proposed;
- The potential to leverage the RDP resources through public and/or private co-investment to scale up one or more of the financial instruments to meet market demand;
- Whether one of the proposed financial instruments is more urgently required than the others, and should be prioritised ahead of other options proposed.
- The interest of financial intermediaries who can implement financial instruments and must therefore demonstrate sufficient interest, expertise and experience in the implementation of each instrument;
- The need to implement the financial instruments in accordance with the requirements of the CPR and the EAFRD Regulation (No. 1305/2013); and
- The technical characteristics of the financial instruments must be consistent with State aid rules and, when possible, may be based on "off-the-shelf" instruments developed by the European Commission, State Aid implications will be detailed for each of the proposed

¹⁰⁹ A significant modification on the implementation of the proposed investment strategy may require an update of the ex-ante assessment.

instruments.

Further to the investment strategy, this chapter also provides an outline of the upcoming steps required for an adequate and rapid implementation of the proposed financial instruments, as well as the proposed governance structure to ensure an optimal management of the funds.

In order to address the market gaps identified in the previous chapter of this report, three financial instruments have been identified as potential options to support the financing of agricultural activities¹¹⁰. These instruments are:

- An individual guarantee instrument;
- A microfinance and small loans instrument;
- A co-investment loan instrument.

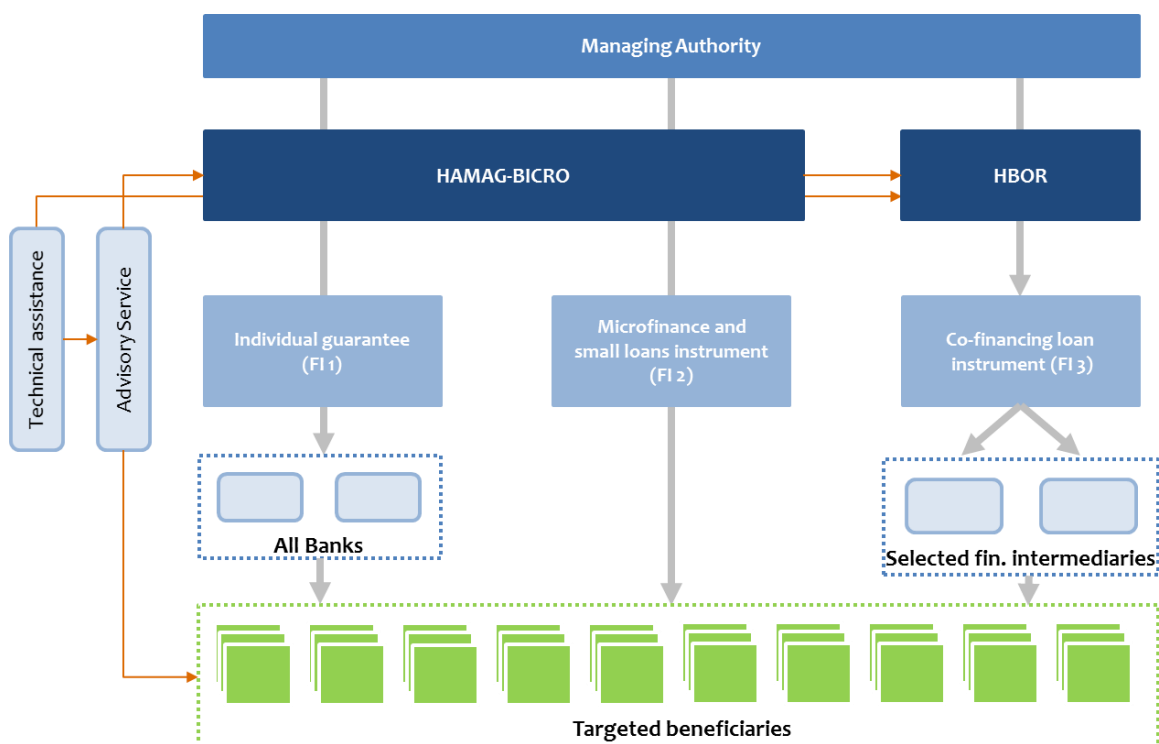
During the preparation of this investment strategy, the Managing Authority requested an active engagement with two public institutions, HAMAG-BICRO and HBOR, both of whom are entirely owned by the Croatian government. These two institutions have actively participated in the preparation of this study, and therefore the proposed financial instruments have been designed with their input. As a result, the proposed financial instruments and investment strategy presented in this section have been prepared and are described with reference to the proposed lead agencies. However, the MA must ensure that both institutions satisfy the requirements in the CPR and CDR, along with relevant public procurement rules in the event that it proposes to implement the proposed instruments through the direct award of the mandate to either HAMAG-BICRO or HBOR. The criteria for the selection of bodies implementing financial instruments include those presented in Article 7 of the CDR, as further detailed in Chapter 8 of this study.

In addition, to assist the implementation of the financial instruments, it is recommended that the Managing Authority considers utilising technical assistance to support the operations. In this regard, Advisory Service – a public owned agency in charge of providing advisory support in the agricultural sector – was also actively involved in the preparation of this investment strategy. Advisory service could provide technical support at the level of the fund manager, but also at the level of the final recipients, thereby facilitating the implementation of the financial instruments. Section 7.5 details the technical assistance.

The overall recommendations, including the governance structure based on the participation of HAMAG-BICRO and HBOR, as well as the provision of technical support by Advisory Service, are summarised in the diagram below.

¹¹⁰ The financial instruments presented in this investment strategy take into account the eligible expenditures presented in the new Omnibus Regulation (2017/2393), <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R2393&from=EN>

Figure 28: Overall recommendations of the proposed investment strategy



In the following sub-sections, the precise characteristics of each financial instrument proposed are presented, as well as the proposed technical assistance and the proposed governance structure.

7.1 Guarantees

One of the key findings of the market assessment is the large unmet demand for credit that exists in Croatia's agriculture sector. The use of lending products is low, particularly for agricultural producers, thus relying importantly on grants. As demonstrated during the market assessment, agricultural activities face a limited access to bank financing given the high risk that is associated to farming activities (price volatility, poor harvest given meteorological conditions, etc.). Therefore, banks remain reluctant to provide finance to small agricultural processors, limiting its supply of financing to those who present a very low risk profile.

This bottleneck in access to bank financing affects particularly small agricultural producers. Newly created firms (e.g. young farmers) presenting lack of financial evidence and firms with a poor historical track record in the financial system, are both considered high risk and thus are unable to obtain the desired financial support. Therefore, traditional lending products are not suitable for small family farms. A significant number of food producers believe that the unwillingness of banks to provide finance to the agricultural sector, particularly due to their high aversion to risk, is a barrier to access to finance. In addition, food producers highlight that the cost of financing and the fees linked to the processing of loan requests are too high.

In addition, collateral presented by agricultural producers (if any) is not attractive for banks given the difficulties to liquidate these assets. This results in a high number of agricultural producers at all development stages being unable to obtain bank loans.

In contrast, medium and large food processors do not face the same difficulties as they are able to access to bank financing as any other SME, whereas small food processors face the same barriers than agricultural holdings. Furthermore, the lack of own equity capital, the price volatility and the high interest rates are all seen as major factors hindering access to finance in the sector.

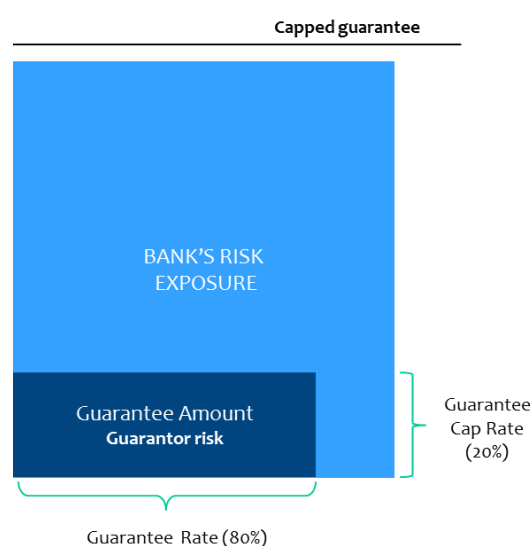
Given these conditions, a guarantee instrument could be a solution to support the financing of agricultural producers, small food processors and forestry stakeholders facing difficulties in accessing to finance. A guarantee instrument would reduce a bank's risk perception and therefore increase their willingness to provide a loan, resulting in an increased liquidity to the benefit of agricultural holdings and food processors. Additionally, this instrument would allow these enterprises to benefit from bank financing on more favourable conditions, particularly in terms of:

- Reduced collateral requirements;
- Reduced loan interest rates as a consequence of a lower risk profile and possible increase in the maturity of loans;
- Lower guarantee cost; and
- Potentially longer grace period / deferred repayment.

Two types of guarantees could be envisaged:

- First Loss Portfolio Guarantee;
- Individual guarantee.

Figure 29: First loss portfolio guarantee



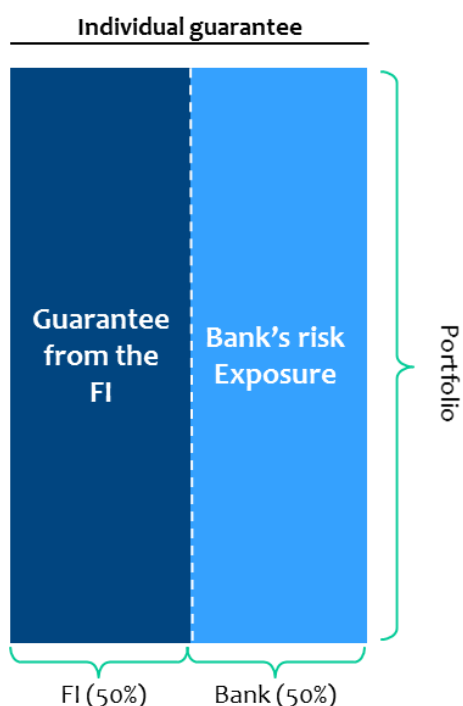
The First Loss Portfolio guarantee covers the first loss of a portfolio of new loans on a loan by loan basis, covering up to 25% of the guarantee cap rate (i.e. 25% of the total portfolio) and 80% of the guarantee rate (i.e. 80% of the defaulted amount of each loan).

In other words, the FLP guarantee will provide a credit risk coverage on a loan by loan basis for the creation of a portfolio of new loans targeting the final beneficiaries, up to the maximum guarantee cap rate. The percentages of guarantee rate and cap rate would create a strong multiplier effect while at the same time attracting financial intermediaries as the first

loss of the portfolio would be *de facto* covered. In fact, given that this scheme covers the first

loss of the portfolio up to 80%, risk exposure of banks is reduced considerably, thus increasing their willingness to provide loans to the targeted final beneficiaries.

Figure 30: Individual guarantee



In the case of the individual guarantee, the financial instrument is not structured as a first loss portfolio, but on a loan-by-loan basis, covering defaults at an agreed guarantee rate, in respect of each loan with the benefit of the guarantee.

In the present example, the individual guarantee is presented as financed 50%-50% by the guarantee from the financial instrument and the bank's risk exposure. However, the co-financing rates can vary depending on the agreed guarantee rate.

The risk and recoveries of this instrument will be shared *pari-passu* between the financial instrument and the participating banks. Therefore, the funds of the financial instrument and those of the bank will share the risk in the same conditions, even if the contributions to the guarantee are different. In other words, the credit risk retained by the bank will be held under the same conditions as the credit risk covered

by the RDP funds, regardless their coverage.

The banks shall pass on the benefit of the guarantee to the underlying agricultural producers/processors or forestry sector by reducing the standard credit risk premium normally charged by the financial intermediary. In other words, the bank shall reduce the standard credit risk premium applicable to the borrower without the guarantee.

At the moment, HAMAG-BICRO has in place a guarantee scheme specifically targeting agricultural activities. This guarantee covers 50% of the investment loans, including working capital (up to 80% for young farmers) - up to HRK 10 m (EUR 1.3 m), or 50% of a stand-alone working capital loan up to HRK 0.75 m (EUR 100 k). Nevertheless, the current product does not have sufficient funds to cover the identified market gap.

The individual guarantee would, at this time, be a more suitable instrument to address the perception of risk of agricultural producers, food processors and forestry sector beneficiaries in Croatia. In the next programming period, consideration may also be given to developing a First Loss Portfolio guarantee, as it would benefit from a larger number of final recipients in the market than the individual guarantee.

The key advantage of the individual guarantee over the FLP guarantee for Croatia at this stage is its ability to meet the urgent need to stimulate the banking sector to enter in the market and finance activities in the agricultural sector. An individual guarantee addresses the need for two reasons:

- The introduction of a first loss portfolio guarantee would require a longer procedure, including the launch of a tender and selection of intermediaries; and
- There is already experience of an individual guarantee available to finance agricultural activities in the country familiar to both banks and final recipients.

Furthermore, in case of an individual guarantee both the bank and HAMAG BICRO are approving the guarantee application. HAMAG BICRO in this case checks if the guarantee to be issued is in compliance with the State aid and financial instrument programme.

Therefore, using RDP funds to extend and improve the HAMAG-BICRO current individual guarantee presents the following advantages:

- Improving the current HAMAG-BICRO product would avoid the multiplicity of financial instruments available, particularly given the size of the country and the sector;
- The Managing Authority would benefit from the knowledge and experience of HAMAG-BICRO in the implementation of this financial instrument;
- Final recipients and financial intermediaries are already aware of the product offered by HAMAG-BICRO; and
- Managing Authority could benefit from a faster implementation of the scheme if this guarantee is based on the current product proposed by HAMAG-BICRO.

The proposed guarantee should replace the current HAMAG-BICRO guarantee product, thus increasing the current maximum guarantee rate coverage (up to 50%) for investments in agriculture up to 80%. It is proposed that the maximum coverage rate of the working capital guarantee is also higher than the current 50% (for example up to 80% of the guaranteed stand-alone working capital loan¹¹¹). The increase in the maximum guarantee rate is intended to reduce the unwillingness of banks to provide loans, increasing their appetite to invest in the sector and, thus, extend the reach of the operation. Nevertheless, it is suggested that these maximum guarantee rates will only be applied where necessary and that they will be reduced when the market is more mature (e.g. in the next programming period).

This financial instrument would be open to the market and provided directly to final recipients. An open call for expression of interest with minimum required conditions / criteria will be published (and will remain open throughout the operation) and Cooperation Agreement should be offered to all interested eligible financial institutions. This means that no Public tender selection of financial intermediaries would be required, as the guarantee is provided by the Financial Instrument to the individual undertaking. All banks (and other financial institutions) with signed Cooperation Agreement would be able to request HAMAG-BICRO to provide a guarantee to the individual undertaking to support a potential loan, facilitating the absorption of the funds available. Furthermore, there may be opportunities for indirectly

¹¹¹ The use of EAFRD to support working capital through financial instruments is subject to amendment under the Regulation (EU) 2017/2393 of the European Parliament and of the Council of 13 December 2017. The MA should consider whether such an operation would be eligible in consultation with DG AGRI as part of the revision of its RDP

leveraging the RDP resources through the EIB or other credit fund provider that could offer funding to the interested financial institutions, if required.

The guarantee may be marketed either free of charge or with a guarantee fee being paid by the final beneficiaries, as may be determined in the detailed design of the financial instrument. The banks must convey the benefit to the final recipients, hence ensuring a competitiveness gain with regards to other financial products. This would de facto result in an increased attractiveness of the guarantee and a higher absorption of the instrument. In other words, the financial institutions should convey 100% of the benefit of the guarantee to the final recipients by reducing the standard credit risk premium normally charged by the financial institutions.

In terms of targeted public, it is proposed that the guarantee covers a relatively large scope of beneficiaries under the scope of this ex-ante assessment. Even if small SMEs would be more likely to request this product, the objective of the guarantee is to match the needs of all SMEs regardless their size, thus also improving access to finance of medium-sized SMEs which experience difficulties in obtaining a loan. However, this product would not target large companies, given the broad range of financial products already at their disposal. In addition, the main aim of this financial instrument is to support the access to finance to those actors which are currently excluded from the banking system, and in this regard the use of RDP resources to finance large companies would not be seen as an optimal use of these funds.

In addition, the instrument should also enable a sufficient degree of flexibility in terms of the allocation of funds, financing both investments in assets and working capital requirement.

The proposed characteristics of this financial instrument are detailed in the table below.

Table 33: Individual Guarantee to support agricultural activities

Nature / Type of product	Individual guarantee
ESI Funds allocations	Proposed amount of public contribution from the EAFRD funds is EUR 15 million. With national RDP co-financing of EUR 2,65 million, total public contribution from RDP is EUR 17,65 million.
Expected leverage effect	<p>The precise leverage effect will depend on the type of investment covered. Possible leverage effects of the financial instrument are presented below:</p> <ul style="list-style-type: none"> • Under the assumption that the contributions from the final recipient are not included, the leverage effect would be 2x¹¹² • Taking into the account the contribution from the final recipient, at maximum (100%) default rate, and with guarantee rate of 80%, the leverage effect would be 1.25x

¹¹² According to Methodological handbook for implementing an ex-ante assessment of agriculture financial instruments under the EAFRD, Section 3.2 Estimating the expected leverage effect of the FI, page 62.

	<ul style="list-style-type: none"> • Taking into the account the contribution from the final recipient, at historical default rate of 25%, and with guarantee rate of 80%, the leverage effect would be 5x¹¹³
Amounts of financing for the targeted recipients	<p>Based on the above funds allocation and the potential multiplier effects, the overall amount of financing for the target recipients is expected to range from EUR 22,06 million to EUR 88,25 million.</p> <p>With regards to the distribution of the funds, no specific thresholds or limits are established for the distribution of the allocation between the targeted beneficiaries. However, every possible effort must be done to ensure a fair geographical distribution of the instrument.</p> <p>The maximum guarantee amounts could be:</p> <ul style="list-style-type: none"> • For investments in primary production, food processing and forestry: HRK 10 m (i.e. EUR 1,3 m); • For investments in working capital: HRK 0.75 m (i.e. EUR 100 k).
Scope of the FI and target recipients	<p>Scope of the FI:</p> <ul style="list-style-type: none"> • It is proposed that the financial instrument has a broad and flexible area of intervention, given that the gap identified during the market assessment affects all sectors; • Therefore, this financial instrument should cover all activities falling into the scope of this ex-ante: <ul style="list-style-type: none"> ○ Mo4 – Investments in physical assets, with a focus on Sub-measures 4.1 (investments in agricultural holdings) and 4.2 (investments in processing/marketing and/or development of agricultural products); ○ Mo6 – Farm and business development, with a focus on Sub-measure 6.4 (investments in the development of non-agricultural activities in rural areas); and ○ Mo8 – Investments in forest area development and improvement of the viability of forests, with a focus on Sub-measure 8.6 (investments in forestry technologies and processing of forest products). • As mentioned above, this financial instrument should cover the entire national territory, aiming a comprehensive and well-balanced regional distribution to the best extent possible. • As per Regulation (EU) 2017/2393 of the European Parliament and of the Council of 13 December 2017, the flexibility deriving from the modification of Article 17 (1)(b), may be used.

¹¹³ Calculating the leverage effect with default rate of 25% was suggested by HAMAG-BICRO, based on their previous experience in implementation of guarantee products.

Objectives	Guarantees should be used to back loans for supporting activities within the agricultural sector thus improving their conditions, particularly in terms of interest rates, payback periods, payback grace periods and collateral requirements.
Expected advantages	<p>Reduces the constraints linked to the access to finance in the sector and improves the overall credit conditions.</p> <p>Details:</p> <ul style="list-style-type: none"> • This instrument provides credit risk protection for the financial institutions (ideally opened to all banks providing loans to the targeted public) in the form of individual guarantee; • This guarantee can cover a significant part of the risk (to be defined during the fund manager's Public call for expressions of interest to participate in the implementation of the ESIF Individual Guarantee Program co-financed by the European Structural and Investment Funds.) for each loan, sharing the risk with the financial institutions requesting the guarantee coverage; • This guarantee provides multiple advantages to the financial institutions as (i) the guarantee may be free of charge for the bank; and (ii) the risk is covered on a loan by loan basis; • Subject to the European regulation, this guarantee may cover the Working Capital Requirement (WCR) and the financing of investments (tangible and intangible assets)¹¹⁴; • The steps for receipt, analysis, documentation, file processing, loan granting and follow-up shall be carried out by the banks. Banks will therefore have a direct credit relationship with each beneficiary, assuming a part of the risk; and • The risk will depend on the type of investment covered; • Possibility of paying particular attention (again within the framework of the "best possible effort") to young farmers, by covering their loans up to 80% of the total loan.
Market gaps analysis (Article 37 (2) a))	As reported in previous chapters of this ex-ante assessment, a total annual demand of about EUR 2.3 bn was calculated, while overall supply of finance stands at EUR 1 bn annually.
Expected socioeconomic results / Added-Value of the instrument (Article 37 (2) b))	<ul style="list-style-type: none"> • Leverage effect; • Promotion of entrepreneurship; • Job creation; • Reduction of unemployment; • Support to the development of agricultural activities; • Reuse of funds and shift from grant dependency;

¹¹⁴ In particular Regulation (EU) No 1305/2013 of the European Parliament and of the Council of 17 December 2013 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) and repealing Council Regulation (EC) No 1698/2005 as amended by Regulation (EU) 2017/2393 of the European Parliament and of the Council of 13 December 2017

	<ul style="list-style-type: none"> • Risk sharing with the private sector (banks).
Consistency with other interventions targeting the same market (Article 37 (2) b))	The proposed financial instrument will replace and improve the current HAMAG-BICRO guarantee product, thus increasing the current maximum guarantee rate coverage for investments in agriculture
Consistency with the Common Strategic Framework and the RDP 2014-2020	<p>This instrument would increase the existing supply of guarantee products provided for the development of the agricultural activities. This intervention does not run counter to the other forms of public intervention already existing, as the supply is currently insufficient for the target audiences analysed in this study.</p> <p>This increase in the existing supply would reduce the risk aversion of financial institutions in order to facilitate access to finance to develop activities in the agricultural sector, in line with the revised RDP to be agreed between the MA and the European Commission (DG AGRI).</p>
State aid and grants: planned interventions and measures to reduce the market distortions (Article 37 (2) b))	<p>The final design of the operation will need to reflect the State aid rules. Relevant considerations for the promoter of the scheme will include paragraphs 39-41 of the Risk Finance Guidelines¹¹⁵ in relation to the appointment of HAMAG-BICRO or other entity to manage the fund.</p> <p>At the level of the borrower, the safe harbour provisions in Art 3 of the Commission's Guarantee Notice ¹¹⁶ will be a relevant consideration. The table at paragraph 3.3 of the notice can either be used to calculate the fee or provide a benchmark rate to be used when calculating the gross grant equivalent (GGE) of the support to beneficiaries under the <i>de minimis</i> rules. The fund manager should ensure that the aid to final recipients is compatible with the requirements of the <i>de minimis</i> rules.</p> <p>Articles 81(2) and 82 of Regulation 1305/2013 provide that the State aid rules do not apply to RDP investments within the scope of Article 42 TFEU (so called Annex I activities).</p>
Estimation of Public and Private resources (Article 37 (2) c))	<p>In addition to the national co-financing of the RDP, an additional public contribution under the form of grant is to be considered by the MA to provide technical assistance. The provision of technical support is detailed in Section 7.5.</p> <p>Also, this instrument could be combined with RDP grants, as per Art 37(8) CPR (combination at the level of beneficiary, through 2 separate operations).</p>

¹¹⁵ Guidelines on State aid to promote risk finance investments (2014/C 19/04)

¹¹⁶ Commission Notice on the application of Articles 87 and 88 of the EC Treaty to State aid in the form of guarantees (2008/C 155/02)

Evaluation of the preferential remuneration levels allowing to maximise the leverage of counterpart funds from private investors (Article 37 (2) c))	<p>The proposed guarantee scheme will replace the current HAMAG-BICRO guarantee product, thus extending the scale of the operation and, providing an opportunity to potentially increase the maximum guarantee rate coverage. These ratios are considered to be the optimal remuneration levels to reduce the unwillingness of banks to provide loans, increasing their appetite to invest in the sector and, thus, extend the reach of the operation. Nevertheless, it is suggested that these maximum guarantee rates will only be applied where necessary and that they will be reduced when the market is more mature.</p>
Evaluation of the past lessons learnt (Article 37 (2) d))	<p>Please refer to the previous chapters of this ex-ante assessment.</p>
Proposed investment strategy with financial products, targets and blending with grants (Article 37 (2) e))	<p>The combination of this guarantee instrument with other financial products, such as interest rate subsidies, is not envisaged. Indeed, the implementation of a guarantee scheme should already contribute to reduce the risk of the financial institutions, thus reducing the interest rate. Therefore, the combination of this instrument with an interest rate subsidy as one operation would not be considered a sound practice in terms of management of public funds.</p> <p>On the other hand, this instrument could be combined with technical assistance support, both at the level of the fund manager and the level of the final recipient, as discussed further in Section 7.5.</p> <p>The combination of guarantee instrument with other financial support was examined in this report and at this point the MA is advised either</p> <ul style="list-style-type: none"> - not to introduce combination of RDP grants and RDP guarantees, or - to introduce the combination of RDP grants and RDP guarantees as an option (a separate sub-product), along with the option to use the guarantee as a standalone product (without combination with RDP grant). <p>It should be taken into account the viability and complexity of the proposed schemes, especially the requirement proscribing that the ESIF FI must support part of an operation with eligible expenditure distinct from other sources of assistance, as this requirement needs to be addressed when appraising potential investments that combine RDP grant and FI funding to ensure that the eligible expenditure for the RDP grant is distinct from the eligible expenditure under the FI.</p>

Expected results and corresponding key indicators**(Art. 37 (2) f))**

Regarding the expected results, a non-exhaustive list summarising the key indicators is presented below

- Number of entities supported;
- Number of entrepreneurs supported;
- Type of beneficiaries supported;
- Stage of development of the entities supported;
- Credit rating of entities supported (where applicable);
- Number of employees in the entity supported at the time the loan was granted;
- Number of jobs created through the implementation of the instrument;
- Turnover of entities supported;
- Total amount covered to entities supported; and
- Average amount of guarantee provided to entities supported.

7.2 Micro and small loans instrument

The market assessment also highlighted a lack of microfinance products to match the needs of agricultural producers, food processors and forestry sector beneficiaries (i.e. loans up to EUR 25,000), particularly micro producers and young farmers launching their business. In addition, the potential demand for this type of product is expected to continue as, as demonstrated by the survey results, a relevant number of producers and of processors intend to request this type of loan in the next 12 months. Access to small loans (i.e. less than EUR 50,000) is also difficult for small agricultural producers, thus hindering their capacity to develop their business activities.

In this regards, the implementation of a microfinance and small loans instrument could be a solution to facilitate access to finance to micro and small producers, processors and forestry sector beneficiaries. As demonstrated in the survey, an important number of micro SMEs in the agricultural sector cover their needs for financing through family and friends, benefiting typically from small amounts. However, the current supply of microfinance products is very limited, and does not meet the level of the demand. Hence, the implementation of this instrument would broaden and deepen the supply of microfinance and small loans support, thus promoting access to micro and small agricultural producers and processors and forestry sector beneficiaries to this type of financing products. In addition, this instrument would be highly beneficial to those holdings which are at the moment excluded from bank financing (e.g. young farmers or newly created firms with poor/no historical credit records) helping them to cover their financing needs.

The main objectives of this instrument are the following:

- Support the access to microfinance and small loans for small and micro agricultural holdings and food processors;
- Raise awareness on the totality of the supply of these type of products;
- Strengthen and facilitate access to finance for the target audiences in need of these products; and

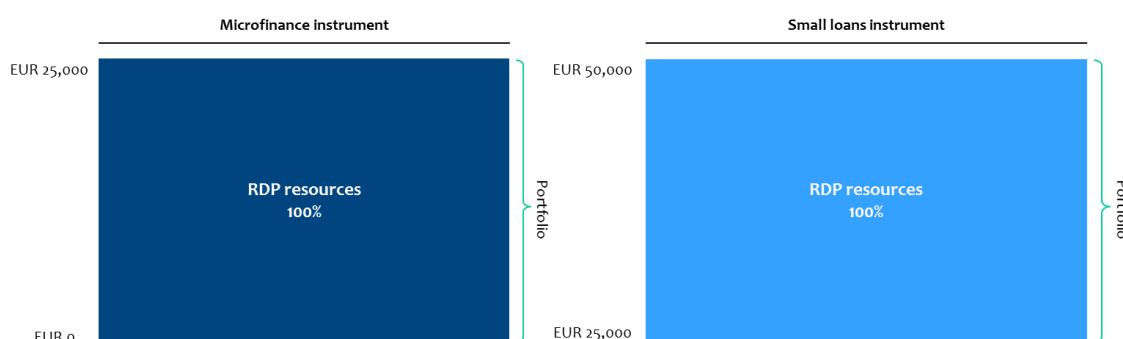
- Support business creation and professional development, facilitate financing of rural development projects and non-agricultural activities, and facilitate access to bank financing in the near future.

This instrument would be entirely funded through RDP resources. However, additional financing at the level of the fund manager/MA could be envisaged to attract additional resources. Indeed, the body governing the instrument could, for instance, co-invest a similar amount *pari-passu* with RDP resources, thus providing an extra EUR 17,65 m of finance for the instrument, sharing the risk associated to the investment made. This would double the amount of capital available for micro and small loans, thereby increasing the capacity of the fund manager to provide additional financing.

If, however, it is not possible to leverage the RDP funds with the resources of the fund manager, the rationale for funding the financing product entirely through the RDP funds remains strong, based on the idea that this instrument could be used as a proof-of-concept that could be further developed in the following programming period. If the current proposed operation establishes the demand for this sort of product, then the maturity of the market and the level of public funding available may, in the future, enable the fund manager/MA to finance the instrument alongside the RDP or with additional RDP envelopes deriving from potential future reallocations. However, should the fund manager have the capacity to invest in this instrument at this stage, it would be recommended to do so.

In addition, the MA is recommended to satisfy itself that the fund manager has the capacity to engage and distribute funds to the final recipients, without additional financial intermediaries involved. This should form part of the selection process under Art 7 CDR. The figure below presents the proposed structure of the microfinance and small loans instrument.

Figure 31: Proposed microfinance and small loans instrument



To implement the financial instrument, the RDP contribution will be transferred to the fund manager (e.g. HAMAG-BICRO). If the selected fund manager is providing leverage, they will combine the RDP resources and its own resources at the level of the financial instrument. As a result, a single credit line would be provided to the final recipient that would combine the

resources from RDP and the fund manager. This would therefore double the amount distributed in the market, conveying the advantage provided by the RDP to the targeted beneficiaries and investing pari-passu with its own funds. Should the fund manager (e.g. HAMAG-BICRO) decide not to co-invest into the financial instrument, the RDP contribution will be transferred to fund manager, who will be in charge to convey the RDP amount available to the targeted beneficiaries.

The body implementing FIs will be in charge of identifying the potential recipients, analysing their requests and executing the disbursement of the loans in accordance with the terms and conditions agreed with the Managing Authority. The body implementing FIs (e.g. HAMAG-BICRO directly disbursing loans) will thus have the responsibility to identify, evaluate and select applications for funding, as well as to monitor these funding and to prepare the activity reports required by the regulation.

It will therefore be important that the fund manager selected will implement arrangements that ensure the target final recipients are both made aware on the products and supported in accessing the finance, through readily accessible channels of communication. It is recommended that the MA explores whether the Advisory Service could support final recipients in the development of proposals for financing and preparation of their business plan, while at the same time supporting HAMAG-BICRO in developing standardised templates to reduce the burdensome of the application process and the analysis of the individual requests.

Additionally, if provided with additional training, the Advisory Service advisors on the ground could follow-up on the realisation of the financed products and interact between the beneficiaries and HAMAG BICRO.

This should help farmers in planning and managing their financial resources and decrease the default rate of the instruments proposed. The precise conditions of the technical support will be further analysed below.

The proposed characteristics of this financial instrument are detailed in the table below.

Table 34: Microfinance and small loans instrument

Microfinance and small loans instrument	
Nature / Type of product	<ul style="list-style-type: none"> • For microloans: up to EUR 25,000; • For small-loans: up to EUR 50,000;
Funds allocations	Based on the available funds, the recommended amount of public contribution from the EAFRD is EUR 15 million. With national RDP co-financing of EUR 2,65 million, total public contribution from RDP is EUR 17,65 million.
Expected leverage effect	Expected leverage will be 1X.

Amounts of financing for the targeted recipients	EUR 17,65 million of RDP contribution
Scope of the FI and target recipients	<p>Scope of the FI:</p> <p>The maximum amount - per loan - should be up to EUR 25,000 for micro-loans up to EUR 50,000 for small loans.</p> <p>Targeted final recipients are primary agricultural producers, food processors, private forest owners, pre-industrial wood processors and licensed forest service providers. This financial instrument will cover the following activities falling into the scope of this ex-ante assessment, thus providing an answer to the identified market failures presented in the first part of this study.</p> <ul style="list-style-type: none"> • Mo4 – Investments in physical assets, with a focus on Sub-measures 4.1 (investments in agricultural holdings) and 4.2 (investments in processing/marketing and/or development of agricultural products); and • Mo6 – Farm and business development, with a focus on Sub-measure 6.4 (investments in the development of non-agricultural activities in rural areas); • Mo8 – Investments in forest area development and improvement of the viability of forests, with a focus on Sub-measure 8.6 (investments in forestry technologies and processing of forest products). • As per Regulation (EU) 2017/2393 of the European Parliament and of the Council of 13 December 2017, the flexibility deriving from the modification of Article 17 (1)(b), may be used.
Objectives	<ul style="list-style-type: none"> • Reinforce access to financing for the selected targeted beneficiaries; • Encourage the development of agri-businesses, encouraging the creation of SMEs in the sector; • Promote the structuring and strengthening of the microfinance finance market and small loans for micro and small enterprises in the primary production, food processing and forestry sector; • Replace and upgrade the existing financing offer for microfinance and small loans products through the provision of additional public resources from the RDP.

Details	<ul style="list-style-type: none"> • The maximum amount of tickets shall not exceed EUR 50,000 for small loans, and 25,000 for microfinance; • Potential role of HAMAG-BICRO as fund manager, to directly distribute the funds available, given its capacities, if selected as fund manager; • The fund manager will be independent and responsible of taking all financing decisions, remaining economically and legally independent from the Managing Authority; • The steps involved in receiving, analysing, documenting, processing, lending and monitoring should be carried out by the fund manager according to its standard procedures. Fund manager will therefore have a direct credit relationship with the funding applicants.
Expected advantages	<p>Increase in the existing supply of microfinance and small loans products, thus enabling target audiences to benefit from more favorable access conditions to this type of financial products.</p> <p>Support access to finance for SMEs which are excluded from bank financing. In the long term, allow beneficiaries to access to bank financing.</p>
Market gaps analysis (Article 37 (2) a))	Please refer to the Building Block 1 of this ex-ante assessment
Expected socioeconomic results / Added-Value of the instrument (Article 37 (2) b))	<ul style="list-style-type: none"> • Increased supply of microfinance and small loans products; • Promotion of entrepreneurship and business creation; • Improvement of agricultural projects; • Job creation; • Business creation; • Reduction of unemployment; • Support for the development of agricultural activities; • Benefiting from revolving effect of the financial instrument; • Emphasis on specific end-beneficiary categories (e.g. young farmers);
Consistency with other interventions targeting the same market (Article 37 (2) b))	<p>This instrument would increase the existing supply of microfinance products and small loans provided for the development of the agricultural activities. This intervention does not run counter to the other forms of public intervention already existing, as the supply is currently insufficient for the target audiences analysed in this study.</p> <p>This increase in the existing supply would allow diversification of the investment made to the benefit of the target audiences.</p>

State aid and grants: planned interventions and measures to reduce the market distortions (Article 37 (2) b))	<p>The final design of the operation will need to reflect the State aid rules. Relevant considerations for the promoter of the scheme will include paragraphs 39-41 of the Risk Finance Guidelines¹¹⁷ in relation to the appointment of HAMAG-BICRO or other entity to manage the fund.</p> <p>The fund manager should ensure that the aid to final recipients is compatible with the requirements of the de minimis rules.</p> <p>Articles 81(2) and 82 of Regulation 1305/2013 provide that the State aid rules do not apply to RDP investments within the scope of Article 42 TFEU (so called Annex I activities)</p>
Estimation of Public and Private resources (Article 37 (2) c))	<p>No use of private resources is expected.</p> <p>However, HAMAG-BICRO could potentially co-invest into the financial instrument, thus creating a risk-sharing product.</p>
Use of reflows of the instrument (Article 43 (2), Article 44 (1))	<p>As indicated in the CPR (Art. 44(1)), resources paid back to the financial instrument from the release of resources committed to a financial instrument, and any other income generated shall be re-used for:</p> <ul style="list-style-type: none"> • further investments, through the same or other FIs; • preferential remuneration of private or public investors (not applicable as no financial intermediaries are involved); • reimbursement of management costs and payment of management fees of the financial instrument. <p>The use of reflows of funds should be defined in the funding agreements between the MA and the fund manager.</p>
Evaluation of the preferential remuneration levels allowing to maximise the leverage of counterpart funds from private investors (Article 37 (2) c))	<p>The proposed microfinance and small loan instrument will be completely funded through RDP resources. Therefore, the estimation of the preferential remuneration is not required.</p> <p>However, should the fund manager/MA decide to co-invest into the instrument, a pari passu approach should be followed.</p>
Evaluation of the past lessons learnt (Article 37 (2) d))	<p>Please refer to the Building Block 1 of this ex-ante assessment</p>
Proposed investment strategy with financial	<p>The combination of this micro and small loans instrument with other financial support was examined in this report.</p>

¹¹⁷ Guidelines on State aid to promote risk finance investments (2014/C 19/04)

products, targets and blending with grants (Article 37 (2) e))	<p>The combination of this micro and small loans instrument with other financial support was examined in this report and at this point the MA is advised not to introduce combination of RDP grants and RDP micro and small loans financial instruments.</p> <p>The combination of micro-credit/small loans with grants may allow the MA to tailor the provision of financial support to meet a wider range of final recipients' needs, thus providing a better long-term growth potential for these SMEs. Furthermore, the combination of grants with financial instruments could increase the attractiveness of the instruments, as the contribution requested by the SMEs would decrease thanks to the grant support. Should the MA decide on a possible combination of the instrument with other support State aid rules on cumulation of aid should be respected, when applicable.</p> <p>On the other hand, the combination of micro-credit/small loans and grants could result in a higher complexity and increased administrative burden. This increased burden would be both at the level of the financial intermediary and at the level of the final recipient. In addition, the low size of the tickets (< EUR 50,000/100,000) could discourage this option given the additional administrative cost resulted from such combination. In addition, in the case of combination, types of cost eligible for financial instruments opposed to grants (e.g. purchase of live animals, annual plants, second hand machinery) would not be allowed, which would result in the product being significantly less attractive and would likely underperform in terms of disbursement.</p> <p>The MA is advised to revise the combination option in more advanced phase of implementation, once the "pilot" allocations demonstrate the performance of financial instruments. Should the MA decide on a possible combination of the instrument with other support State aid rules on cumulation of aid should be respected, when applicable.</p> <p>Additionally, this instrument could be combined with technical assistance support (grant), both at the level of the investment manager and the level of the final recipients, as outlined in Section 7.5.</p>
Expected results and corresponding key indicators (Art. 37 (2) f))	<p>Regarding the monitoring indicators, here is a non-exhaustive list:</p> <ul style="list-style-type: none"> • Number of entities supported; • Number of entrepreneurs supported; • Type of beneficiaries supported; • Stage of development of the entities supported; • Credit rating of entities supported (where applicable); • Number of employees in the entity supported at the time the loan was granted;

	<ul style="list-style-type: none"> • Number of jobs created through the implementation of the instrument; • Turnover of entities supported; • Total amount awarded to entities supported; and • Average amount granted to entities supported.
Trigger for the review and update of the ex-ante assessment (Art. 37 (2) g))	<ul style="list-style-type: none"> • The investment strategy proposed in this study is intended to inform the MA when drawing up its investment strategy to support the development of agricultural activities in Croatia; • The decision to review, and if necessary update the ex-ante assessment during implementation of the investment strategy is at the discretion of the MA. The study should be updated when the ex-ante evaluation can no longer accurately represent the market conditions prevailing at the time when the financial instrument was launched, either because these market conditions have evolved in the meantime, or as other financial instruments became available that are more appropriate for addressing the financing gap since the finalisation of this study.

7.3 Co-investment loan instrument

The analysis of the financing issues in the agricultural sector highlighted that small and medium-sized food producers and processors as well as forestry sector participants face significant difficulties in terms of access to bank financing. One of the main barriers to accessing finance is the fact that interest rates are excessively high, as banks tend to have a conservative approach to financing. In fact, as mentioned during the analysis of the supply of financing, this is particularly the case for agricultural producers, where the use of lending products is low. Precisely, the findings of the survey demonstrate that there is a high unmet demand in all sectors analysed. Indeed, the reluctance of banks to provide finance to agricultural activities translates in a lack of liquidity in the sector.

A potential solution to address this market failure would be the implementation of a financial instrument targeting the groups mentioned above. This instrument would reduce the barriers faced by the beneficiaries in terms of banking conditions, while at the same time improving overall credit conditions in the sector. In this regard, a loan instrument would provide capital on favourable terms to selected financial intermediaries selected for the disbursement of loans to final recipients. Indeed, further to the issues related to the perception of risk, the market assessment demonstrates that banks also require additional liquidity to finance mature projects with solid business plans. In this regard, the implementation of a loan instrument could be a solution to address the current market failure for this type of projects.

At present, HBOR offers a (non-ESIF) loan product that provides financing for EU Rural Development, Fisheries and Wine Envelope Projects. The minimum loan amount of this financial instrument is HRK 80,000 (~ EUR 10,800), while the maximum loan amount is not

limited. In this regard, and given HBOR experience, a loan instrument could be created to address some of the beneficiaries that are currently not being able to access this finance. These include potential beneficiaries that have bankable projects and are either:

- Not eligible for grant (as they are below the minimum threshold for projects to be funded under the call - based on ranking by the projects eligibility criteria score)); or
- Have time constraints and find the grant application process excessively burdensome, thus do not apply for grants despite having a real need for financing.

Furthermore, it is proposed that the MA considers, in consultation with HBOR, whether the RDP committed to this instrument could be leveraged *pari-passu* by additional national resources. This could be done either by, HBOR using its own funds, provided that the government is ready to cover the cost of the capital for the co-investment, or the MA could contribute to the instruments from its own resources (for example, through additional EU funds co-financing or through the signature of a loan agreement between the Republic of Croatia and the EIB). The rationale for leveraging at the level of the financial instrument is primarily to ensure there is sufficient finance available to meet the potential demand as described at Chapter 6 of this report. The advantage of additional national co-investment could therefore provide additional public funding to double the amount available, reaching over EUR 60 m (leverage effect of 4x).

Therefore, two options could be considered, one including additional national co-investment, and another one excluding the additional national co-investment. In case of additional national co-investment, the fund manager should manage the RDP and the additional co-investment as two separate blocks of finance in accordance with Art 38(6) CPR. However, a single credit line will be provided to the financial intermediary. In case there is no additional co-investment, the fund manager would only have a single block, which will provide a single credit line to the financial intermediary.

In addition, irrespective of whether additional national co-investment is provided at the financial instrument level, in order to achieve a sufficient leverage effect while remaining attractive for the financial instrument, it is proposed that the financial support provided by the financial instrument will be invested *pari-passu* with the financial intermediary (50%-50%). This will therefore double (again if additional national co-investment has been provided) the amount provided to final beneficiaries due to the private intermediary co-investment. This co-investment repartition should be applied at loan level (i.e. *pari-passu* investment applied for each loan).

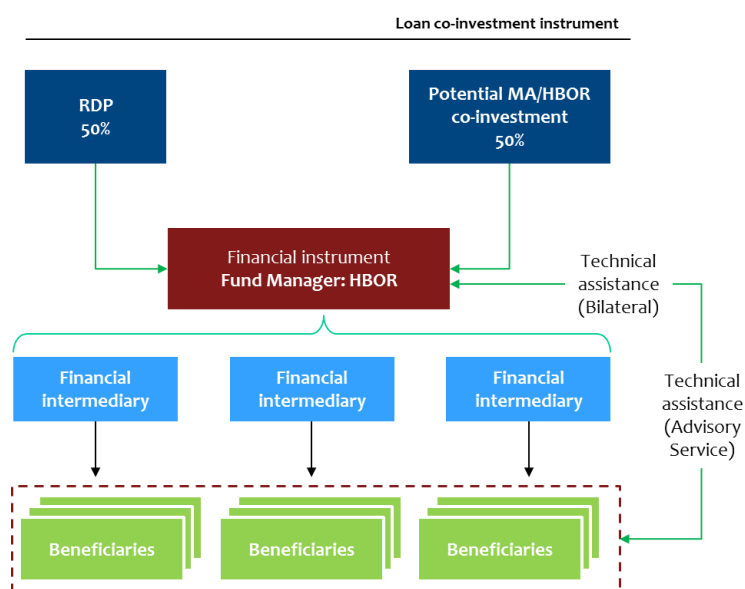
In other words, this financial instrument could be deployed with or without additional MA/HBOR's public co-investment. However, should this instrument include additional public co-investment, the total envelope available would present a higher investment capacity to partially cover the existing gap. In addition, by combining the financial instrument with an equivalent participation of the financial intermediary, this loan instrument would reduce the amount of capital requirements needed by the financial intermediary, thereby increasing its capacity to provide loans. In addition, HBOR would be responsible of the management of the FI, being in charge of selecting the intermediaries that would convey the benefit of the

financial instrument to the final recipients. Assuming a total contribution from the EAFRD of this financial instrument is EUR 30 m, and that the potential additional contribution of MA/HBOR would provide additional EUR 30 m, the total amount available at market level (including 2x leverage effect at the level of the financial intermediary) would reach over EUR 120 m.

In addition, this financial instrument will come along with a set of favourable conditions (e.g. reduced interest rates, longer payback period, less collateral requirements) provided by the financial instrument that should be directly conveyed to the final recipients.

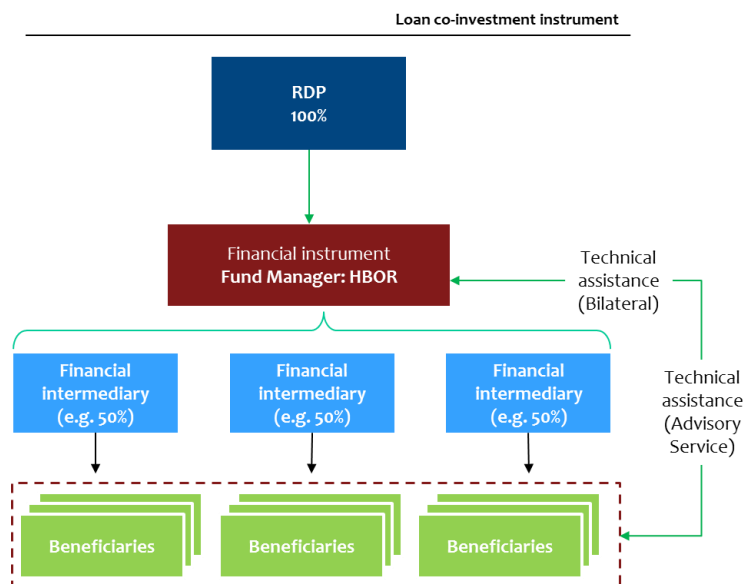
The figure below presents the structure of the proposed loan instrument. Indeed, the funds from the RDP resources (i.e. EAFRD + National co-financing) will be transferred to HBOR (fund manager), who could potentially combine its own resources *pari-passu* with the resources of the RDP. In addition, HBOR would be in charge of selecting the financial intermediaries that will distribute and co-finance *pari-passu* the loan instrument. The precise contribution of the financial intermediaries should be determined during the negotiation of the funding agreement with the fund manager. In case of public co-investment, as each investor would invest *pari-passu*, the risk of other contributors would not be covered by the MA in case of default. The co-investment and the leverage effect would reduce the interest rates requested to the final recipients, thus improving the overall conditions of financing. Further to this, technical assistance could be provided at the level of the fund manager, and at the level of the final recipient. The precise modalities of this technical assistance are explained in the following sub-section.

Figure 32: Proposed structure of the co-investment loan instrument (incl. additional co-investment)



The figure presented above summarised the structure based on the findings of this study. However, in case MA/HBOR decides not to contribute to the scheme, the FI could be exclusively composed by RDP funds.

Figure 33: Proposed structure of the co-investment loan instrument (excl. additional co-investment)



The possibility to combine the EAFRD investment loan (from HBOR) with the EAFRD guarantee (from HAMAG) was analysed. Nevertheless, this combination would be in contradiction with the principle of sound financial management applicable to managing authorities and imply inefficient use of ESIF programme resources.

The combination of the loan instrument with grants was considered as a way to enhance the access to financing of financially vulnerable beneficiaries, such as low-income agricultural holdings and food processors (i.e. young farmers, newly created companies, etc.), while at the same time reducing the needs for own equity participation. In principle, the funded loan instrument could combine the provision of capital to the financial intermediaries, through the disbursement of loans, with a percentage of grant co-financing. However, maximum incentive intensity would have to be obeyed in case of a combination. In addition, the loan instrument and the grant would have to be approved by two different institutions. It is worth mentioning that HBOR already has a non-ESIF loan product to be combined with grants, starting at 1,7% interest rate which addresses part of the need for lending to support RDP grant funded investment.

During engagement with HBOR it was questioned whether it was permissible within the CPR and associated State aid legislation for HBOR (or other intermediaries) to invest additional resources from their own funds into the Financial Instrument alongside the RDP contribution on terms that are different from those governing the RDP contribution, in particular in relation to the cost of the finance. The MA should satisfy itself that this is permissible and it is recommended that they have regard to Art 38(9) CPR that confirms that public and private contributors (which could include HBOR and the proposed financial intermediaries) can provide funding at the level of Fund of Funds, financial instrument and final recipient levels. Further, the MA could consider Art 44(1)(b) CPR which permits the RDP funds repaid to be

used to fund preferential remuneration of private investors, or public investors operating under the market economy principle. It is recommended that this framework, together with the approach in the Risk Finance Guidelines para 39-41 referred to in the State aid section, should be considered further by the MA when seeking to satisfy itself whether fund managers, such as HBOR, can provide additional resources to Financial Instruments on terms different to the RDP contribution.

It is recommended that this loan instrument should be structured to comply with the requirements of the State aid rules. Relevant considerations for the promoter of the scheme will include paragraphs 39-41 of the Risk Finance Guidelines in relation to the appointment of HBOR or other entity to manage the fund.

Articles 81(2) and 82 of Regulation 1305/2013 provide that the State aid rules do not apply to RDP investments within the scope of Article 42 TFEU (so called Annex I activities) For activities outside Annex I, the fund manager should ensure that the aid to final recipients is compatible with the requirements of the *de minimis* rules.

Table 35: Specific requirements depending on the size of the SME

	Staff headcount	Turnover	Or	Balance sheet total
Medium-sized	< 250	< EUR 50 m		< EUR 43 m
Small	< 50	< EUR 10 m		< EUR 10 m
Micro	< 10	< EUR 2 m		< EUR 2 m

The precise characteristics of this financial instrument are detailed in the table below.

Table 36: Summary of the co-investment loan instrument

Financial instrument n°3 – Co-investment loan instrument	
Nature / Type of product	Co-investment loan instrument targeting the agricultural sector.
Funds allocations	Proposed amount of public contribution from EAFRD: EUR 30 m. With national RDP co-financing of EUR 5,3 million, total public contribution from RDP is EUR 35,3 million. Additional co-investment by financial intermediaries is envisaged: Additional EUR 35,3 million.
Expected leverage effect	2x (at the level of the financial intermediary).

Amounts of financing for the targeted recipients	<p>The recommended amount of public RDP contribution is EUR 35,3 million.</p> <p>As mentioned above, EUR 35,3 million co-investment from financial intermediaries is envisaged. Potentially, the MA is advised to consider an additional EUR 30 million contribution from additional resources.</p> <p>Based on implementation of the model without the additional resources, total of EUR 70,6 million would be available for the final recipients.</p>
Scope of the FI and target recipients	<p>Scope of the FI:</p> <p>Provision of loans to agricultural holdings, food processors and forestry activities with low interest rates, extended payback periods, payback grace periods to facilitate access to finance to bankable targeted beneficiaries.</p> <p>This financial instrument has a broad area of intervention and a large target population, since the market gap identified for the loans covers agricultural producers, food processors and forestry sector participants.</p> <p>Nevertheless, it is expected that the main beneficiaries of this financial instruments would be medium-sized agricultural producers and food processors.</p> <p>As per Regulation (EU) 2017/2393 of the European Parliament and of the Council of 13 December 2017, the flexibility deriving from the modification of Article 17 (1)(b) may be used.</p> <p>The instrument can be put in place by one or several financial intermediaries.</p>
Objectives	Improve the credit conditions applying to agricultural investments, in terms of interest rates, payback periods and payback grace periods.
Expected advantages	Limits the constraints linked to the access to finance for agricultural investments and improves the overall credit conditions (such as lower interest rate, potentially longer payback period, grace period).
Market gaps analysis (Article 37 (2) a))	Please refer to the Building Block 1 of this ex-ante assessment.

Expected socioeconomic results / Added-Value of the instrument (Article 37 (2) b))	<ul style="list-style-type: none"> • Leverage effect; • Reuse of funds; • Increase in agricultural production and export; • Support the development of agricultural activities by young farmers; • Create jobs; • Create additional income sources or enhance the financial savings of the targeted public; • Reduce the number of targeted beneficiaries unable to conduct their activities given current financial constraints.
Consistency with other interventions targeting the same market (Article 37 (2) b))	<p>The implementing financial intermediaries will be selected through public procurement procedure. Financial intermediaries will have to prove the alignment with the requirement of Art. 7 of CDR.</p>
State aid and grants: planned interventions and measures to reduce the market distortions (Article 37 (2) b))	<p>The final design of the operation will need to reflect the State aid rules. Relevant considerations for the promoter of the scheme will include paragraphs 39-41 of the Risk Finance Guidelines¹¹⁸ in relation to the appointment of HBOR or other entity to manage the fund.</p> <p>The proposed operation will be implemented through Financial Intermediaries who will likely be considered to benefit from preferential remuneration through blending of the low cost loan from HBOR with their own market priced resources. The MA is recommended to consider designing the operation to take advantage of, not exclusively and among others, the Art 21 of the General Block Exemption Regulation¹¹⁹. In addition, <i>de minimis</i> and ABER applicable provisions are to be considered.</p> <p>Articles 81(2) and 82 of Regulation 1305/2013 provide that the State aid rules do not apply to RDP investments within the scope of Article 42 TFEU (so called Annex I activities)</p>
Estimation of Public and Private resources (Article 37 (2) c))	<p>Based on the co-investment of financial intermediaries and the relevant leverage effect, the potential private resources from financial intermediaries could be estimated at EUR 35,3 m or, in case of an additional public co-investment of EUR 30 m, 65,3 m.</p>
Use of reflows of the instrument (Article 43 (2), Article 44 (1))	<p>As indicated in the CPR (Art. 44(1)), resources paid back to the financial instrument from the release of resources committed to a financial instrument, and any other income generated shall be re-used for:</p>

¹¹⁸ Guidelines on State aid to promote risk finance investments (2014/C 19/04)

¹¹⁹ 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

	<ul style="list-style-type: none"> • Further investments, through the same or other FIs; • Preferential remuneration of private or public investors; • Reimbursement of management costs and payment of management fees of the financial instrument. <p>The use of reflows of funds should be included in the call for tenders for the selection of the financial intermediaries and be defined in the funding agreements between the MA and the fund manager, as well as between the fund manager and the financial intermediaries.</p>
Evaluation of the preferential remuneration levels allowing to maximise the leverage of counterpart funds from private investors (Article 37 (2) c))	<p>The establishment of remuneration levels for investors and fund manager(s) is at the discretion of the MA, and should be determined through discussions between the MA, the fund Manager, and the Financial Intermediary (ies) as appropriate or through call for tenders.</p> <p>When deciding on the optimal remuneration levels, the MA should consider that <i>“the preferential remuneration shall not exceed what is necessary to create the incentives for attracting private counterpart resources and shall not over-compensate private investors, or public investors operating under the market economy principle. The alignment of interest shall be ensured through an appropriate sharing of risk and profit and shall be carried out on a normal commercial basis and be compatible with the EU State aid rules”</i>, cf. Article 44 (1) of the CPR.</p> <p>At this stage, it is proposed that the operation will be implemented through Financial Intermediaries investing <i>pari passu</i> with the funds of the financial instrument.</p>
Evaluation of the past lessons learnt (Article 37 (2) d))	<p>Please refer to the Building Block 1 of this ex-ante assessment.</p>
Proposed investment strategy with financial products, targets and blending with grants (Article 37 (2) e))	<p>The combination of this investment loans instrument with other financial support was examined in this report and at this point the MA is advised not to introduce combination of RDP grants and RDP investment loans financial instruments.</p> <p>The combination of investment loans with grants may allow the MA to tailor the provision of financial support to meet a wider range of final recipients' needs, thus providing a better long-term growth potential for these SMEs. Furthermore, the combination of grants with financial instruments could increase the attractiveness of the instruments, as the contribution requested by the SMEs would decrease thanks to the grant support. Should the MA decide on a possible combination of the instrument with other support State aid rules on cumulation of aid should be respected, when applicable.</p> <p>On the other hand, the combination of investment loans and grants could result in a higher complexity and increased administrative burden. This increased burden would be both at the level of the</p>

	<p>financial intermediary and at the level of the final recipient. In addition, in the case of combination, types of cost eligible for financial instruments opposed to grants (e.g. purchase of live animals, annual plants, second hand machinery) would not be allowed, which would result in the product being significantly less attractive and would likely underperform in terms of disbursement</p> <p>Additionally, this instrument could be combined with technical assistance support (grant), both at the level of the investment manager and the level of the final recipient, as outlined in Section 7.5.</p> <p>The MA is advised to revise the combination option in more advanced phase of implementation, once the “pilot” allocations demonstrate the performance of financial instruments.</p>
<p>Expected results and corresponding key indicators</p> <p>(Art. 37 (2) f))</p>	<p>Quantification of the results can only be made once the parameters for the instrument are defined further. The precise result and indicators should be agreed following the negotiations between fund manager and financial intermediary.</p> <p>Key indicators:</p> <ul style="list-style-type: none"> • Leverage effect; • Promotion of entrepreneurship; • Job creation; • Reduction of unemployment; • Support to the development of agricultural activities; • Reuse of funds; • Risk sharing with the private sector (financial intermediaries); • Leverage of the competences of the financial intermediaries for project selection.
<p>Trigger for the review and update of the ex-ante assessment</p> <p>(Art. 37 (2) g))</p>	<ul style="list-style-type: none"> • The investment strategy proposed in this study is intended to inform the MA when drawing up its investment strategy to support the development of the agricultural sector in Croatia; • The decision to review, and if necessary update the ex-ante assessment during implementation of the investment strategy is at the discretion of the MA. The study should be updated when the ex-ante evaluation can no longer accurately represent the market conditions prevailing at the time when the financial instrument was launched, either because these market conditions have evolved in the meantime, or as other financial instruments became available that are more appropriate for addressing the financing gap since the finalisation of this study.

7.4 Summary of the proposed investment strategy

The table below summarises the allocation by financial instrument, the fund level additional financing rates and the estimated leverage effect per financial instrument.

Table 37: Summary of the proposed investment strategy (without additional co-investment)

Product (Fund manager)	Individual guarantee (HAMAG-BICRO)	Microfinance and small loans instrument (HAMAG-BICRO)	Co-investment loan instrument (HBOR)
EAFRD contribution	EUR 15 m	EUR 15 m	EUR 30 m
National RDP co-financing	EUR 2,65 m	EUR 2,65 m	EUR 5,3 m
Leverage	Min. 1.25x	-	2x
Total	Min. EUR 22,06 m	EUR 17,65 m	EUR 70,6 m

In case of additional co-investment, the investment strategy would be structured as follows.

Table 38: Summary of the proposed investment strategy (Inc. additional co-investment)

Product (Fund manager)	Individual guarantee (HAMAG-BICRO)	Microfinance and small loans instrument (HAMAG-BICRO)	Co-investment loan instrument (HBOR)
EAFRD contribution	EUR 15 m	EUR 15 m	EUR 30 m
National RDP co-financing	EUR 2,65 m	EUR 2,65 m	EUR 5,3 m
Fund level financing (MA)	-	-	EUR 30 m
Leverage	Min. 1.25x	-	2x
Total	Min. EUR 22,06 m	EUR 17,65 m	EUR 130,6 m

7.5 Provision of technical support

As demonstrated in the market assessment, the agricultural sector faces multiple barriers when accessing finance. Some of these barriers are linked to the lack of adequate supply, while others relate to the capability of agricultural business to effectively structure their businesses, which could help them to catch the interest of financial institutions. One of the main reasons for this is the lack of financial literacy of final recipients. Indeed, according to the survey, less than 3% of the owners of agricultural holdings have reached a higher level of education. This lack of financial literacy hinders their capacity to prepare business plans and to adequately structure their financial model. Businesses with mature business plans and consolidated financing are more likely to obtain the limited financing available, while the others experience more difficulties in accessing finance, particularly given the higher associated risk presented by these potential beneficiaries.

In other words, despite the existing potential for agricultural related investments and the unmet demand, projects requesting for financing need to be improved to become attractive for commercial banks. Indeed, major financial institutions have highlighted that projects in the agricultural sector are seen as particularly risky, thus discouraging banks from investing in the sector.

In addition, Croatian agricultural sector has not traditionally had a strong entrepreneurial culture. As a result, there is a lack of know-how to develop agricultural activities, and especially newly created holdings (e.g. young farmers). The development of business/projects plans, financial strategies and commercialisation support strategy is needed to improve the access to finance of these holdings. In order to overcome this barrier, the provision of specialised technical support would be a useful tool to improve the overall quality of the agricultural projects requesting for financing, while at the same time mitigating the risk perceived by financial institutions preventing them to invest in the agricultural sector.

Indeed, the provision of technical support would introduce the necessary know-how to agricultural business to raise the quality of their business plans, making them eligible and attractive for bank financing, while at the same time improving the overall quality of the projects in the agricultural sector in Croatia.

In the context of the agricultural sector in Croatia, the provision of technical support could be conducted by the Advisory Service, a public institution specialised on the provision of advisory service in agriculture, rural development, fisheries and forest management. The core mission of Advisory Service is to contribute to the development of competitive and advanced farms, entities in fisheries and forestry through using information, advisory services and education. Advisory Service activities focus on the technological and technical improvement of farms, the provision of professional assistance to farmers with the aim of increasing the profits from agricultural activities and supplementary activities on farms, the participation in the implementation of the Rural Development Programme 2014-2020 measures and implementation of the system of agricultural accountancy data through annual survey (FADN).

The Advisory Service is present in all 21 counties through regional offices, employing more than 250 agricultural forestry advisers. Given their anchored roots across the territory, the Advisory Service is well-aware of the main difficulties the agricultural sector is facing and they are particularly well-known in the sector. Indeed, the Advisory Service organises regular demonstration activities to upskill agricultural farmers, food processors and forest managers¹²⁰. Given this, Advisory Service appears to be the ideal actor to implement such technical assistance. In the context of the RDP, the Advisory Service could benefit from grant funding to promote project assistance through technical support in order to overcome the barriers linked to access to finance and the poor quality of the business plans presented.

¹²⁰ The Advisory Service was planning an educational curriculum on bank financing for farmers during December 2017.

This advisory support would be set up as a separate operation and would be open to any agricultural holding, food processor or forest manager (i.e. open to the market), thus independent from any specific financial instrument.

The Advisory Service would have the capacity to provide this support through their advisers across the territory. These advisers could support agricultural business to develop their business plans, while helping them to develop a mature financing structure. For instance, direct training modules could be provided by AS advisers to the targeted beneficiaries in order to effectively structure a business plan. On the other hand, the identification of the most suitable sources of financing is also a major key step in the growth process of all companies. However, the current skills mismatch and lack of financial literacy hinders their capacity to financially structure agricultural business. The provision of advisory service support in terms of financial structuring and identification of financing sources would be a highly valuable service to uptake the overall quality of the financial structure of agri-business.

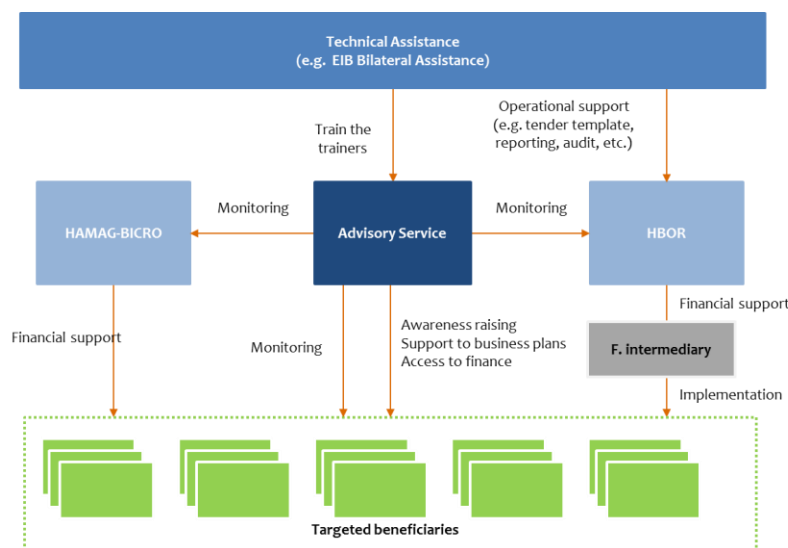
In this regard, the Advisory Service advisers could help the targeted beneficiaries to define the appropriate funding mix (e.g. equity vs. loans vs. grants) and the most appropriate financing depending on the specific characteristics of these companies. Every interested holding/processor/forest sector participants would therefore be eligible to benefit from the guidance of Advisory Service advisers on how to identify and apply for each source of finance that could be relevant (e.g. filling the financing application file).

Nonetheless, AS advisers should also be trained to ensure an effective implementation of the technical assistance. In this regard, the MA could consider requesting from DG AGRI further technical support in the form of targeted coaching for the MA and Advisory Service by the fi-compass team. In order to promote and increase awareness with regards to the issues relating to the implementation of financial instruments. Furthermore, Advisory service could provide additional support to HAMAG-BICRO and HBOR at fund level. This would allow HAMAG-BICRO to benefit from the support of Advisory Service to increase their capacity to monitor the loan beneficiaries and reduce the risk of default, given their deep knowledge of the sector and their implantation across the country.

In addition, specialist advisors such as, for example, the EIB Bilateral team (fi-compass) could provide technical support to HBOR/financial intermediaries to be selected via public procurement procedure, in order to reduce burdensome and streamline the application process. For instance, this support could be done through the development of standardised application procedures, which would require to submit a detailed business/project plan together with the relevant financial documentation in order to improve the capacity of financial institutions to analyse the request and measure the risk of the operations.

The following figure summarises the role that Advisory Service could play to support the development of agricultural activities in Croatia.

Figure 34: Role of Advisory Service



Technical assistance for the MA in the setup phase of the financial instrument

In the discussions with the MA it was noted that the MA intends to implement the financial instruments co-financed by the RDP in Croatia as soon it is realistically possible, considering the necessary requirements (described in detail in the chapter Next steps of this report), which the MA together with all stakeholders involved would need to fulfil. In order to ensure a successful set-up of the financial instruments proposed in the investment strategy and in the desired timeframe, it may be recommended to the MA to conduct as many of those processes in parallel as possible, as suggested also in the mentioned chapter.

Based on the previous experience, we envisage that this approach will require from the MA strong project management efforts, including regular (i.e. on at least weekly basis) communication (i.e. with the European Commission) and management and supervision (i.e. of the fund managers to be mandated and other domestic stakeholders) in order to conduct successfully (and in time) all the necessary activities. Also particular care will have to be taken in order to respect the provisions regulating the setup of financial instruments co-financed by the RDP, where so far there was no relevant national experience.

Taking into account all the above, it is recommended to the MA to consider the use of Technical Assistance to help the MA manage all the processes for the set-up of the financial instruments to be chosen.

8 Governance structure

This section illustrates the governance options applicable for the implementation of the FI. First, the potential implementation options presented in the ESIF Regulation will be detailed. In a second step, the proposed governance structure is presented and illustrated, including the role that HAMAG-BICRO and HBOR could play.

8.1 Options for the implementation presented in Art 38 of the CPR

Following article 37(2) of the CPR, the investment strategy proposed above includes an analysis of the implementation options as presented in Article 38 of the CPR. In the 2014-2020 Programming Period, financial Instruments can be implemented following two options (Art.38 (1) of the CPR):

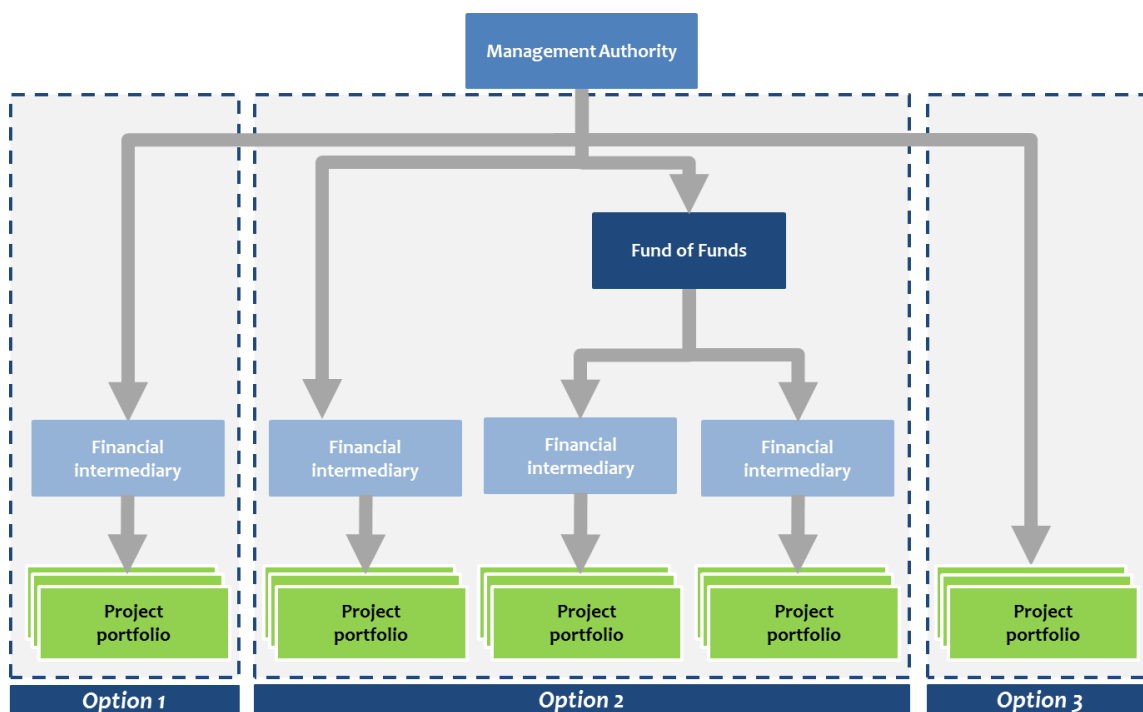
1. Intervene as part of the **financial instruments created at EU level** and managed directly or indirectly by the EC; and / or
2. Intervene through **instruments created and managed by the Managing Authority** (or under their responsibility). Article 38 provides three options for managing financial instruments.

Following the discussions held with the MA, the development of financial instrument created at EU level and managed directly or indirectly by the EC is not an envisaged option for the MA, hence only the second point appears to be the optimal alternative. When implementing financial instruments referred to in point 2, the Managing Authority may:

- **Option 1: Invest in the capital of existing or newly created legal entities**, including those financed from other ESI Funds, dedicated to implementing financial instruments consistent with the objectives of the respective ESI Funds, which will undertake implementation tasks; the support to such entities shall be limited to the amounts necessary to implement new investments in accordance with Article 37 and in a manner that is consistent with the objectives of the CPR;
- **Option 2: Assign execution tasks to mandated entities**, entrusting its implementation to (a) the EIB, and (b) international financial institutions in which a Member State is a shareholder, or financial institutions established in a Member State aiming at the achievement of public interest under the control of a public authority; and (c) a body governed by public or private law;
- **Option 3: The MA undertakes the implementation of the tasks directly**, in the case of financial instruments consisting solely of loans or guarantees.

The following figure summarises the three options provided in Article 38 for managing financial instruments.

Figure 35: Options for implementing Financial Instruments managed by the Managing Authority under Article 38



A detailed analysis of each of these possibilities will contribute to shed light on the advantages and disadvantages of each structure, helping the Managing Authority to take a well-informed decision for the implementation of the governance structure. The relative advantages and drawbacks of these three options are outlined below.

In this regard, it is important to note that the propositions made in this ex-ante assessment intend to inform the MA on the possibilities it has to implement the financial instruments. Nevertheless, it is up to the MA to decide whether it wants to follow or not the recommendations made in this study with regards to the governance structure, and to satisfy the requirements of the CPR in terms of delivery options chosen.

Table 39: Pros and Cons of each governance option

Option		Pros	Cons
1	Invest in the capital of existing or newly created legal entities	<ul style="list-style-type: none"> Provides a good control of the implementation conditions to the MA. 	<ul style="list-style-type: none"> Risk of conflict of interest, risk of political influence and limitation of deployment options; The creation of a legal entity implies heavy implementation procedures and delays in implementation; Possible dispersion of FIs according to the specialisations of legal entities created: limited strategic visibility on all instruments, little flexibility between instruments, separated reporting for each instrument; Uncertainty on the actual availability of qualified fund managers in the country; Cost of carrying out a call for tenders to select the Fund Manager; and Assumes that the MA will make an equity investment into an existing or newly created legal entity
2	Assign execution tasks to mandated entities	<p>In view of the regulation, the Managing Authority may entrust the management of the instruments to a mandated entity. These may be (i) the European Investment Bank, (ii) a international financial institutions in which a Member State is a shareholder, or financial institutions established in a Member State aiming at the achievement of public interest, or (iii) private entities.</p> <ul style="list-style-type: none"> Low risk of mismanagement as the management of instruments relies on a more experienced entity; Possibility of more rapid implementation of the instruments; Reduced risk of political influence and increased deployment options through the selection of financial intermediaries; 	<ul style="list-style-type: none"> MA has no direct control in the implementation of the FIs (a disadvantage which may also be an advantage in the event of a lack of competent resources within the MA). However, it is recommended to set up a Steering Committee for the follow-up of the MA; Terms of the FoF mandate management or the mandate management of a single FI to be negotiated (with each of the future managers: The Fund-of-funds and / or each FIs); Visibility of the MA is smaller than in direct management, requiring specific and dedicated communication/ coordination arrangements between the MA and the Fund Manager;

Option		Pros	Cons
		<ul style="list-style-type: none"> • Possible financial contribution of the managing entity at the Fund-of-Funds level or at the level of each financial instrument (co-investment); • Enables synergies between financial instruments; • Lower risk of conflict of interest between the fund manager and the selected financial intermediaries; • Possibility to attract institutional co-investors, such as the EIB; • The FIs could be grouped under a single FoF, allowing: <ul style="list-style-type: none"> ○ A strategic vision of all instruments, guaranteeing a consolidation of the monitoring and reporting of all FIs specified under the same priority axis; ○ Direct supervision by the MA in the implementation of FIs (within the framework of setting up a Steering Committee); ○ With regards to the proposed FIs, a very high visibility of the MA and the use of EAFRD resources; ○ Possible synergies between FIs; ○ Ensuring transparent selection and that the Terms of Agreements (Financing Agreement and Operational Agreement) are in line with Annex IV of the CPR. 	<ul style="list-style-type: none"> • Cost of carrying out a call for tender to select future FoF manager in case this is not an international financial institution or a national promotional bank.
3	Direct implementation by MA (or by an intermediate body)	<ul style="list-style-type: none"> • Does not require a funding agreement, but requires the development of a "strategy paper" to be submitted to the Monitoring Committee (the essential elements of which are set out in Annex IV of the CPR); • EC payment system similar to that of subsidies i.e. "ex-post" reimbursement of loans disbursed or guarantees incurred; • If the MA has sufficient technical know-how and the instruments have proved necessary in the ex-ante assessment, relatively rapid implementation and development of potentially existing activities; 	<ul style="list-style-type: none"> • Requires legal / regulatory, technical and human skills to set up such instruments within the MA; • Additional resources may be envisaged for the monitoring and reporting of past operations; • Subject to national legislation which must explicitly authorise the MA to grant loans or issue guarantees; • Impossible to finance equity or quasi-equity; • Limited synergies between FIs; • Advance payments or ex-post reimbursement not possible; • Management cost and fees not eligible;

Option	Pros	Cons
	<ul style="list-style-type: none"> • Avoids additional monitoring and reporting procedures; • More direct control of implementation conditions; • Cost of can be covered by the OP's Technical Assistance budget. 	<ul style="list-style-type: none"> • Risk of conflict of interest, risk of political influence and limitation of deployment options; • Higher audit risks and risks of ineligibility of expenses.

In view of the discussions held with the Ministry, the MA does not plan to manage or implement directly the FI (Option 3). Furthermore, given the existence of public institutions that have the experience in the management of financial instruments, and that have put in place instruments that could be improved with additional funds from the RDP, there does not appear to be a need to invest in the capital of existing or newly created legal entities (Option 1).

Therefore, assigning the execution of the tasks to mandated entities appears to be the optimal solution for the implementation of the proposed financial instruments (Option 2). Furthermore, given the number of financial instrument is proposed as well as their large scope of action, the Managing Authority could potentially decide to set up a Fund-of-funds (FoF) which could group together the various financial instruments in Croatia. The FoF is an umbrella fund set up to invest via financial instruments, allowing flexibility and diversification of the investment, and thereby reducing the associated risks. In case of multiple funds, the establishment of a FoF can also generate economies of scale.

The FoF structure offers several advantages:

- **Rationalisation and optimisation for all FIs**, including the possibility of obtaining a critical size of financing, allowing for synergies between instruments. This also offers the possibility to carry out calls for expressions of interest to attract financial intermediaries and ensuring a competition between them and the harmonisation of monitoring and reporting methods, optimising treasury management;
- **An overview of the use of ESI Funds** in the form of financial instruments and, more generally, of the MA's undertaking for the final recipients;
- **Co-investments from public and / or private players** will be possible at the different levels (Fund of Funds, each sub-fund, including each financial instrument or financial intermediary, and for each project).

On the contrary, the MA can decide not to use the Fund-of-Funds approach, and therefore managing each instrument separately. In this case, each fund manager should coordinate with the MA in order to implement the decisions taken on the investment strategy of its FI.

8.2 Proposed governance structure

During the preparation of this study, the Managing Authority requested an active engagement HAMAG BICRO and HBOR. As a result, several discussions were held with both HAMAG-BICRO and HBOR prior to the analysis on the governance structure. The governance structure outlined in this section has therefore been prepared with the input and with reference to these two agencies.

With regards to the governance structure of the proposed financial instruments, the assignment of the execution of tasks to public institutions aiming at the achievement of public interest objectives appears to be the optimal solution, particularly given the existence of two major well-established public institutions (i.e. HAMAG-BICRO and HBOR). These existing public institutions could fulfil the role of fund manager and that have the capacity, experience and expertise to effectively implement the financial instruments.

However, the MA must ensure that both agencies satisfy the requirements in the CPR and CDR, along with relevant public procurement rules in the event that it proposes to implement the proposed instruments through the direct award of the mandate to either HAMAG BICRO or HBOR¹²¹. The criteria for the selection of bodies implementing financial instruments are presented in Article 7 of the CDR. The summary box below outlines the criteria that the MA needs to take into account for the selection of bodies implementing financial instruments, as presented in Article 7 of the CDR.

Summary box 1: Article 7 of the CDR – Criteria for the selection of bodies implementing financial instruments

1. When selecting a body to implement a financial instrument in accordance with Article 38(4)(a) and 38 (4) (b)(ii) and (b)(iii) of Regulation (EU) No 1303/2013, the managing authority shall satisfy itself that this body fulfils the following minimum requirements:
 - a. entitlement to carry out relevant implementation tasks under Union and national law;
 - b. adequate economic and financial viability;
 - c. adequate capacity to implement the financial instrument, including organisational structure and governance framework providing the necessary assurance to the managing authority;
 - d. existence of an effective and efficient internal control system;
 - e. use of an accounting system providing accurate, complete and reliable information in a timely manner;
 - f. agreement to be audited by Member State audit bodies, the Commission and the European Court of Auditors
2. When selecting a body referred to in paragraph 1, the managing authority shall take due account of the nature of the financial instrument to be implemented, the body's experience with the implementation of similar financial instruments, the expertise and experience of proposed team members, and the body's operational and financial capacity. The selection shall be transparent and justified on objective grounds and shall not give rise to a conflict of interest. At least the following selection criteria shall be used:
 - a. robustness and credibility of the methodology for identifying and appraising financial intermediaries or final recipients as applicable;
 - b. the level of management costs and fees for the implementation of the financial instrument and the methodology proposed for their calculation;
 - c. terms and conditions applied in relation to support provided to final recipients, including pricing;
 - d. the ability to raise resources for investments in final recipients additional to programme contributions;

¹²¹Further information on the requirements can be found in the Commission Notice Guidance for Member States on the selection of bodies implementing financial instruments (2016/C 276/01)

- e. the ability to demonstrate additional activity in comparison to present activity;
 - f. in cases where the body implementing the financial instrument allocates its own financial resources to the financial instrument or shares the risk, proposed measures to align interests and to mitigate possible conflicts of interest.
3. Where a body that implements a fund of funds, including the EIB, further entrusts implementation tasks to a financial intermediary, it shall ensure that the requirements and criteria referred to in paragraphs 1 and 2 are met in respect of that financial intermediary.

Under the proposed governance structure, the individual guarantee and the micro and small loans instrument would fall under the responsibility of HAMAG-BICRO, which is currently implementing an individual guarantee targeting agricultural activities, and that is seen as a major actor to support agricultural activities in the Croatian market.

Similarly, it is proposed that the loan instrument is implemented by another entrusted mandated entity: HBOR. Indeed, the possibility to identify two public institutions in the market with experience in the implementation of financial instruments has importantly influenced the analysis of the proposition of the most efficient governance structure.

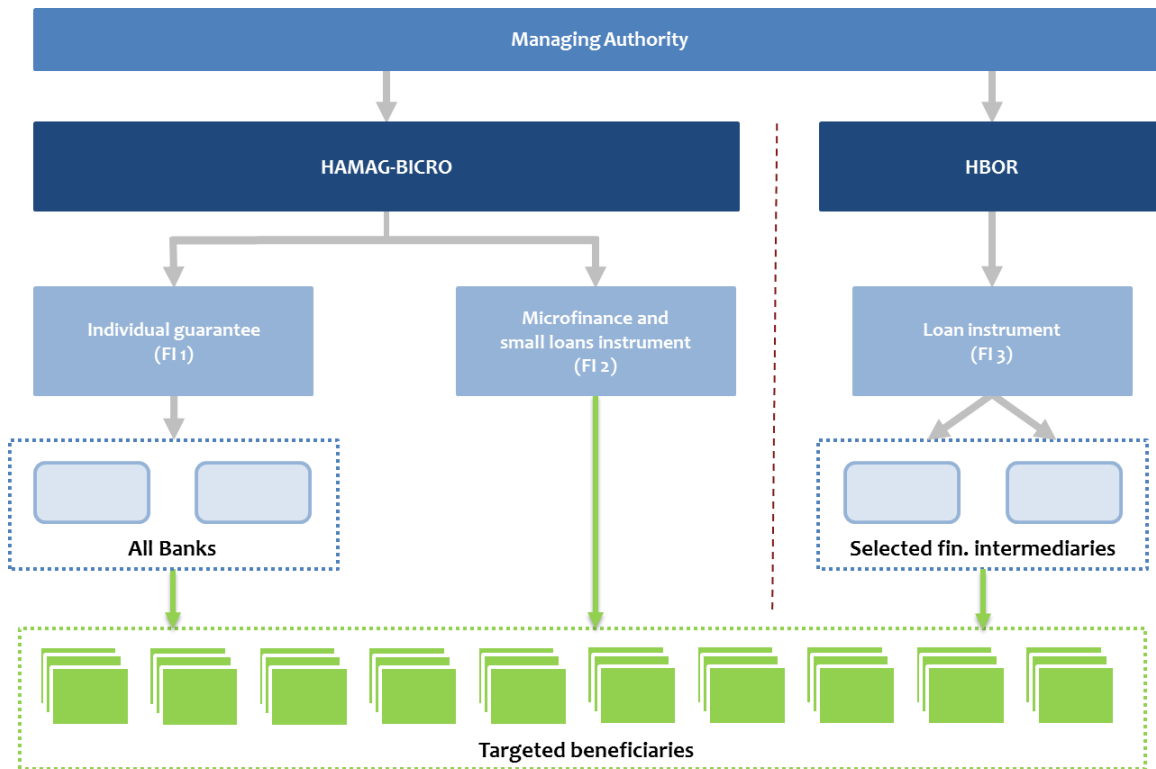
The potential collaboration with HAMAG-BICRO and HBOR would also enable a rapid operational implementation of the investment strategy, as desired by the Managing Authority, given their expertise and mean that there is no need to create an ad hoc legal entity to implement the financial instruments. Furthermore, these institutions could potentially provide additional contributions at the level of the financial instrument, thus increasing the total amount of the envelope of the financial instrument.

On the other hand, it is necessary to consider whether the use of alternative financial intermediaries (instruments 1 and 3) would reduce the risk of political influence in the operation of the instruments. Although this is a relevant factor to consider for all financial instruments, it is not considered likely that it will be a determining factor in this case, as there are established governance arrangements in place to ensure the independence of the institutions' decision-making. The MA should nevertheless ensure this is considered during the next phase of the implementation.

Other relevant factors which support the proposals include that the management of two financial instruments (instruments 1 and 2) by the same fund manager (HAMAG-BICRO) would potentially create synergies between FIs, thus allowing a very higher visibility of the MA with regards to the use of the RDP resources. In addition, the use of two investment managers for the implementation of the investment strategy would thereby allow the MA to achieve a higher degree of diversification, thus not relying in one single manager to implement all three financial instruments proposed.

The proposed governance structure is presented in the table below.

Figure 36: Proposed governance structure



As mentioned in the proposed investment strategy, the individual guarantee would provide funding additional to the current HAMAG-BICRO guarantee product. The current instrument is open to all banks providing financial support to the targeted beneficiaries and it is proposed to adopt the same structure for the individual guarantee proposed in the investment strategy. Therefore, the governance structure of this individual guarantee would follow the same approach, whilst, subject to the MA's consideration regarding the final design of the instrument, potentially increasing the guarantee coverage rate.

However, the microfinance and small loans instrument would be structured as a new product. In operational terms, this means that HAMAG-BICRO would be in charge of the monitoring of the expenditure of the financial instruments, while at the same time distributing and conveying the product and advantage directly to the targeted beneficiaries without the participation of financial intermediaries.

The viability of setting up of a Fund of Funds managed by HAMAG-BICRO and composed by the individual guarantee and the microfinance and small loans instrument was carefully analysed. However, given the fact that one of the financial instruments – the individual guarantee – is potentially already in place, the integration of this existing instrument in a Fund of Funds would be more burdensome and could increase the time needed for launching the proposed instrument. Therefore, it is suggested that both instruments are managed separately by HAMAG-BICRO. Nevertheless, it is advisable that this possibility would be envisaged in the following programming period.

With regards to the third financial instrument, the Managing Authority could delegate the management of the financial instrument to HBOR. As manager, HBOR would be in charge of selecting the financial intermediaries that will convey the financial instrument to the final recipients, thus benefiting from a leverage effect based on a pari-passu investment with the intermediaries selected. HBOR would monitor the expenditure of the financial instrument, providing the Managing Authority with a periodical report on the implementation of the financial instrument.

The Paying Agency for Agriculture, Fisheries and Rural Development (PAAFRD), the MA in-house agency accredited for RDP implementation, may be involved in all FIs monitoring (over entrusted bodies) and verification (at the level of entrusted bodies).

8.2.1 Rationale behind the implementation of the financial instruments in collaboration with HAMAG-BICRO

Under the CPR, the Managing Authority may entrust tasks of implementation of financial instruments to local financial institutions established in the Member State that have the aim of the achievement of public interest and are under the control of a public authority. The EU Procurement Directive (No. 2014/24/EU) (and related national legislation) sets out the conditions where the direct award of such appointments to a publicly owned entity such as a national development bank is possible.

HAMAG-BICRO (i.e. the Croatian Agency for Small Business, Innovation and Investment) is a 100% public owned entity under the supervision of the Ministry of Entrepreneurship and Crafts, whose main role is to support the development of small and medium sized enterprises and to finance operations through loans and guarantees. Precisely, HAMAG-BICRO aims at providing active support to the economic development of Croatia, facilitating the creation of a favourable environment for entrepreneurship, promoting Croatia as an attractive location for investment and creating a positive international image of Croatia. In order to do so, HAMAG-BICRO focuses at promoting investment, issuing guarantees for bank credits to SMEs, implementing grant schemes and co-financing consultancy services.

HAMAG-BICRO also has experience in the financing of the agricultural sector. As mentioned in the market assessment, HAMAG-BICRO has put in place a guarantee targeting investments in the agricultural sector for assets and working capital. In this regard, HAMAG-BICRO acts as a major public provider and manager of guarantees and repayable credit enhancement facilities for the financing of activities within the Croatian agricultural sector. It also disposes of a broad knowledge of the Croatian market and its financing needs, being recognised by agricultural holdings and food processors as a key actor to support their access to finance.

On the other hand, should the Managing Authority decide to implement these two financial instruments with the support of HAMAG-BICRO, it would benefit from a simpler setting up (as the institution is already in place and providing support), resulting in a faster implementation of the financial instruments, as desired by the Managing Authority.

Nevertheless, it remains a matter for the Managing Authority to satisfy itself in relation to the selection of HAMAG-BICRO or any other organisation to manage one or more of the proposed

financial instruments. No analysis of their ability to act as financial intermediary has been performed in this study.

One of the main success factors for these type of schemes is the simplicity. In fact, experience proves that microfinance and guarantee schemes presenting a complex organisational set up tend to discourage potential beneficiaries, given the excessive effort required for obtaining such type of financing. This has an impact in the absorption of the funds, thus hindering the provision of support to the targeted groups. In this regard, limiting burdensome and complexity of the application process would enable to speed up the loan disbursement process. In this regard, it is suggested that HAMAG-BICRO, in collaboration with the Advisory Service, develops standardised application procedures to streamline the application, review, and disbursement of the abovementioned financial instruments.

8.2.2 Rationale behind the implementation of the financial instruments in collaboration with HBOR

Under the CPR, the Managing Authority may entrust tasks of implementation of financial instruments to local financial institutions established in the Member State that have the aim of the achievement of public interest and are under the control of a public authority. The EU Procurement Directive (No. 2014/24/EU) (and related national legislation) sets out the conditions where the direct award of such appointments to a publicly owned entity such as a national development bank is possible.

HBOR (i.e. Croatian bank for reconstruction and development) is the national development bank of Croatia (ia 100% publicly owned institution), in charge of the promotion and development of the Croatian economy, particularly through the provision of loans, supporting export transactions, issuing guarantees and providing business advice. The main activities of HBOR include the financing of the reconstruction and development of Croatian economy, financing of infrastructure, the promotion of exports and internationalisation process of SMEs, the support enterprises and the promotion of environmental protection.

As it is the case for HAMAG-BICRO, HBOR has put in place several financial products to reach its objectives. For instance, with regards to the agricultural sector, HBOR has launched a loan instrument for financing activities linked to the projects of the EU Rural Development, Fisheries and Wine programme. Given its experience, HBOR could manage the third financial instrument proposed (i.e. loan instrument).

Nevertheless, it remains a matter for the Managing Authority to satisfy itself in relation to the selection of HBOR or any other organisation to manage one or more of the proposed financial instruments. No analysis of their ability to act as financial intermediary has been performed in this study.

9 Next steps

In order to ensure a successful implementation of the financial instruments proposed in the investment strategy, several steps should be followed. These steps are primarily recommendations for implementation and do not refer to the detailed requirements of the related European regulations. However, the proposed steps should facilitate and ensure a rapid and effective implementation of the financial instruments.

The following table details the action plan and all steps needed for the implementation of the investment strategy, from the modification of the RDP to include the possibility to use financial instruments, the validation of the ex-ante assessment and the strategic choice of the financial instruments, until the monitoring and evaluation of the results obtained.

Table 40: Action plan for the implementation of the investment strategy:

Phase	Steps
Modification of the RDP	Notification to the European Commission
	Amendment of the RDP
Take ownership of the results of the ex-ante assessment	Validation of the results and confirm the strategic orientations based on the ex-ante results
	Political decision and presentation to the Monitoring Committee
Communication and change management	Publish the results of the ex-ante assessment
	Elaboration of a communication plan: Publish the executive summary, communicate the investment strategy to the relevant stakeholders, and how the latter will be implemented
Negotiation of the funding agreement	Selection of the fund manager(s) in accordance with Art 38 CPR and Art 7 CDR
	Elaboration of the funding agreement
Organisational set-up	Governance body for the monitoring of the activities
	Definition of performance indicators for each financial instrument
Selection of the financial intermediaries	Identification of potential financial intermediaries (awareness campaign), when needed
	Definition of the procedure to select the financial intermediaries
	Negotiation of the operational agreements with the financial intermediaries
Monitoring and evaluation	Monitoring and review of the results
	Annual reports

The following sections detail each of these steps. Following the description of each step, an indicative timeline for the implementation of this action plan is presented.

9.1 Modification of the RDP

Prior the implementation of the proposed investment strategy, the Managing Authority should notify the European Commission about its willingness to modify the RDP to include the possibility of using financial instruments. Under the current RDP, the MA has not programmed the use of financial instruments within the framework of the Croatian RDP. However, the possibility of modifying the RDP to use financial instruments at a given moment during the programming period 2014-2020 is mentioned in the RDP. In order to be able to implement financial instruments, the Managing Authority must, first, notify its intentions to the European Commission and, secondly, amend the RDP.

9.1.1 Notification to the European Commission

The RDP for Croatia states that the potential use of financial instruments shall be assessed during Programme implementation within the evaluation activities planned in the Evaluation Plan, particularly concerning measures relating to Priority 2 and the consequent evaluation of the RDP. As FIs are not programmed in the RDP, introducing them will require a modification of the RDP. A recent amendment of the Implementing act allows managing authorities to submit unlimited modifications related to an FI (the rest are limited to one per year).

Since the proposed investment strategy will form part of the basis for negotiating the funding agreement, the MA should consider two different approaches to the proposed investment strategy in the ex-ante assessment, taking two extremes¹²²:

- **A very detailed approach, specifying product terms and conditions.** The managing authorities should be prepared to consider updating the ex-ante assessment, especially if funding agreement negotiations highlight different parameters. This can occur as either a market situation evolves after the market assessment and before funding agreement negotiations are completed, or market sensitive information only emerges during funding agreement negotiation;
- **A framework approach, offering higher level detail.** The managing authorities may find that this approach gives flexibility during funding agreement negotiations. Such higher level detail will widen possibilities – although possibly not all positive – during negotiation of the funding agreement and will require a different negotiation strategy from the managing authority to ensure adequate focus is maintained.

¹²² European Commission, European Investment Bank, Methodological handbook for implementing an ex-ante assessment of agriculture financial instruments under the EAFRD https://www.fi-compass.eu/sites/default/files/publications/209775_EAFRD_EXANTE_ASSESSMENT_HANDBOOK_o.pdf

9.1.2 Amendment of the RDP

The Managing Authority should notify the European Commission (DG AGRI) through the dedicated online portal, in which the updated version of the RDP shall be uploaded for EC's revision.

A supporting document to guide the MA in the modification of the RDP is attached to this study, shedding light on the information required in order to undertake its modification, as required by the regulation. Precise conditions are available at the SFC (System for Fund Management in the European Union) of the Rural Development Programme¹²³.

Given the willingness of the Managing Authority to implement the financial instruments in a short period of time, it is suggested that the modification of the RDP would be conducted in parallel with the approval of the ex-ante assessment and the negotiation of the funding agreement with the selected bodies in charge of implementing the financial instruments. This would faster the implementation process, thus reducing the time needed to setup the proposed investment strategy.

9.2 Take ownership of the results of the ex-ante assessment

9.2.1 Validate the results and confirm the strategic orientations based on the ex-ante results

Another key step following the submission of the final report is the validation of the ex-ante assessment by the Managing Authority. Prior its formal approval, the MA can amend the proposed recommendations indicated in this study and decide the precise financial contribution for each financial instrument. Further to this, the MA will be required to analyse and – if so – validate the implementation options, particularly with regards to the proposed governance structure and the financial instruments that would be implemented.

The validation of the ex-ante assessment implies that the MA agrees on the data and methodology utilised, the identified gaps and the proposed solutions presented in the investment strategy. In addition, the precise group of final recipients should be defined for each financial instrument. In addition, the amounts allocated should be consistent with the financing gaps identified in the market assessment and the potential leverage effect that could be achieved through additional private and public sector contributions. The MA should also decide on the implementation of the governance structure in line with the alternatives presented in this report and based on the applicable EU regulations.

Nevertheless, the responsibility of the final decision remains with the MA, therefore the abovementioned investment strategy and governance structure are propositions enabling the MA to take a well-informed decision when implementing the financial instruments.

¹²³ SFC Support Portal European Commission <https://ec.europa.eu/sfc/en/2014/support-ms/PRGEAFRDP/quickguide>

9.2.2 Political decision

The final choice of the instruments and the governance structure will rely on the decision made by the Ministry. The final decision might be influenced by many different factors. Some of the main decision criteria are listed below:

- Specific objectives outlined at political level;
- Amount of available national public funds (national contribution);
- Amount of available ESI funds (EAFRD);
- Potential use of EFSI resources;
- Time constraints related to the consumption of ESI funding against expected implementation duration and market absorption capacity;
- Availability and competences of the people in charge of the implementation.

Finally, the approval of the political decision shall follow the relevant administrative and political procedures of the MA. These could impact the overall deadlines of the project.

The tasks included in this point should be conducted within this point could also be conducted in parallel to the modification of the RDP, thus reducing the time needed for the implementation of the financial instruments.

9.3 Communication and change management

9.3.1 Publish the results of the ex-ante assessment

Following the validation of the final report, the MA is encouraged to publish a summary of the ex-ante assessment, ideally within two months of its finalisation. The objective of this publication is to raise the awareness of potential financial intermediaries that could be interested in playing a role in the implementation of the financial instruments, but also to increase the awareness of the potential beneficiaries and targeted publics with regards to these new sources of financing.

In addition, the MA should share a synthesis report of this study with key relevant stakeholders involved in the interviews conducted in the context of this study.

9.3.2 Elaboration of the communication plan

It is advisable that the MA would initiate discussions with relevant stakeholders to communicate its envisaged investment strategy to support the development of the agricultural sector in Croatia, precisely detailing how the proposed financial instruments will be implemented to address the identified market failures. In addition, such communication would also contribute to generate awareness with regards to the MA's strategy to support the financing of the targeted groups through financial instruments.

Prior to the selection of HBOR and HAMAG-BICRO, it would be advisable to organise an information and consultation session with these two institutions in order to communicate the precise MA's investment strategy.

In addition, it would be advisable to target both demand-side stakeholders in view of educating the market with regards to the advantages of financial instruments and creating appetite for the envisaged financial instruments, and supply-side stakeholders (i.e. potential financial intermediaries) to tease their appetite for the deployment of the contemplated instruments.

In addition to measuring its appetite, these consultations will also enable the MA to collect additional feedback from financial intermediaries and potential final recipients with regards to the contemplated financial instruments.

9.4 Negotiation of the funding agreement

9.4.1 Selection of the fund manager

As mentioned in the proposition of the governance structure, the MA may either undertake implementation tasks directly, invest in the capital of a newly created or existing legal entity or entrust implementation tasks to other bodies. In the latter case, Article 38(4)(b) of the CPR proposes different possibilities for entrusting financial instruments implementation tasks. Given the existence of two well-established public institutions (i.e. HAMAG-BICRO and HBOR), with a solid track record in the agricultural sector in Croatia, and experience in the management of financial instruments, the MA suggested to entrust the management of the financial instruments to these entities. In principle, services performed by bodies implementing financial instruments set up under the ESIF regulatory framework fall within the scope of public procurement rules and principles.

Therefore, the selection of such entities must comply with applicable regulations. Should the MA decide to follow the governance structure presented in this ex-ante assessment (i.e. entrusting the management of the financial instrument to 100% publicly owned entities) it must satisfy itself that the award of mandates to these organisations meet the requirements of Article 7 of CDR. Nevertheless, the public procurement rules permit, in certain defined circumstances public authorities to perform the public service tasks conferred on them by using their own resources. The MA will need to satisfy itself that the rules permit the MA to implement these financial instruments through HAMAG-BICRO and HBOR.

The conditions under which such a direct award is possible have subsequently been defined and enlarged by Directive 2014/24/EU. The fulfilment of these conditions should be carefully assessed by the MA prior to the selection of the entity as fund manager. In addition, the criteria defined in Article 7(1)(a) to (f) and Article 7(2) first paragraph of the CDR establish the legal, financial, economic and organisational capacity of the body to be entrusted with implementation tasks of the financial instrument. Therefore, the MA should ensure this minimum set of selection criteria are met.

Summary box 2: Considerations with regards to the potential selection of a national fund manager for the administration of financial instruments

The Managing Authority may envisage the possibility to select a national fund manager, such as HBOR and HAMAG-BICRO, to act as the fund manager for the administration of the contemplated financial instruments.

In this context, the MA must satisfy itself that it has taken the necessary steps to meet the requirements of the rules to evaluate the relative strengths and/or weaknesses of potential fund managers against a number of criteria. Further to the criteria stated in Article 7 of the CDR, the following elements should be taken into account when deciding whether to select a particular manager to implement financial instruments:

1. Organisation, human resources and competences with regards to the implementation of the contemplated financial instrument(s);
2. Back-office functions and systems for the processing, recording, and reporting of transactions in the context of the administration of the financial instrument(s);
3. Relevant previous experience with the management of similar instruments;
4. Successful track record with the implementation of similar instruments, e.g. in terms of amounts disbursed to final recipients (relative to the total amount available for disbursements to such beneficiaries);
5. Experience and capacity to manage the process for the calls for expressions of interest in view of the selection of financial intermediaries who will disburse funds to final recipients with the support of the financial instrument(s), and the entire process for the actual selection of the beneficiaries;
6. Financial strength and creditworthiness;
7. Corporate governance of the organisation (appointment, composition, and functioning of governing bodies);
8. Reputation and credibility of the fund manager (based on perceptions of the MA and key supply-side stakeholders).

Such operational, financial, and market due diligence of the candidate fund manager would provide the MA with the necessary evidence and comfort with regards to the capacity of the fund manager to properly and efficiently administer the financial instrument(s).

Based on the above, it appears that both HAMAG-BICRO and HBOR fulfil the criteria needed for the implementation of the financial instruments. Nevertheless, the MA should ensure these criteria are met prior the entrustment of the financial instruments to these entities.

9.4.2 Elaboration of the funding agreement

The funding agreement certifies the cooperation between the fund manager and the MA, establishing the precise conditions between both parties and covering the modalities for the remuneration of the fund manager. In short, the funding agreement is the legal commitment between the MA and the fund manager in which the specific conditions are established. The funding agreement must include, inter alia:

- The investment strategy, including all implementation arrangements, the financial products offered, target beneficiaries and any specific conditions; and
- Business plan, including the expected leverage effect and/or the multiplier ratio.

In order to accelerate the setup of the financial instruments, the negotiations regarding the selection of the fund manager, as well as the elaboration of the funding agreement, could be initiated prior the modification of the RDP. However, the funding agreement must not be signed until the moment the EC has approved the modification of the RDP.

9.5 Organisational setup

This step involves the precise establishment of the investment strategy, from the definition of the governance body in charge of coordinating and monitoring the activities, until the definition of the performance indicators for each financial instrument. At this stage, the MA should have already a clear view on what financial instruments to implement, the envelopes and the proposed governance structure for the management of each financial instrument. Hence, following the design of the investment strategy presented in this ex-ante assessment, the MA will be required to organise the operational setup of the financial instruments prior its implementation. The following sub-sections detail the key steps required to setup each financial instrument.

9.5.1 Governance body for the monitoring of the activities

As detailed in the previous section, different governance arrangements are possible. Typically, the Managing Authority acts as the governance body whose main responsibility is to give the strategic orientations of the activities of the fund manager. The governance body will also be in charge of identifying needs in terms of budgetary resources and the resources necessary for the setup and implementation phases.

In case the MA does not have the capacity to undertake these tasks internally, it will have the possibility to externalise the activities related to the implementation of the investment strategy, including the selection of the fund manager or the financial intermediaries to an external service provider under its supervision.

9.5.2 Definition of performance indicators for each financial instrument and auditing

The proposed investment strategy outlines the main performance indicators to be measured for each financial instrument. These performance indicators should be monitored closely in order to make sure that:

- The implementation of each financial instrument meets the objectives for which they have been established (e.g. results aligned with the targeted priorities);
- The available budget is not used in an inefficient way.

The performance indicators must enable the identification of the strengths, as well as the possible weaknesses or domains of improvement, allowing the Managing Authority to undertake the necessary corrective/preventive actions. In addition, it is advisable to define the expected performance of each financial instrument prior its launch. In addition, the MA should carry out management verifications throughout the programming period and during the setup and implementation phases of the financial instruments in accordance with Art. 125(4) of the CPR. The Audit Authority could carry out an audit covering the MA, the fund manager and the financial instruments.

9.6 Selection of the financial intermediaries

The selection of the financial intermediaries is a key step in the implementation of financial instruments. However, as two of the financial instruments proposed will be implemented directly by HAMAG-BICRO (the individual guarantee is open to all banks and the micro and small loans is disbursed directly by HAMAG-BICRO), these two instruments could be launched at this stage. On the contrary, the co-investment loan instrument would require the identification and selection of potential financial intermediaries, the definition of the procedures and the negotiation of the operational loan agreements to implement the financial instrument.

In order to select the financial intermediaries, the identification of potential financial intermediaries, the definition of the procedure to select the financial intermediaries and the negotiation of the operational agreements should be conducted by the investment manager in line with the procurement rules and the CPR. In addition, the MA should satisfy itself that HBOR has the necessary capacity to undertake the selection of financial intermediaries, as requested in the CDR.

9.7 Monitoring and evaluation

9.7.1 Monitoring and review of the results

The MA should take into account the fact that market conditions and investment trends may vary before and in the course of the implementation of the investment strategy. Hence, Article 37 (2) (g) of the CPR requires the ex-ante assessment to comprise provisions for its revision and update, in case the MA considers that the findings of the ex-ante assessment no longer match the market conditions. The main drivers of change which may require an update are the following:

- Poor accuracy of the proposed targets compared to results;
- Inadequate volume of the support scheme compared to observed demand;
- Miscalculation of the risk taken by the FI;
- Changes in the political settings;
- Improvement of the economic conditions;
- Market failures are fully addressed and there is no longer a need for intervention.

The causes of the deviations from the findings may be due to a problem in the execution of the original objective, being necessary to re-estimate the findings of the ex-ante assessment. This review will be needed if any of the following occurs:

- **Changes in the context:** Miscalculations may arise in the review of the results of the market failure initially estimated.

In this case, a correction should be made and the estimated financing needs should be adjusted. When the analysis of the market failure is correct but the initial situation has changed, a new analysis should be carried out to obtain a new estimate of the financing gaps;

- **Inability to absorb funds:** Another possible cause of deviations from the initial targets could be linked to the potential for absorbing funds (underestimation, in the case of accelerated consumption of funds, or overestimation, if delays occur). In this case, it should be assessed if this is the result of an insufficient capillarity of the selected managers to the recipients or if it is necessary to rethink the characteristics of the financial products and the conditions under which they are offered, due to changes in the demand. In such case, the main elements that should be updated would be the FI's consistency with the overall objectives and the added value of the FI. If the absorption of the funds is lower than expected, a recalibration of the size of the instrument may be envisaged, with a potential reallocation of excess funds to other financial instruments;
- **Risks of default:** If the risk of default exceeds the limits foreseen by the financial intermediary, the capacity to reuse the amounts committed by the FI will be reduced. In such cases, the minimum credit quality required of the final recipients to whom the FI is directed should be reconsidered and, if necessary, the expected results presented in the ex-ante assessment should be revised.

It is difficult to estimate the level of detail required to update the evaluation. A drastic change in the economic environment would require a complete update of the ex-ante evaluation. However, a gradual change may only require a partial update and therefore it may be sufficient to review only a section of the ex-ante assessment. A full update of the ex-ante assessment should contemplate, at least:

- A re-estimation of market deficiencies, suboptimal investment situations, and investment needs in current FI areas.
- A revision of the added value of the FI, the coherence with respect to other forms of public intervention for the same market, as well as the possible implications in terms of State aid.
- An assessment of the additional public and private resources from which the financial instrument could benefit, or if those that had been previously assessed remain.
- Update the lessons learned with new lessons from similar instruments since the last ex ante evaluation.
- Review the proposed investment strategy, including the execution measures that have been proposed in accordance with the provisions of Art. 38.
- Recalculate the expected results, updating them on the basis of those already achieved, and according to the way in which the IF is expected to continue contributing to each specific objective.

9.7.2 Annual reports

As per article 50 of the CPR, each Member State shall submit to the Commission an annual report on the implementation of the programme in the previous financial year.

Each Member State shall submit to the Commission a final report on the implementation of the programme for the ERDF, the ESF and the Cohesion Fund and an annual implementation report for the EAFRD and the EMFF by the deadline established in the Fund-specific rules.

Annual implementation reports shall set out key information on the implementation of the programme and its priorities by reference to the financial data, common and programme-specific indicators and quantified target values, including changes in the value of result indicators where appropriate, and the milestones defined in the performance framework. The data transmitted shall relate to values for indicators for fully implemented operations and also, where possible, having regard to the stage of implementation, for selected operations. They shall also set out a synthesis of the findings of all evaluations of the programme that have become available during the previous financial year, any issues which affect the performance of the programme, and the measures taken.

9.8 Indicative calendar for the implementation plan

The following table outlines the key steps that the MA should take in the coming months in order to implement the financial instruments proposed in the investment strategy presented in this study. This calendar is indicative and based on the action plan presented in the previous sub-sections, and aims to provide the MA with effective guidance for the implementation of the financial instruments proposed. This calendar should therefore be seen as a roadmap to help the MA to understand the steps and timing for an effective implementation.

It is important to note that some of the activities outlined in the table below can be run in parallel, and therefore this calendar should not be seen as a linear process but as a relatively flexible action plan, depending on the capacity of the MA to coordinate these activities.

Nevertheless, should the MA decide to modify investment strategy or the governance structure, the present implementation calendar should be modified accordingly, as this implementation calendar is based on the current proposed investment strategy and governance.

Table 41: Indicative calendar for the implementation plan

Action	Indicative duration ¹²⁴
1. Modification of the RDP	90 days
Notification to the European Commission	30 days
Amendment of the RDP	60 days
2. Take ownership of the results of the ex-ante assessment	60 days
Validate the results and confirm the strategic orientations	30 days
Confirm the IF to be modified and/or created	15 days
Confirm the governance structure	15 days
Confirm the implementation phase approach and overall timeline	15 days

¹²⁴ The indicative duration does not correspond to the workload required for the different actions.

Action	Indicative duration ¹²⁴
Political decision	30 days
3. Communication and change management	60 days
Communicate the executive summary to the interviewees	15 days
Communicate the ex-ante results to the internal stakeholders	15 days
Communicate the results of the ex-ante to the Commission (DG Agri)	15 days
Elaborate a communication plan related to the decisions taken (political orientations, selected Ifs, overall implementation plan)	30 days
Elaborate and implement a change management plan (i.e. identification of needs for communication and training)	30 days
4. Negotiation of the funding agreement	120 days
Evaluation of the potential FI managers	30 days
Selection of the FI managers	60 days
Elaboration of the funding agreements	75 days
5. Organisational setup	90 days
Identify and confirm internal resources (human and financial resources) for the implementation	15 days
Approval of intermediate deadlines and key success factors	15 days
Setup the governance body for the monitoring	75 days
Definition of performance indicators by financial instruments	60 days
<i>Launch of the individual guarantee and micro and small loans instruments</i>	30 days
Selection of the financial intermediaries	120 days (TBC)
Elaboration and implementation of procedures to select the intermediaries	10 days
Identify and select the financial intermediaries	90 days
Elaboration and negotiation of the funding agreement with the financial intermediary	60 days
<i>Launch of the co-investment loan instrument</i>	30 days

Further to this calendar, the subsequent timeline provides further information with regards to the implementation of these activities and how can these be undertaken in parallel.

Figure 37: Timeline for the implementation of the investment strategy

	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
Modification of the RDP											
Notification to the European Commission											
Ammendment of the RDP											
Take ownership of the results of the ex-ante assessment											
Validate the results and confirm the strategic orientations											
Political decission											
Communication of the results											
Publish the results of the ex-ante assessment											
Elaboration of the communication plan											
Negotiation of the funding agreement											
Selection of the FI managers											
Elaboration of the funding agreement											
Organisational set-up											
Governance body for the monitoring											
Definition of performance indicators by financial instrument											
<i>Launch of the individual guarantee and micro and small loans instruments</i>											
Selection of the financial intermediaries (TBC)											
Definition of the procedure to select financial intermediaries											
Identification of potential financial intermediaries											
Negotiation of the loan agreements with the financial intermediaries											
<i>Launch of the co-financing instrument</i>											

Annex 1 – Supporting document presenting the information needed for the modification of the RDP

The MA has not programmed the use of Financial Instruments within the framework of the Croatian RDP. However, the possibility of using Financial Instruments during the 2014-2020 programming period is mentioned in the RDP.

More precisely, it is stated that the potential use of Financial Instruments shall be assessed during the Programme implementation within the evaluation activities planned in the Evaluation Plan¹²⁵, particularly concerning measures relating to Priority 2 and the consequent evaluation of the RDP proposed. As FIs are not programmed in the RDP, introducing them will require a modification of the RDP. A recent amendment of the Implementing act allows Managing Authorities to submit unlimited modifications related to FIs (the rest are limited to one per year).

Since the proposed investment strategy will form part of the basis for negotiating the funding agreement, the MA should consider the implications of different approaches to the proposed investment strategy in the ex-ante assessment, taking two extremes¹²⁶:

- A very detailed approach, for example, specifying product terms and conditions; or
- A framework approach, offering higher level detail and flexibility.

The aim of this annex is to highlight key issues to be considered by the Managing Authority in the modification of the RDP, shedding the light on the information required in order to undertake its potential modification, as required by the regulation.

Type of instruments, product and the potential procedure for Fund's manager selection

The MA may implement different types of financial instruments. The final decision on the implementation of FI and of financial products must be determined in the ex-ante assessment. The ex-ante assessment should select and propose, based on the identified market failures and sub-optimal situations, the type of financial instrument(s) and product(s) capable to fulfil the identified needs. In other words, the proposed investment strategy developed in the ex-ante assessment needs to justify the choice, the combination and the prioritisation of rural development measures in the light also of the results of the SWOT analysis and the needs identified and linked to the measures concerned (respectively the beneficiaries under these measures or eligible operations), together with the financial allocations according to the interventions.

In line with Article 38 (4) of the CPR, the MA can decide among 4 different implementation options:

- Contribution from ESIF to EU-level FIs;
- Investment in the capital of an existing or newly created legal entity dedicated to implement FIs consistently with the objectives of the ESI Funds;
- Entrust implementation and management tasks to another entity; or

¹²⁵ Evaluation plan is implemented on annual basis via Annual Implementation Reports

¹²⁶ European Commission, European Investment Bank, Methodological handbook for implementing an ex-ante assessment of agriculture financial instruments under the EAFRD https://www.fi-compass.eu/sites/default/files/publications/209775_EAFRD_EXANTE_ASSESSMENT_HANDBOOK_o.pdf

- Direct implementation of the FI by the MA.

Once the choice of implementation has been made, the precise typology of FI should be decided. These typology options are foreseen:

Off-the-shelf instruments: To facilitate the launch and sound functioning of Financial Instrument, the CPR allows making contribution to FI complying with standardised terms and conditions (i.e. “off-the-shelf”), including aim of the instrument, state aid implications, lending policy, eligibility criteria, pricing, characteristics of the FI and liabilities.

The main advantages of this option are:

- Foster a better managed process, as they capitalise in previous experiences and know-how;
- State aid compliance is already embedded;
- Faster delivery, allowing a significant increase in the absorption capacity;
- Flexibility of the proposed terms and provisions to fit into each OP, being able to evolve into tailor-made instruments if needed.

This type of financial instrument is envisaged when:

- Available instruments fit the identified market needs and the potential final recipients;
- A proven model is important for all stakeholders;
- The MA has limited resources;
- Fast roll-out of the instrument.

Tailor-made instruments: Implemented on the basis of the CPR provisions from Articles 37 to 46, these instruments are designed to address a particular need that cannot be covered by an off-the-shelf instrument, hence requiring a specific set-up.

The main advantages of this option are:

- Ensure the FI is perfectly adapted to the specific market conditions identified;
- Exploit standardisation in other sectors;
- Align an existing activity to an envisaged EU support scheme without overlapping;
- Allow tailor made approach to attend governance structure needs.

This type of financial instrument is envisaged when:

- Market needs identified are very specific and cannot be covered through off-the-shelf;
- MA have sufficient resources for the setting up and use of these instruments;
- An advanced model of risk-sharing with private and public partners is envisaged;
- When a grant-loan combination is envisaged.

The most appropriate financial product(s) to address the market needs and segments, as well as the select target final recipients will be defined in the ex-ante assessment. Key features and differences of the main financial products which may be offered by FI are presented by *fi-compass*. Financial products as guarantees and loans appear to be the most likely to be used in the context of supporting the development of the agricultural sector.

Outside the situations described below and outside the case where managing authorities decide to implement directly a financial instrument under Article 38(4)(c) of the CPR, they must select bodies implementing financial instruments in accordance with public procurement rules and

principles. These rules must also be respected by intermediate bodies and bodies implementing fund of funds which are contracting authorities. Hence, outside the case where managing authorities decide to implement directly a financial instrument under Article 38(4)(c) of the CPR, they must select bodies implementing financial instruments in accordance with public procurement rules and principles. These rules must also be respected by intermediate bodies and bodies implementing fund of funds which are contracting authorities.

The selection of the manager of the fund must be in line with the Guidance for Member States on the selection of bodies implementing financial instruments (2016/C216/01) of the European Commission¹²⁷.

Selection of measures, scope of intervention and beneficiaries

The sub-measures for which the use of FI is envisaged and that will be examined under this Assignment are the following:

- Sub-measure 4.1 - Support for investments in agricultural holdings;
- Sub-measure 4.2 - Support for investments in processing/marketing and/or development of agricultural products;
- Sub-measure 6.4 - Support for investments in creation and development of non-agricultural activities;
- Sub-measure 8.6 - Support for investments in forestry technologies and processing of forest products.

Co-financing rates and available budget

All European Structural and Investment Funds (ESIF) resources are required to be co-financed by other public or private resources for managing authorities to be able to disburse these Funds. The Rural Development Programme (RDP) sets out how the EAFRD and its co-financing should be invested, either as grants or through FIs. Both the ESI Funds and the co-financing must be administered and spent in line with the applicable European Union regulations.

Therefore, co-financing rate refers to the contribution EU funding makes to a programme. It is expressed as a percentage of the total programme cost. Co-financing is usually subject to a maximum threshold, which is defined as a percentage of the total value of the programme, or part thereof. The Commission specifies co-financing rates for each operational programme. The minimum EAFRD contribution rate shall be 20%, the maximum EAFRD contribution rate is a percentage of eligible public expenditure and is: (i) 85%¹²⁸ for less developed regions, outermost regions and smaller Aegean islands; (ii) 75% for regions whose GDP per capita for the 2007-2013 period was less than 75% of the average of the EU-25 for the reference period but whose GDP per capita is above 75% of the GDP average of the EU-27; (iii) 53% for transition regions: 63% of the eligible public expenditure; (iv) 53% other regions. It is 100 % for Union-level FIs and for other FIs the contribution rate applicable to the measure concerned can be increased by an additional 10%.

¹²⁷ European Commission, Guidance for Member States on the selection of bodies implementing financial instruments <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX%3A52016XC0729%2801%29&%3Bfrom=EN>

¹²⁸ Contribution rate for Croatia.

Co-financing rate for EAFRD is set down in Regulation (EU) No 1305/2013, Article 59¹²⁹.

Respect of state aid rules

As stated in the Methodological handbook for implementing an ex-ante assessment of agriculture financial instruments under the EAFRD, managing authorities should identify under what conditions a FI falls under State aid, in which case it should be notified to the Commission.

Article 107(1) of the Treaty on the Functioning of the European Union ('the Treaty') stipulates that, save as otherwise provided in the Treaties, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market.

However, despite that general prohibition, State aid may be necessary to address market failures in order to ensure a well-functioning and equitable economy. Therefore, the Treaty leaves room for the granting of State aid in respect of several policy objectives. For instance, on the basis of Articles 107(3) (c) of the Treaty, the Commission may consider compatible with the internal market State aid to promote the economic development of the agricultural and forestry sectors and of rural areas, provided that it does not adversely affect trading conditions¹³⁰.

Managing authorities should identify when and under what conditions an FI falls under State aid and when it needs to be notified to the Commission. Namely, agricultural activities fall under the scope of Article 42 of the Treaty on the Functioning of the European Union (TFEU) and concern products listed in Annex I of the Treaty.

EAFRD Regulation stipulates that for activities supported under the EAFRD, State aid rules do not apply to co-financing payments or to additional national financing ('top-ups'). Aid for these activities is exempted from the notification requirement of Article 108 (3) of the Treaty provided it complies with the respective compatibility conditions laid down in the EAFRD Regulation. Therefore, the amounts and support rates as defined in Annex II of the Regulation should be respected.

Article 38 (3) of the CPR explicitly mentions FIs complying with standard terms and conditions, laid down by the Commission. These off-the-shelf FIs are further defined in Commission Implementing Regulation (EU) 964/2014. These FIs do not have to be notified to the Commission as their terms and conditions have been developed to make them State aid compliant. However, for off-the-shelf FIs that may be considered applicable or as a source of inspiration for an EAFRD FI, the support rates and amounts defined in Annex II of the EAFRD Regulation apply.

¹²⁹ Regulation (EU) on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) and repealing Council Regulation (EC) No 1698/2005 <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:347:0487:0548:EN:PDF>

¹³⁰ Guidelines for State aid in the agricultural and forestry sectors and in rural areas 2014 – 2020 ("GL"): http://eur-lex.europa.eu/legal-content/en/TXT/?uri=uriserv:OJ.C_.2014.204.01.0001.01.ENG
Agricultural Block Exemption Regulation ("ABER"): http://eur-lex.europa.eu/legal-content/en/TXT/?uri=uriserv:OJ.L_.2014.193.01.0001.01.ENG
Agricultural de minimis Regulation: <http://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:32013R1408>

Setting of targets and indicators

Expected results and outputs of each FI should be in line with the priorities fixed in the RDP. A specification of the expected results and how the FI concerned is expected to contribute to the achievement of the specific objectives set out under the relevant priority including indicators for that contribution must be therefore presented in the ex-ante assessment.

An indicative list of targets and indicators for measuring public support is available in the Factsheet on 2014-2020 Rural Development Programme for Croatia¹³¹.

Monitoring and reporting obligations

In order to respect the monitoring and reporting obligations, the MA should ensure that:

- The reporting requirements should be included in the funding agreement. Hence, the monitoring process should be set up at the level of the FI, taking into account the governance structure;
- The managing authority needs to make sure that all information required for reporting is available.

The monitoring and evaluation framework of the EAFRD is set out by the CPR and the EAFRD regulation, promoting the simplification and coherence of the reporting and evaluations for ESIF and RDPs. This monitoring should take into account the governance structure of the Financial Instruments to embed information collected. The reporting activity can be done monthly, quarterly or on semi-annual basis to facilitate its management.

More precisely, the information that the MA must send to the European Commission for each FI is specified in Article 46 of the CPR. In this article, it is explained that the Managing Authority shall send to the Commission a specific report covering the operations comprising Financial Instruments as an annex to the annual implementation report. This specific report shall include, for each Financial Instrument, the following information:

- Identification of the Programme and of the priority or measure from which support from the ESI Funds is provided;
- Description of the Financial Instrument and implementation arrangements;
- Identification of the bodies implementing Financial Instruments, and the bodies implementing funds of funds where applicable, as referred to under point (a) of Article 38 (1), points (a), (b) and (c) of Article 38 (4), and the financial intermediaries referred to under Article 38 (6);
- Total amount of programme contributions by priority or measure paid to the Financial Instrument;
- Total amount of support paid to the final recipients or to the benefit of final recipients, or committed in guarantee contracts by the Financial Instrument for investments in final recipients, as well as management costs incurred or management fees paid, by Programme and priority or measure;

¹³¹ Factsheet on 2014-2020 Rural Development Programme for Croatia
https://ec.europa.eu/agriculture/sites/agriculture/files/rural-development-2014-2020/country-files/hr/factsheet_en.pdf

- The performance of the Financial Instrument including progress in its set-up and in selection of bodies implementing the Financial Instrument, including the body implementing a fund of funds;
- Interest and other gains generated by support from the ESI Funds to the Financial Instrument and Programme resources paid back to Financial Instruments from investments as referred to in Articles 43 and 44;
- Progress in achieving the expected leverage effect of investments made by the Financial Instrument and value of investments and participations;
- The value of equity investments with respect to previous years; and
- The contribution of the Financial Instrument to the achievement of the indicators of the priority or measure concerned.

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Annex 3 – Stakeholder interviewees list

Tier 1 stakeholders

#	Institution/ Company /	Role
1	Ministry of Agriculture	Managing Authority
2	Paying Agency for Agriculture, Fisheries and Rural Development	Supply side
3	Croatian National Bank - HNB	Data source
4	Croatian Bureau of Statistics	Data source
5	Croatian Chamber of Agriculture	Demand side
6	Croatian Chamber of Economy	Demand side
7	Croatian Chamber of Trades and Crafts	Demand side
8	Advisory Service	Demand side
9	Croatian Alliance of Association of Private Forest Owners	Demand side
10	Croatian Forests	Demand side
11	HAMAG BICRO	Supply side
12	HBOR	Supply side
13	Croatian Banking Association - HUB	Supply side
14	Co-operative for ethical financing	Supply side
15	Croatian Fruit Association	Demand side
16	Association of Croatian Vegetables Growers	Demand side
17	Producers Organisation - PO ZAGREBACKI VOCNJACI	Demand side
18	PO ECO GOSPODARSTVA SLAVONIJE (ECOGOS)	Demand side
19	PO MLIJEČNI PUT HRVATSKE	Demand side
20	PO POSAVINA I MOSLAVINA	Demand side
21	PO SLAVONSKI SVINJOGOJAC	Demand side
22	Croatian Federation of pig breeders Associations (Sredisnji savez udruga uzgajivaca svinja RH - SUS)	Demand side
23	Croatian Federation of Holstein cattle breeders Association (Savez udruga hrvatskih uzgajivaca holstein goveda - SUHUH)	Demand side

#	Institution/ Company /	Role
24	Central Association of Croatian Simmental cattle breeders (Sredisnji savez hrvatskih uzgajivaca Simentalskog goveda - H.U.SIM.)	Demand side
25	Croatian Agricultural Agency	Demand side
26	Croatian Association for Tourism and Rural Development (HRVATSKA UDRUGA ZA TURIZAM I RURALNI RAZVOJ - HF EKO ETNO GRUPA d.o.o.)	Demand side
27	Regional Development Agency Megional REDEA	Demand side
28	RERA - PUBLIC INSTITUTION RERA S.D. FOR COORDINATION AND DEVELOPMENT OF SPLIT DALMATIA COUNTY	Demand side
29	AZRRI	Demand side
30	Association of rural tourism	Demand side

Additional stakeholders

#	Institution/ Company /	Role
31	Zagrebačka banka d.d.	Supply side
32	Georg Consulting	Demand side
33	CENTUM PERCENT	Demand side
34	Croatian Association of Sheep and Goat Breeders	Demand side
35	Erste Bank	Supply side
36	Sberbank	Supply side

Annex 4 – Online survey questionnaires

Questionnaire for the online survey for producers¹³²

This questionnaire represents the survey to be used for the Ex-ante assessment regarding the potential future use of Financial Instruments in the agricultural sector in Croatia.

1. *In which region is your business based? (Please select from the list below)*

- | | | |
|---|--|---|
| <input type="radio"/> Zagrebačka županija | <input type="radio"/> Primorsko-goranska županija | <input type="radio"/> Šibensko-kninska županija |
| <input type="radio"/> Krapinsko-zagorska županija | <input type="radio"/> Ličko-senjska županija | <input type="radio"/> Vukovarsko-srijemska županija |
| <input type="radio"/> Sisačko-moslavačka županija | <input type="radio"/> Virovitičko-podravska županija | <input type="radio"/> Splitsko-dalmatinska županija |
| <input type="radio"/> Karlovačka županija | <input type="radio"/> Požeško-slavonska županija | <input type="radio"/> Istarska županija |
| <input type="radio"/> Varaždinska županija | <input type="radio"/> Brodsko-posavska županija | <input type="radio"/> Dubrovačko-neretvanska županija |
| <input type="radio"/> Koprivničko-križevačka županija | <input type="radio"/> Zadarska županija | <input type="radio"/> Međimurska županija |
| <input type="radio"/> Bjelovarsko-bilogorska županija | <input type="radio"/> Osječko-baranjska županija | <input type="radio"/> Grad Zagreb |

2. *What is your organisational form?*

- ☐ Family agricultural holding
- ☐ Craft
- ☐ Small and medium enterprise
- ☐ Large enterprise
- ☐ Agricultural cooperative
- ☐ Other

¹³² Note: The final version of the questionnaire distributed in Croatian differs slightly from the English version provided here.

3. *In which sector does your business primarily operate? (Please select one or more from the list below)*

- ☐ Plant production - farming
- ☐ Plant production (vegetables, flowers, mushrooms, ornamental plants)
- ☐ Fruit growing
- ☐ Viticulture and winemaking
- ☐ Olives
- ☐ Grazing livestock (beef, sheep, goats)
- ☐ Dairy
- ☐ Pig farming
- ☐ Poultry farming
- ☐ Mixed plant production
- ☐ Mixed livestock
- ☐ Mixed crops-livestock
- ☐ Non-classified

4. *Do you conduct any supplementary activity? (if so please select)*

- ☐ Tourism in rural areas
- ☐ Traditional crafts, art crafts, including crafts for making souvenirs and handicrafts
- ☐ Providing services in rural areas, agriculture and forestry
- ☐ Other processing, marketing and direct sales of products
- ☐ I do not conduct supplementary activities

5. *Are you focused on the production of any of the following products?*

- ☐ High quality branded agricultural products intended for the export market
- ☐ Protected designation of origin
- ☐ Protected geographical indication
- ☐ Organic certification
- ☐ No

6. Do you conduct any other activity in the agricultural value chain?

	Inputs*	Local traders**	Processors	Wholesalers	Retailers	Distribution	No other activity
Activity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

*e.g. feed and seeds production

7. Do you participate on markets outside the Republic of Croatia?

- ☐ Yes (< 10% of turnover)
- ☐ Yes (between 11% and 30% of turnover)
- ☐ Yes (> 30% of turnover)
- ☐ No
- ☐ No, but I intend to in short period

8. What is the standard output of your agricultural holding?

0 – 2.000	<input type="radio"/>
2.000 – 4.000	<input type="radio"/>
4.000 – 8.000	<input type="radio"/>
8.000 – 15.000	<input type="radio"/>
15.000 – 25.000	<input type="radio"/>
25.000 – 50.000	<input type="radio"/>
50.000 – 100.000	<input type="radio"/>
100.000 – 250.000	<input type="radio"/>
250.000 – 500.000	<input type="radio"/>
500.000 – 750.000	<input type="radio"/>
750.000 - 1.000.000	<input type="radio"/>
1.000.000 – 1.500.000	<input type="radio"/>
1.500.000 – 3.000.000	<input type="radio"/>
> 3.000.000	<input type="radio"/>

9. What is the size of the total utilised agricultural area (total UAA) in which your activity is conducted?

	<5 hectares	5-20 hectares	20-50 hectares	50-100 hectares	>100 hectares
Size	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

10. How many employees are working in your agricultural holding (excluding the owner and unpaid workers)? In case of employing seasonal workers, please specify.

	0 employees	1-9 employees	10-49 employees	50-249 employees	>250 employees
Full-time staff ("FTE")	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Seasonal worker (less than 90 days)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Seasonal worker (3 to 6 months)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

11. How long have you been active in the sector?

- ☐ Less than 3 years
- ☐ 3 to 10 years
- ☐ More than 10 years

12. At which growth phase would you currently position your agricultural holding / activity?

- ☐ Initiation [business model is created, no commercial activity]
- ☐ Creation [start of the commercial activity]
- ☐ Post-creation [commercial activity has begun, no profit yet]
- ☐ Development [profitable growth phase]
- ☐ Maturity [stable activity]

- Reorganisation [implementing or planning future restructuring processes in order to improve profitability] (e.g. change in culture, suppliers, buyers or employees)
- Transfer to new owner or to the new generation

13. How have the following factors changed over the last three years (2014, 2015, 2016)? (Please indicate your answers in the fields provided below)

	Much Worse	Worse	Unchanged	Better	Much Better	N/a
The financial situation of your business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Turnover	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The cost (interest and other) of obtaining finance for your business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The debt/turnover ratio of your business (the ability of repaying loan from existing revenues)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The fees linked to the processing of loan request	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other terms or conditions of financing (e.g. guarantees)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The administrative burden or effort to obtain finance for your business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The willingness of banks to provide financing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The willingness of investors to invest in your business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

14. Did you experience changes in bank financing terms and conditions over the last three years (2014, 2015, 2016)? (Please indicate any changes per option provided)

	Increased	Decreased	Unchanged
Interest rates	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other costs related to the loan (other than interest rate)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Amount of the loan / credit line available	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Maturity of the loan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Grace period	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Collateral requirements (e.g. mortgage)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Contractual issues related to the loan / Information requirements, etc. (e.g. misunderstanding of the contract, unnecessary contract clauses)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

15. Has your business benefited from any of the following sources of financing over the last three years (2014, 2015, 2016) and if so please specify in which year? (Please indicate all the sources of finance you have used - multiple answers are possible)

Agricultural Activities

	2014	2015	2016
Public grants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Micro-loan (< 25.000 euros)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Short-term bank loans (< 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Medium and long-term bank loans (> 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Loans guaranteed by a public or private entity (e.g. HAMAG-BICRO guarantees)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Leasing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank guarantees (including letters of guarantee)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capital contributions of shareholders (owners of the business)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capital/loans from family or friends	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

supplementary activities* (only if applicable)

	2014	2015	2016
Public grants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Micro-loan (< 25.000 euros)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Short-term bank loans (< 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Medium and long-term bank loans (> 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Loans guaranteed by a public or private entity (e.g. HAMAG-BICRO guarantees)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Leasing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank guarantees (including letters of guarantee)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capital contributions of shareholders (owners of the business)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capital/loans from family or friends	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

16. What total amount of loan, equity or other financing did you SEEK over the last three years (2014, 2015, 2016)? (Please provide an estimate in thousands of euros of the financing amount sought for loan and equity)

Agricultural Activities

Total amount over the last three years
(thousands EUR)

Loan (all types)

Equity finance (all types) (*investing additional capital by a new shareholder*)

Other financing including grants or subsidies

supplementary* activities (only if applicable)

Total amount over the last three years
(thousands EUR)

Loan (all types)

Equity finance (all types) (*investing additional capital by a new shareholder*)

Other financing including grants or subsidies

17. What total amount of loan, equity or other financing did you OBTAIN amount over the last three years (2014, 2015, 2016)?

(Please provide an estimate in thousands of euros of the financing amount obtained for loan and equity)

Agricultural Activities

Total amount over the last three years
(thousands EUR)

Loan (all types)

Equity finance (all types) (*invest additional capital by a new shareholder*)

Other financing including grants or subsidies

supplementary activities* (only if applicable)

Total amount over the last three years
(thousands EUR)

Loan (all types)

Equity finance (all types) (*invest additional capital by a new shareholder*)

Other financing including grants or subsidies

18. If you OBTAINED a loan please specify what is/was the payback period (maturity) of the loan in years?

Agricultural activities

Supplementary activities

19. What total amount of loan, equity or other financing did you PLAN BUT NOT APPLY because you were afraid of rejection over the last three years (2014, 2015, 2016)?

(Please provide an estimate in thousands of euros of the financing amount for loan and equity)

Agricultural Activities

Total amount over the last three years
(thousands EUR)

Loan (all types)

Equity finance (all types) (invest additional capital
by a new shareholder)

Other financing including grants or subsidies

supplementary* activities (only if applicable)

Total amount over the last three years
(thousands EUR)

Loan (all types)

Equity finance (all types) (invest additional capital
by a new shareholder)

Other financing including grants or subsidies

20. How successful were you in obtaining each type of the products listed below over the last three years (2014, 2015, 2016)? Please indicate the level of success for each of the following sources, where

Successful: You have received the entire requested amount

Partially successful: You have obtained a percentage of the entire requested amount or you have obtained the entire requested amount but in unsatisfactory terms

Unsuccessful: You have received a negative response to the financial request made

Whatever was not ticked in Q15 should be ticked as "N/a" in this question

2014

	Successful	Partially Successful	Unsuccessful	N/a
Public grants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Micro-loan (< 25.000 euros)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Short-term bank loans (< 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Medium and long-term bank loans (> 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Loans guaranteed by a public or private entity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Leasing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank guarantees (including letters of guarantee)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capital contributions of shareholders (owners of the business)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capital/loans from family or friends	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other financing sources	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

2015

	Successful	Partially Successful	Unsuccessful	N/a
Public grants	○	○	○	○
Micro-loan (< 25.000 euros)	○	○	○	○
Short-term bank loans (< 1 year)	○	○	○	○
Medium and long-term bank loans (> 1 year)	○	○	○	○
Loans guaranteed by a public or private entity	○	○	○	○
Leasing	○	○	○	○
Bank guarantees (including letters of guarantee)	○	○	○	○
Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses	○	○	○	○
Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring	○	○	○	○
Capital contributions of shareholders (owners of the business)	○	○	○	○
Capital/loans from family or friends	○	○	○	○
Other financing sources	○	○	○	○

2016

	Successful	Partially Successful	Unsuccessful	N/a
Public grants	○	○	○	○
Micro-loan (< 25.000 euros)	○	○	○	○
Short-term bank loans (< 1 year)	○	○	○	○
Medium and long-term bank loans (> 1 year)	○	○	○	○
Loans guaranteed by a public or private entity	○	○	○	○
Leasing	○	○	○	○
Bank guarantees (including letters of guarantee)	○	○	○	○
Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national,	○	○	○	○

regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses

Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring

☐ ☐ ☐ ☐

Capital contributions of shareholders (owners of the business)

☐ ☐ ☐ ☐

Capital/loans from family or friends

☐ ☐ ☐ ☐

Other financing sources

☐ ☐ ☐ ☐

21. Which do you believe were the reasons for being unsuccessful - or partially unsuccessful - in receiving loan financing?

- ☐ Lack of own equity capital
- ☐ Insufficient guarantee
- ☐ Already too much debt
- ☐ No/poor credit history
- ☐ No reason given
- ☐ Interest rates were too high
- ☐ Other conditions of the loan were unacceptable
- ☐ N/a

22. For what purpose did you seek finance? (Please select one or more options from the list below)

- ☐ Finance working capital
- ☐ Ensure refinancing of debt or financial obligations
- ☐ Acquire another company / transfer ownership
- ☐ Disposal and handling of manure fertilizer
- ☐ Equipment & machinery
- ☐ Intangible assets
- ☐ Livestock
- ☐ Office

- Production space
- Storage space
- Cultivable agricultural area
- Launch a new product / service
- Diversification into non-agricultural activities excluding tourism
- Tourism
- Develop international activities / enter a new market (geographic expansion)
- Finance R&D and innovation
- Finance projects to develop an activity concerning the processing of agricultural products
- Financing cooperation projects to reduce the value chain distance (primary production – final consumption)
- Finance investments in renewable energy sources
- Other needs

23. *In relation to any application for finance in the last three years (2014, 2015, 2016), to what extent did you feel comfortable in fulfilling the following requirements*

	Had capacity	no Needed assistance	Felt comfortable
Filling in application forms	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Providing required administrative information	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Meeting specific requirements	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Preparing your business plan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

24. *Over the last three years (2014, 2015, 2016), how did you guarantee your loan?*

- Owner collateral
- Family and friends
- Business collateral
- Business partners
- Mutual guarantee schemes (e.g. cooperatives)

- Other guarantee schemes fully or partially provided by government (at any level)
- Financial institution
- N/a

25. Do you feel you have sufficient access to the following financing sources in Croatia? (Please select one or more options from the list below)

	Yes	No	Type of financing not relevant to me
Public grants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Micro-loan (< 25.000 euros)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Short-term bank loans (< 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Medium and long-term bank loans (> 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Loans guaranteed by a public or private entity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Leasing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank guarantees (including letters of guarantee)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capital contributions of shareholders (owners of the business)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capital/loans from family or friends	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

26. Please select the FIVE forms of financing you consider relevant for your business.

- Public grants
- Micro-loan (< 25.000 euros)
- Short-term bank loans (< 1 year)
- Medium and long-term bank loans (> 1 year)
- Loans guaranteed by a public or private entity

- Leasing
- Bank guarantees (including letters of guarantee)
- Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses
- Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring
- Capital contributions of shareholders (owners of the business)
- Capital/loans from family or friends

27. What amount of each of the following financing sources have you requested or do you intend to request until **the end of 2017 and for the entire 2018 year** (amount in thousands of euros)? (If not applicable leave blank)

Agricultural Activities

(thousands EUR) (thousands EUR)

Until the end of 2017 2018

Public grants

Micro-loan (< 25.000 euros)

Short-term bank loans (< 1 year)

Medium and long-term bank loans (> 1 year)

Loans guaranteed by a public or private entity

Leasing

Bank guarantees (including letters of guarantee)

Private Equity or buyout funds i.e. direct equity investment in business the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses

Business Angels i.e. individuals investing in newly created businesses (start-ups) entrepreneurs and often providing mentoring

Capital contributions of shareholders
(owners of the business)

Capital/loans from family or friends

supplementary* activities (only if applicable)

(thousands EUR) (thousands EUR)

Until the end of 2017 2018

Public grants

Micro-loan (< 25.000 euros)

Short-term bank loans (< 1 year)

Medium and long-term bank loans (> 1 year)

Loans guaranteed by a public or private
entity

Leasing

Bank guarantees (including letters of
guarantee)

Private Equity or buyout funds i.e. direct
equity investment in business the
company's shares, from national, regional
or foreign funds investing through the
acquisition of participations in the share
capital of mature businesses

Business Angels i.e. individuals investing in
newly created businesses (start-ups)
entrepreneurs and often providing
mentoring

Capital contributions of shareholders
(owners of the business)

Capital/loans from family or friends

28. *For what purpose is this financing being sought (amount in thousands of euros)? (If not applicable leave blank)*

Finance working capital

Ensure debt consolidation, refinancing

Acquire another company / transfer ownership

Disposal and handling of manure fertilizer

Equipment & machinery

Intangible assets

Livestock

Office

Production space

Cultivable agricultural area

Launch a new product / service

Diversification into non-agricultural activities excluding tourism

Tourism

Develop international activities / enter a new market (geographic expansion)

Finance R&D and innovation

Finance investment in renewable energy sources

Other needs

29. *Would you be willing to give a percentage of your company to an investor in exchange of equity financing?*

- ☐ Yes
- ☐ No

30. *Please choose THREE most important factors limiting agricultural business growth in your country:*

- ☐ Limited demand in local market
- ☐ Limited demand in the EU markets
- ☐ Limited demand in the 3rd country markets
- ☐ Difficulties in accessing the EU markets
- ☐ Difficulties in accessing the 3rd country markets

- Lack of infrastructure to transport and export agricultural goods
- Small size of agricultural holding
- Limited availability of suitable new personnel
- Loss of existing personnel
- Business transfer problems e.g. inheritance
- Cost of labour increasing
- High lending costs
- Inability to finance necessary investment into equipment
- Difficulty keeping up with technological change
- Change in the competition (as new entrants in the market)
- Price competition / small margins
- Unfair competition
- Regulatory framework
- Excessive taxation
- Lack of fiscal incentives
- Not enough supply of financing
- Available financing not appropriate to your need
- No limiting factors
- Low cooperation tendency / willingness

31. *Will you need support to develop your business and be successful in getting financing until the end of 2018?*

- Support in the preparation or improvement of your business plan
- Advice in view of the initiation or development of export activities
- Advice to be able to conduct more effective negotiations with potential buyers of the products
- Financial advice and preparation of meetings/communications with banks or investors
- Information about existing sources and types of financing
- N/a (I estimate that I do not need this type of support until the end of 2018)

Questionnaire for the online survey for processors¹³³

1. In which region is your business based? (Please select from the list below)

- | | | |
|---|--|---|
| <input type="radio"/> Zagrebačka županija | <input type="radio"/> Primorsko-goranska županija | <input type="radio"/> Šibensko-kninska županija |
| <input type="radio"/> Krapinsko-zagorska županija | <input type="radio"/> Ličko-senjska županija | <input type="radio"/> Vukovarsko-srijemska županija |
| <input type="radio"/> Sisačko-moslavačka županija | <input type="radio"/> Virovitičko-podravska županija | <input type="radio"/> Splitsko-dalmatinska županija |
| <input type="radio"/> Karlovačka županija | <input type="radio"/> Požeško-slavonska županija | <input type="radio"/> Istarska županija |
| <input type="radio"/> Varaždinska županija | <input type="radio"/> Brodsko-posavska županija | <input type="radio"/> Dubrovačko-neretvanska županija |
| <input type="radio"/> Koprivničko-križevačka županija | <input type="radio"/> Zadarska županija | <input type="radio"/> Međimurska županija |
| <input type="radio"/> Bjelovarsko-bilogorska županija | <input type="radio"/> Osječko-baranjska županija | <input type="radio"/> Grad Zagreb |

2. What is the size of your enterprise?

- ☐ Small and medium enterprise
- ☐ Large enterprise

3. In which sector does your business primarily operate? (Please select one or more from the list below)

- ☐ Processing and preserving of meat and production of meat products
- ☐ Processing and preserving of fruit and vegetables
- ☐ Manufacture of vegetable and animal oils and fats
- ☐ Manufacture of dairy products
- ☐ Manufacture of grain mill products, starches and starch products
- ☐ Manufacture of other food products
- ☐ Manufacture of prepared animal feeds
- ☐ Preparation and spinning of textile fibres
- ☐ Manufacture of wine from grape
- ☐ Manufacture of beverages (excluding wine from grape)

¹³³ Note: The final version of the questionnaire distributed in Croatian differs slightly from the English version provided here.

4. Are you focused on the processing of any of the following products?

- ☐ High quality branded agricultural products intended for the export market
- ☐ Protected designation of origin
- ☐ Protected geographical indication
- ☐ Organic certification
- ☐ No

5. Do you conduct any other activity in the agricultural value chain? (Please select one or more from the list below)

	Inputs*	Agri-holding	Local traders	Wholesalers	Retailers	Distribution	No other activity
Activity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

*e.g. feed and seeds production

6. Do you export?

	Yes (<10% of turnover)	Yes (between 11-30% of turnover)	Yes (>30% of turnover)	No	No, but intending/willing to export in the short term
Export	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

7. How many employees are working in your company (excluding the owner and unpaid workers)? In case of employing seasonal workers, please specify.

	0 employees	1-9 employees	10-49 employees	50-249 employees	>250 employees
Full-time staff ("FTE")	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Seasonal
worker (less
than 90 days) ☐ ☐ ☐ ☐ ☐

Seasonal
worker (3 to 6
months) ☐ ☐ ☐ ☐ ☐

8. How long have you been active in the sector?

- ☐ Less than 3 years
- ☐ 3 to 10 years
- ☐ More than 10 years

9. At which growth phase would you currently position your company / activity?

- ☐ Initiation [business model is created, no commercial activity]
- ☐ Creation [start of the commercial activity]
- ☐ Post-creation [commercial activity has begun, no profit yet]
- ☐ Development [profitable growth phase]
- ☐ Maturity [stable activity]
- ☐ Reorganisation [implementing or planning future restructuring processes in order to improve profitability] (e.g. change in suppliers, buyers or employees)
- ☐ Transfer to new owner or to the new generation

10. How have the following factors changed over the last three years (2014, 2015, 2016)? (Please indicate your answers in the fields provided below)

	Much Worse	Worse	Unchanged	Better	Much Better	N/a
The financial situation of your business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Turnover	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The cost (interest and other) of obtaining finance for your business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

The debt/turnover ratio of your business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The fees linked to the processing of loan request	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other terms or conditions of financing (e.g. guarantees)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The administrative burden or effort to obtain finance for your business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The willingness of banks to provide financing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The willingness of investors to invest in your business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

11. Did you experience changes in bank financing terms and conditions over the last three years (2014, 2015, 2016)? (Please indicate any changes per option provided)

	Increased	Decreased	Unchanged
Interest rates	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other costs related to the loan (other than interest rate)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Amount of the loan / credit line available	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Maturity of the loan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Grace period	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Collateral requirements	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Contractual issues related to the loan / Information requirements, etc.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

12. Has your business benefited from any of the following sources of financing over the last three years (2014, 2015, 2016), and if so please specify in which year? (Please indicate all the sources of finance you have used - multiple answers are possible)

	2014	2015	2016
Public grants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Micro-loan (< 25.000 euros)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Short-term bank loans (< 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Medium and long-term bank loans (> 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Loans guaranteed by a public or private entity	○	○	○
Leasing	○	○	○
Bank guarantees (including letters of guarantee)	○	○	○
Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses	○	○	○
Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring	○	○	○
Capital contributions of shareholders (owners of the business)	○	○	○
Capital/loans from family or friends	○	○	○
Other financing sources	○	○	○

13. What total amount of loan, equity or other financing did you *SEEK* over the last three years (2014, 2015, 2016)? (Please provide an estimate in thousands of euros of the financing amount sought for loan and equity)

Total amount over the last three years
(thousands EUR)

Loan (all types)

Equity finance (all types)

Other financing including grants or subsidies

14. What total amount of loan, equity or other financing did you *OBTAIN* amount over the last three years (2014, 2015, 2016)?

(Please provide an estimate in thousands of euros of the financing amount obtained for loan and equity)

Total amount over the last three years
(thousands EUR)

Loan (all types)

Equity finance (all types)

Other financing including grants or subsidies

15. If you *OBTAINED* a loan please specify what is/was the payback period (maturity) of the loan in years?

16. What total amount of loan, equity or other financing did you PLAN BUT NOT APPLY because you were afraid of rejection over the last three years (2014, 2015, 2016)?

(Please provide an estimate in thousands of euros of the financing amount for loan and equity)

Total amount over the last three years
(thousands EUR)

Loan (all types)

Equity finance (all types)

Other financing including grants or subsidies

17. How successful were you in obtaining each type of the products listed below over the last three years (2014, 2015, 2016)? Please indicate the level of success for each of the following sources, where

Successful: You have received the entire requested amount

Partially successful: You have obtained a percentage of the entire requested amount or you have obtained the entire requested amount but in unsatisfactory terms

Unsuccessful: You have received a negative response to the financial request made

Whatever was not ticked in Q12 should be ticked as "N/a" in this question

2014

	Successful	Partially Successful	Unsuccessful	N/a
Public grants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Micro-loan (< 25.000 euros)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Short-term bank loans (< 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Medium and long-term bank loans (> 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Loans guaranteed by a public or private entity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Leasing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank guarantees (including letters of guarantee)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring	○	○	○	○
Capital contributions of shareholders (owners of the business)	○	○	○	○
Capital/loans from family or friends	○	○	○	○
Other financing sources	○	○	○	○

2015

	Successful	Partially Successful	Unsuccessful	N/a
Public grants	○	○	○	○
Micro-loan (< 25.000 euros)	○	○	○	○
Short-term bank loans (< 1 year)	○	○	○	○
Medium and long-term bank loans (> 1 year)	○	○	○	○
Loans guaranteed by a public or private entity	○	○	○	○
Leasing	○	○	○	○
Bank guarantees (including letters of guarantee)	○	○	○	○
Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses	○	○	○	○
Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring	○	○	○	○
Capital contributions of shareholders (owners of the business)	○	○	○	○
Capital/loans from family or friends	○	○	○	○
Other financing sources	○	○	○	○

2016

	Successful	Partially Successful	Unsuccessful	N/a
Public grants	○	○	○	○
Micro-loan (< 25.000 euros)	○	○	○	○
Short-term bank loans (< 1 year)	○	○	○	○

Medium and long-term bank loans (> 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Loans guaranteed by a public or private entity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Leasing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank guarantees (including letters of guarantee)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capital contributions of shareholders (owners of the business)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capital/loans from family or friends	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other financing sources	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

18. Which do you believe were the reasons for being unsuccessful - or partially unsuccessful - in receiving loan financing?

- ☐ Lack of own equity capital
- ☐ Insufficient guarantee
- ☐ Already too much debt
- ☐ No/poor credit history
- ☐ No reason given
- ☐ Interest rates were too high
- ☐ Other conditions of the loan were unacceptable
- ☐ N/a

19. For what purpose did you seek finance? (Please select one or more options from the list below)

- ☐ Finance working capital
- ☐ Ensure refinancing of debt or financial obligations
- ☐ Acquire another company / transfer ownership
- ☐ Equipment & machinery
- ☐ Intangible assets

- Office
- Production space
- Storage space
- Launch a new product / service
- Develop international activities / enter a new market (geographic expansion)
- Finance R&D and innovation
- Financing cooperation projects to reduce the value chain distance (primary production – final consumption)
- Finance investments in renewable energy sources
- Other needs

20. In relation to any application for finance in the last three years (2014, 2015, 2016), to what extent did you feel comfortable in fulfilling the following requirements

	Had capacity	no	Needed assistance	Felt comfortable
Filling in application forms	○		○	○
Providing required administrative information	○		○	○
Meeting specific requirements	○		○	○
Preparing your business plan	○		○	○

21. Over the last three years (2014, 2015, 2016), how did you guarantee your loan?

- Owner collateral
- Family and friends
- Business collateral
- Business partners
- Mutual guarantee schemes (e.g. cooperatives)
- Other guarantee schemes fully or partially provided by government (at any level)
- Financial institution
- N/a

22. Do you feel you have sufficient access to the following financing sources in Croatia?

	Yes	No	Type of financing not relevant to me
Public grants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Micro-loan (< 25.000 euros)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Short-term bank loans (< 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Medium and long-term bank loans (> 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Loans guaranteed by a public or private entity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Leasing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank guarantees (including letters of guarantee)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capital contributions of shareholders (owners of the business)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capital/loans from family or friends	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other financing sources	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

23. Please select the FIVE forms of financing you consider relevant for your business.

- ☐ Public grants
- ☐ Micro-loan (< 25.000 euros)
- ☐ Short-term bank loans (< 1 year)
- ☐ Medium and long-term bank loans (> 1 year)
- ☐ Loans guaranteed by a public or private entity
- ☐ Leasing

- Bank guarantees (including letters of guarantee)
- Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses
- Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring
- Capital contributions of shareholders (owners of the business)
- Capital/loans from family or friends
- Other financing sources

24. What amount of each of the following financing sources have you requested or do you intend to request until **the end of 2017 and for the entire 2018 year** (amount in thousands of euros)? (If not applicable leave blank)

	(thousands EUR)	(thousands EUR)
	Until the end of 2017	2018
Public grants		
Micro-loan (< 25.000 euros)		
Short-term bank loans (< 1 year)		
Medium and long-term bank loans (> 1 year)		
Loans guaranteed by a public or private entity		
Leasing		
Bank guarantees (including letters of guarantee)		
Private Equity or buyout funds i.e. direct equity investment in business the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses		
Business Angels i.e. individuals investing in newly created businesses (start-ups) entrepreneurs and often providing mentoring		

Capital contributions of shareholders
(owners of the business)

Capital/loans from family or friends

Other financing sources

25. For what purpose is this financing being sought (amount in thousands of euros)? (If not applicable leave blank)

- ☐ Finance working capital
- ☐ Ensure debt consolidation, refinancing
- ☐ Acquire another company / transfer ownership
- ☐ Equipment & machinery
- ☐ Intangible assets
- ☐ Office
- ☐ Production space
- ☐ Cultivable agricultural area
- ☐ Launch a new product / service
- ☐ Develop international activities / enter a new market (geographic expansion)
- ☐ Finance R&D and innovation
- ☐ Finance investment in renewable energy sources
- ☐ Other needs

26. Would you be willing to give a percentage of your company to an investor in exchange of equity financing?

- ☐ Yes
- ☐ No

27. Please choose THREE most important factors limiting agricultural business growth in your country:

- ☐ Limited demand in local market
- ☐ Limited demand in foreign markets

- Difficulties in accessing foreign markets
- Lack of infrastructure to transport and export goods
- Small size of agricultural holdings (suppliers)
- Limited availability of suitable new personnel
- Loss of existing personnel
- Business transfer problems e.g. inheritance
- Cost of labour increasing
- High lending costs
- Inability to finance necessary investment into equipment
- Difficulty keeping up with technological change
- Change in the competition (as new entrants in the market)
- Price competition / small margins
- Unfair competition
- Regulatory framework
- Excessive taxation
- Lack of fiscal incentives
- Not enough supply of financing
- Available financing not appropriate to your need
- Corruption
- N/a

28. Will you need support to develop your business and be successful in getting financing until the end of 2018?

- Support in the preparation or improvement of your business plan
- Advice in view of the initiation or development of export activities
- Advice to be able to conduct more effective negotiations with potential buyers of the products
- Financial advice and preparation of meetings/communications with banks or investors
- Information about existing sources and types of financing
- N/a (I estimate that I do not need this type of support until the end of 2018)

Questionnaire for the online survey for licenced contractors¹³⁴

1. In which region is your business based? (Please select from the list below)

- | | | |
|---|--|---|
| <input type="radio"/> Zagrebačka županija | <input type="radio"/> Primorsko-goranska županija | <input type="radio"/> Šibensko-kninska županija |
| <input type="radio"/> Krapinsko-zagorska županija | <input type="radio"/> Ličko-senjska županija | <input type="radio"/> Vukovarsko-srijemska županija |
| <input type="radio"/> Sisačko-moslavačka županija | <input type="radio"/> Virovitičko-podravska županija | <input type="radio"/> Splitsko-dalmatinska županija |
| <input type="radio"/> Karlovačka županija | <input type="radio"/> Požeško-slavonska županija | <input type="radio"/> Istarska županija |
| <input type="radio"/> Varaždinska županija | <input type="radio"/> Brodsko-posavska županija | <input type="radio"/> Dubrovačko-neretvanska županija |
| <input type="radio"/> Koprivničko-križevačka županija | <input type="radio"/> Zadarska županija | <input type="radio"/> Međimurska županija |
| <input type="radio"/> Bjelovarsko-bilogorska županija | <input type="radio"/> Osječko-baranjska županija | <input type="radio"/> Grad Zagreb |

2. What is your organisational form?

- ☐ Micro enterprise
- ☐ Small enterprise
- ☐ Medium enterprise
- ☐ Large enterprise
- ☐ Craft

3. What is the size of the total forest area in which you are conducting your business activity? (Please enter the answer in hectares)

¹³⁴ Note: The final version of the questionnaire distributed in Croatian differs slightly from the English version provided here.

4. On an annual base, how much can you cut, produce and pull of the forestry area in which your activity is conducted?

	< 8.000 m ³	8.000 30.000 m ³	- 30.000 90.000 m ³	- 90.000 – 120.000 m ³	120.000 – 150.000 m ³	- > 150.000 m ³
Size	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

5. How many employees are working in your organisation (excluding the owner and unpaid workers)?
In case of employing seasonal workers, please specify.

	0 employees	1-9 employees	10-49 employees	50-249 employees	>250 employees
Full-time staff ("FTE")	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Seasonal worker (less than 90 days)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Seasonal worker (3 to 6 months)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

6. How long have you been active in the sector?

- ☐ Less than 3 years
- ☐ 3 to 10 years
- ☐ More than 10 years

7. At which growth phase would you currently position your organisation / activity?

- ☐ Initiation [business model is created, no commercial activity]
- ☐ Creation [start of the commercial activity]
- ☐ Post-creation [commercial activity has begun, no profit yet]
- ☐ Development [profitable growth phase]

- Maturity [stable activity]
- Reorganisation [implementing or planning future restructuring processes in order to improve profitability] (e.g. change in suppliers, buyers or employees)
- Transfer to new owner or to the new generation

8. How have the following factors changed over the last three years (2014, 2015, 2016)? (Please indicate your answers in the fields provided below)

	Much Worse	Worse	Unchanged	Better	Much Better	N/a
The financial situation of your business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Turnover	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The cost (interest and other) of obtaining finance for your business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The debt/turnover ratio of your business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The fees linked to the processing of loan request	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other terms or conditions of financing (e.g. guarantees)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The administrative burden or effort to obtain finance for your business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The willingness of banks to provide financing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The willingness of investors to invest in your business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

9. Did you experience changes in bank financing terms and conditions over the last three years (2014, 2015, 2016)? (Please indicate any changes per option provided)

	Increased	Decreased	Unchanged
Interest rates	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other costs related to the loan (other than interest rate)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Amount of the loan / credit line available	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Maturity of the loan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Grace period	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Collateral requirements	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Contractual issues related to the loan / Information requirements, etc.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

10. Has your business benefited from any of the following sources of financing over the last three years (2014, 2015, 2016) and if so please specify in which year? (Please indicate all the sources of finance you have used - multiple answers are possible)

	2014	2015	2016
Public grants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Micro-loan (< 25.000 euros)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Short-term bank loans (< 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Medium and long-term bank loans (> 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Loans guaranteed by a public or private entity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Leasing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank guarantees (including letters of guarantee)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Capital contributions of shareholders (owners of the business)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capital/loans from family or friends	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other financing sources	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

11. What total amount of loan, equity or other financing did you *SEEK* over the last three years (2014, 2015, 2016)? (Please provide an estimate in thousands of euros of the financing amount sought for loan and equity)

Total amount over the last three years
(thousands EUR)

Loan (all types)

Equity finance (all types)

Other financing including grants or subsidies

12. What total amount of loan, equity or other financing did you *OBTAIN* amount over the last three years (2014, 2015, 2016)?

(Please provide an estimate in thousands of euros of the financing amount obtained for loan and equity)

Total amount over the last three years
(thousands EUR)

Loan (all types)

Equity finance (all types)

Other financing including grants or subsidies

13. If you *OBTAINED* a loan please specify what is/was the payback period (maturity) of the loan in years?

14. What total amount of loan, equity or other financing did you PLAN BUT NOT APPLY because you were afraid of rejection over the last three years (2014, 2015, 2016)?

(Please provide an estimate in thousands of euros of the financing amount for loan and equity)

Total amount over the last three years
(thousands EUR)

Loan (all types)

Equity finance (all types)

Other financing including grants or subsidies

15. How successful were you in obtaining each type of the products listed below over the last three years (2014, 2015, 2016)? Please indicate the level of success for each of the following sources, where

Successful: You have received the entire requested amount

Partially successful: You have obtained a percentage of the entire requested amount or you have obtained the entire requested amount but in unsatisfactory terms

Unsuccessful: You have received a negative response to the financial request made

Whatever was not ticked in Q10 should be ticked as "N/a" in this question

2014

	Successful	Partially Successful	Unsuccessful	N/a
Public grants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Micro-loan (< 25.000 euros)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Short-term bank loans (< 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Medium and long-term bank loans (> 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Loans guaranteed by a public or private entity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Leasing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank guarantees (including letters of guarantee)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national, regional or foreign funds investing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

through the acquisition of participations in the share capital of mature businesses

Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring

Capital contributions of shareholders (owners of the business)

Capital/loans from family or friends

Other financing sources

○	○	○	○
○	○	○	○
○	○	○	○
○	○	○	○

2015

	Successful	Partially Successful	Unsuccessful	N/a
Public grants	○	○	○	○
Micro-loan (< 25.000 euros)	○	○	○	○
Short-term bank loans (< 1 year)	○	○	○	○
Medium and long-term bank loans (> 1 year)	○	○	○	○
Loans guaranteed by a public or private entity	○	○	○	○
Leasing	○	○	○	○
Bank guarantees (including letters of guarantee)	○	○	○	○
Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses	○	○	○	○
Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring	○	○	○	○
Capital contributions of shareholders (owners of the business)	○	○	○	○
Capital/loans from family or friends	○	○	○	○
Other financing sources	○	○	○	○

2016

	Successful	Partially Successful	Unsuccessful	N/a
Public grants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Micro-loan (< 25.000 euros)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Short-term bank loans (< 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Medium and long-term bank loans (> 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Loans guaranteed by a public or private entity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Leasing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank guarantees (including letters of guarantee)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capital contributions of shareholders (owners of the business)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capital/loans from family or friends	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other financing sources	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

16. Which do you believe were the reasons for being unsuccessful - or partially unsuccessful - in receiving loan financing?

- ☐ Lack of own equity capital
- ☐ Insufficient guarantee
- ☐ Already too much debt
- ☐ No/poor credit history
- ☐ No reason given
- ☐ Interest rates were too high
- ☐ Other conditions of the loan were unacceptable
- ☐ N/a

17. For what purpose did you seek finance? (Please select one or more options from the list below)

- ☐ Finance working capital
- ☐ Ensure refinancing of debt or financial obligations
- ☐ Acquire another company / transfer ownership
- ☐ Equipment & machinery
- ☐ Intangible assets
- ☐ Office
- ☐ Production space
- ☐ Storage space
- ☐ Launch a new product / service
- ☐ Develop international activities / enter a new market (geographic expansion)
- ☐ Finance R&D and innovation
- ☐ Financing cooperation projects to reduce the value chain distance (primary production – final consumption)
- ☐ Other needs

18. In relation to any application for finance in the last three years (2014, 2015, 2016), to what extent did you feel comfortable in fulfilling the following requirements?

	Had capacity	no	Needed assistance	Felt comfortable
Filling in application forms	<input type="radio"/>		<input type="radio"/>	<input type="radio"/>
Providing required administrative information	<input type="radio"/>		<input type="radio"/>	<input type="radio"/>
Meeting specific requirements	<input type="radio"/>		<input type="radio"/>	<input type="radio"/>
Preparing your business plan	<input type="radio"/>		<input type="radio"/>	<input type="radio"/>

19. Over the last three years (2014, 2015, 2016), how did you guarantee your loan?

- ☐ Owner collateral
- ☐ Family and friends
- ☐ Business collateral
- ☐ Business partners
- ☐ Mutual guarantee schemes (e.g. cooperatives)

- Other guarantee schemes fully or partially provided by government (at any level)
- Financial institution
- N/a

20. Do you feel you have sufficient access to the following financing sources in Croatia?

	Yes	No	Type of financing not relevant to me
Public grants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Micro-loan (< 25.000 euros)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Short-term bank loans (< 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Medium and long-term bank loans (> 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Loans guaranteed by a public or private entity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Leasing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank guarantees (including letters of guarantee)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capital contributions of shareholders (owners of the business)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capital/loans from family or friends	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other financing sources	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

21. Please select the FIVE forms of financing you consider relevant for your business.

- Public grants
- Micro-loan (< 25.000 euros)

- Short-term bank loans (< 1 year)
- Medium and long-term bank loans (> 1 year)
- Loans guaranteed by a public or private entity
- Leasing
- Bank guarantees (including letters of guarantee)
- Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses
- Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring
- Capital contributions of shareholders (owners of the business)
- Capital/loans from family or friends
- Other financing sources

22. What amount of each of the following financing sources have you requested or do you intend to request until **the end of 2017 and for the entire 2018 year** (Amount in thousands of euros)? (If not applicable leave blank)

	(thousands EUR)	(thousands EUR)
	Until the end of 2017	2018
Public grants		
Micro-loan (< 25.000 euros)		
Short-term bank loans (< 1 year)		
Medium and long-term bank loans (> 1 year)		
Loans guaranteed by a public or private entity		
Leasing		
Bank guarantees (including letters of guarantee)		
Private Equity or buyout funds i.e. direct equity investment in business the company's shares, from national, regional or foreign funds investing through the		

acquisition of participations in the share capital of mature businesses		
Business Angels i.e. individuals investing in newly created businesses (start-ups) entrepreneurs and often providing mentoring		
Capital contributions of shareholders (owners of the business)		
Capital/loans from family or friends		
Other financing sources		

23. For what purpose is this financing being sought? (Please indicate one or more options).

- ☐ Finance working capital
- ☐ Ensure refinancing of debt or financial obligations
- ☐ Acquire another company / transfer ownership
- ☐ Equipment & Machinery
- ☐ Intangible assets (e.g. software)
- ☐ Office
- ☐ Production space
- ☐ Storage space
- ☐ Launch a new product / service
- ☐ Develop international activities / enter a new market (geographic expansion)
- ☐ Finance R&D and innovation
- ☐ Financing cooperation projects to reduce the value chain distance (primary production – final consumption)
- ☐ Other needs

24. Would you be willing to give a percentage of your organisation to an investor in exchange of equity financing?

- ☐ Yes
- ☐ No

25. Please choose *THREE* most important factors limiting your business growth in your country:

- Limited demand in local market
- Limited demand in foreign markets
- Difficulties in accessing foreign markets
- Lack of infrastructure to transport and export
- Own small size
- Limited availability of suitable new personnel
- Loss of existing personnel
- Business transfer problems e.g. inheritance
- Cost of labour increasing
- High lending costs
- Inability to finance necessary investment into equipment
- Difficulty keeping up with technological change
- Change in the competition (as new entrants in the market)
- Price competition / small margins
- Unfair competition
- Regulatory framework
- Excessive taxation
- Lack of fiscal incentives
- Not enough supply of financing
- Available financing not appropriate to your need
- Corruption
- N/a

26. Will you need support to develop your business and be successful in getting financing until the end of 2018?

- Support in the preparation or improvement of your business plan
- Advice in view of the initiation or development of export activities
- Advice to be able to conduct more effective negotiations with potential buyers of the products
- Financial advice and preparation of meetings/communications with banks or investors
- Information about existing sources and types of financing
- N/a (I estimate that I do not need this type of support)

Questionnaire for the online survey for preindustrial wood processors¹³⁵

1. In which region is your business based? (Please select from the list below)

- | | | |
|---|--|---|
| <input type="radio"/> Zagrebačka županija | <input type="radio"/> Primorsko-goranska županija | <input type="radio"/> Šibensko-kninska županija |
| <input type="radio"/> Krapinsko-zagorska županija | <input type="radio"/> Ličko-senjska županija | <input type="radio"/> Vukovarsko-srijemska županija |
| <input type="radio"/> Sisačko-moslavačka županija | <input type="radio"/> Virovitičko-podravska županija | <input type="radio"/> Splitsko-dalmatinska županija |
| <input type="radio"/> Karlovačka županija | <input type="radio"/> Požeško-slavonska županija | <input type="radio"/> Istarska županija |
| <input type="radio"/> Varaždinska županija | <input type="radio"/> Brodsko-posavska županija | <input type="radio"/> Dubrovačko-neretvanska županija |
| <input type="radio"/> Koprivničko-križevačka županija | <input type="radio"/> Zadarska županija | <input type="radio"/> Međimurska županija |
| <input type="radio"/> Bjelovarsko-bilogorska županija | <input type="radio"/> Osječko-baranjska županija | <input type="radio"/> Grad Zagreb |

2. What is your organisational form?

- ☐ Craft
- ☐ Micro enterprise
- ☐ Small enterprise
- ☐ Medium enterprise
- ☐ Large enterprise

3. Which forestry activity are you primarily conducting? (Please enter the code according to the NACE classification of economic activities)

¹³⁵ Note: The final version of the questionnaire distributed in Croatian differs slightly from the English version provided here.

4. Do you participate on markets outside the Republic of Croatia?

- ☐ Yes (<10% of turnover)
- ☐ Yes (11%-30% of turnover)
- ☐ Yes (>30% of turnover)
- ☐ No
- ☐ No, but I intend to take part in the short term

5. On an annual base, how much timbers/logs can you process? (Please enter amount in m³)

6. How many employees are working in your organisation (excluding the owner and unpaid workers)?
In case of employing seasonal workers, please specify.

	0 employees	1-9 employees	10-49 employees	50-249 employees	>250 employees
Full-time staff ("FTE")	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Seasonal worker (less than 90 days)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Seasonal worker (3 to 6 months)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

7. How long have you been active in the sector?

- ☐ Less than 3 years
- ☐ 3 to 10 years
- ☐ More than 10 years

8. At which growth phase would you currently position your organisation / activity?

- Initiation [business model is created, no commercial activity]
- Creation [start of the commercial activity]
- Post-creation [commercial activity has begun, no profit yet]
- Development [profitable growth phase]
- Maturity [stable activity]
- Reorganisation [implementing or planning future restructuring processes in order to improve profitability] (e.g. change in suppliers, buyers or employees)
- Transfer to new owner or to the new generation

9. How have the following factors changed over the last three years (2014, 2015, 2016)? (Please indicate your answers in the fields provided below)

	Much Worse	Worse	Unchanged	Better	Much Better	N/a
The financial situation of your business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Turnover	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The cost (interest and other) of obtaining finance for your business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The debt/turnover ratio of your business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The fees linked to the processing of loan request	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other terms or conditions of financing (e.g. guarantees)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The administrative burden or effort to obtain finance for your business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The willingness of banks to provide financing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The willingness of investors to invest in your business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

10. Did you experience changes in bank financing terms and conditions over the last three years (2014, 2015, 2016)? (Please indicate any changes per option provided)

	Increased	Decreased	Unchanged
Interest rates	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other costs related to the loan (other than interest rate)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Amount of the loan / credit line available	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Maturity of the loan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Grace period	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Collateral requirements	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Contractual issues related to the loan / Information requirements, etc.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

11. Has your business benefited from any of the following sources of financing over the last three years (2014, 2015, 2016) and if so please specify in which year? (Please indicate all the sources of finance you have used - multiple answers are possible)

	2014	2015	2016
Public grants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Micro-loan (< 25.000 euros)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Short-term bank loans (< 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Medium and long-term bank loans (> 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Loans guaranteed by a public or private entity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Leasing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank guarantees (including letters of guarantee)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Capital contributions of shareholders (owners of the business)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capital/loans from family or friends	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other financing sources	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

12. What total amount of loan, equity or other financing did you SEEK over the last three years (2014, 2015, 2016)? (Please provide an estimate in thousands of euros of the financing amount sought for loan and equity)

Total amount over the last three years
(thousands EUR)

Loan (all types)

Equity finance (all types)

Other financing including grants or subsidies

13. What total amount of loan, equity or other financing did you OBTAIN amount over the last three years (2014, 2015, 2016)?

(Please provide an estimate in thousands of euros of the financing amount obtained for loan and equity)

Total amount over the last three years
(thousands EUR)

Loan (all types)

Equity finance (all types)

Other financing including grants or subsidies

14. If you OBTAINED a loan please specify what is/was the payback period (maturity) of the loan in years?

15. What total amount of loan, equity or other financing did you PLAN BUT NOT APPLY because you were afraid of rejection over the last three years (2014, 2015, 2016)?

(Please provide an estimate in thousands of euros of the financing amount for loan and equity)

Total amount over the last three years
(thousands EUR)

Loan (all types)

Equity finance (all types)

Other financing including grants or subsidies

16. How successful were you in obtaining each type of the products listed below over the last three years (2014, 2015, 2016)? Please indicate the level of success for each of the following sources, where

Successful: You have received the entire requested amount

Partially successful: You have obtained a percentage of the entire requested amount or you have obtained the entire requested amount but in unsatisfactory terms

Unsuccessful: You have received a negative response to the financial request made

Whatever was not ticked in Q10 should be ticked as "N/a" in this question

2014

	Successful	Partially Successful	Unsuccessful	N/a
Public grants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Micro-loan (< 25.000 euros)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Short-term bank loans (< 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Medium and long-term bank loans (> 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Loans guaranteed by a public or private entity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Leasing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank guarantees (including letters of guarantee)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national, regional or foreign funds investing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

through the acquisition of participations in the share capital of mature businesses

Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring

Capital contributions of shareholders (owners of the business)

Capital/loans from family or friends

Other financing sources

○	○	○	○
○	○	○	○
○	○	○	○
○	○	○	○

2015

	Successful	Partially Successful	Unsuccessful	N/a
Public grants	○	○	○	○
Micro-loan (< 25.000 euros)	○	○	○	○
Short-term bank loans (< 1 year)	○	○	○	○
Medium and long-term bank loans (> 1 year)	○	○	○	○
Loans guaranteed by a public or private entity	○	○	○	○
Leasing	○	○	○	○
Bank guarantees (including letters of guarantee)	○	○	○	○
Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses	○	○	○	○
Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring	○	○	○	○
Capital contributions of shareholders (owners of the business)	○	○	○	○
Capital/loans from family or friends	○	○	○	○
Other financing sources	○	○	○	○

2016

Successful	Partially Successful	Unsuccessful	N/a
------------	----------------------	--------------	-----

Public grants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Micro-loan (< 25.000 euros)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Short-term bank loans (< 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Medium and long-term bank loans (> 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Loans guaranteed by a public or private entity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Leasing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank guarantees (including letters of guarantee)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capital contributions of shareholders (owners of the business)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capital/loans from family or friends	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other financing sources	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

17. Which do you believe were the reasons for being unsuccessful - or partially unsuccessful - in receiving loan financing?

- ☐ Lack of own equity capital
- ☐ Insufficient guarantee
- ☐ Already too much debt
- ☐ No/poor credit history
- ☐ No reason given
- ☐ Interest rates were too high
- ☐ Other conditions of the loan were unacceptable
- ☐ N/a

18. For what purpose did you seek finance? (Please select one or more options from the list below)

- ☐ Finance working capital
- ☐ Ensure refinancing of debt or financial obligations

- Acquire another company / transfer ownership
- Equipment & machinery
- Intangible assets
- Office
- Production space
- Storage space
- Launch a new product / service
- Develop international activities / enter a new market (geographic expansion)
- Finance R&D and innovation
- Financing cooperation projects to reduce the value chain distance (primary production – final consumption)
- Other needs

19. In relation to any application for finance in the last three years (2014, 2015, 2016), to what extent did you feel comfortable in fulfilling the following requirements?

	Had capacity	no	Needed assistance	Felt comfortable
Filling in application forms	○		○	○
Providing required administrative information	○		○	○
Meeting specific requirements	○		○	○
Preparing your business plan	○		○	○

20. Over the last three years (2014, 2015, 2016), how did you guarantee your loan?

- Owner collateral
- Family and friends
- Business collateral
- Business partners
- Mutual guarantee schemes (e.g. cooperatives)
- Other guarantee schemes fully or partially provided by government (at any level)
- Financial institution
- N/a

21. Do you feel you have sufficient access to the following financing sources in Croatia?

	Yes	No	Type of financing not relevant to me
Public grants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Micro-loan (< 25.000 euros)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Short-term bank loans (< 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Medium and long-term bank loans (> 1 year)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Loans guaranteed by a public or private entity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Leasing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank guarantees (including letters of guarantee)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capital contributions of shareholders (owners of the business)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capital/loans from family or friends	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other financing sources	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

22. Please select the FIVE forms of financing you consider relevant for your business.

- ☐ Public grants
- ☐ Micro-loan (< 25.000 euros)
- ☐ Short-term bank loans (< 1 year)
- ☐ Medium and long-term bank loans (> 1 year)
- ☐ Loans guaranteed by a public or private entity
- ☐ Leasing

- Bank guarantees (including letters of guarantee)
- Private Equity or buyout funds i.e. direct equity investment in the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses
- Business Angels i.e. individuals investing in newly created businesses (start-ups) and often providing mentoring
- Capital contributions of shareholders (owners of the business)
- Capital/loans from family or friends
- Other financing sources

23. What amount of each of the following financing sources have you requested or do you intend to request until **the end of 2017 and for the entire 2018 year** (Amount in thousands of euros)? (If not applicable leave blank)

	(thousands EUR)	(thousands EUR)
	Until the end of 2017	2018
Public grants		
Micro-loan (< 25.000 euros)		
Short-term bank loans (< 1 year)		
Medium and long-term bank loans (> 1 year)		
Loans guaranteed by a public or private entity		
Leasing		
Bank guarantees (including letters of guarantee)		
Private Equity or buyout funds i.e. direct equity investment in business the company's shares, from national, regional or foreign funds investing through the acquisition of participations in the share capital of mature businesses		
Business Angels i.e. individuals investing in newly created businesses (start-ups) entrepreneurs and often providing mentoring		
Capital contributions of shareholders (owners of the business)		
Capital/loans from family or friends		
Other financing sources		

24. *For what purpose is this financing being sought? (Please indicate one or more options).*

- ☐ Finance working capital
- ☐ Ensure refinancing of debt or financial obligations
- ☐ Acquire another company / transfer ownership
- ☐ Equipment & Machinery
- ☐ Intangible assets (e.g. software)
- ☐ Office
- ☐ Production space
- ☐ Storage space
- ☐ Launch a new product / service
- ☐ Develop international activities / enter a new market (geographic expansion)
- ☐ Finance R&D and innovation
- ☐ Financing cooperation projects to reduce the value chain distance (primary production – final consumption)
- ☐ Other needs

25. *Would you be willing to give a percentage of your organisation to an investor in exchange of equity financing?*

- ☐ Yes
- ☐ No

26. *Please choose THREE most important factors limiting your business growth in your country:*

- ☐ Limited demand in local market
- ☐ Limited demand in foreign markets
- ☐ Difficulties in accessing foreign markets
- ☐ Lack of infrastructure to transport and export
- ☐ Own small size (mala veličina poslovanja)
- ☐ Limited availability of suitable new personnel
- ☐ Loss of existing personnel
- ☐ Business transfer problems e.g. inheritance

- Cost of labour increasing
- High lending costs
- Inability to finance necessary investment into equipment
- Difficulty keeping up with technological change
- Change in the competition (as new entrants in the market)
- Price competition / small margins
- Unfair competition
- Regulatory framework
- Excessive taxation
- Lack of fiscal incentives
- Not enough supply of financing
- Available financing not appropriate to your need
- Corruption
- N/a

27. Will you need support to develop your business and be successful in getting financing until the end of 2018?

- Support in the preparation or improvement of your business plan
- Advice in view of the initiation or development of export activities
- Advice to be able to conduct more effective negotiations with potential buyers of the products
- Financial advice and preparation of meetings/communications with banks or investors
- Information about existing sources and types of financing
- N/a (I estimate that I do not need this type of support)

Annex 5 – Existing loan products available for financing of the agricultural sector¹³⁶

Institution	Name of the financial product	Type of product	Beneficiary	Purpose	Pricing (%)	Loan limit	Maturity in years	Collateral
Agricultural sector								
Erste & Steiermärkische banka d.d.	Erste Agricultural Loans in HRK	Loan	Family farms, crafts or business that carry out some other of the agricultural activities and are beneficiaries of state aid (incentives) in agriculture	<ul style="list-style-type: none"> Investments in agriculture Construction or adaptation of commercial facilities for agricultural purposes Purchase of agricultural land, equipment and mechanization and long – term plantations Purchase and extension of the basic herd Purchase of heifers and other investments in milk production Sowing and other agricultural purposes 	5.75% - 5.95% (fixed interests rate)	29.314 EUR (225,000 HRK)	10	Declaration seizure of revenues and debentures, 10% of the deposit money pledged in favour of the Bank or another guarantee deposit or guarantor.
Erste & Steiermärkische banka d.d.	Erste Agricultural Loans in EUR	Loan	Family farms, crafts or business that carry out some other of the	<ul style="list-style-type: none"> Investments in agriculture 	5.45% - 5.65% (fixed interest rate)	30,000 EUR	10	Declaration seizure of revenues and debentures, 10% of the

¹³⁶ Data from 25th September 2017.

Institution	Name of the financial product	Type of product	Beneficiary	Purpose	Pricing (%)	Loan limit	Maturity in years	Collateral
			agricultural activities and are beneficiaries of state aid (incentives) in agriculture	<ul style="list-style-type: none"> • Construction or adaptation of commercial facilities for agricultural purposes • Purchase of agriculture land, equipment and mechanization and long – term plantations • Purchase and extension of the basic herd • Purchase of heifers and other investments in milk production • Sowing and other agricultural purposes 				deposit money pledged in favour of the Bank or another guarantee deposit or guarantor.
OTP banka Hrvatska d.d.	Agribusiness loan based on eligibility for subsidies	Loan	Family farms, crafts or business that carry out some of the agricultural activities and are beneficiaries of state aid (incentives) in agriculture.	<ul style="list-style-type: none"> • Maintaining current liquidity 	According to the Decision on Interest Rates (to be verified with the Bank as no clear reference in the Decision is made)	Loan cap is set in accordance with the agribusiness subsidies paid out for the previous year, and based on the	1,5	If the borrower is credit worthy, the loans up to EUR 30,000 can be granted against negotiable security instruments (bills of exchange and debit notes). Larger amounts, however, call for special arrangements.

Institution	Name of the financial product	Type of product	Beneficiary	Purpose	Pricing (%)	Loan limit	Maturity in years	Collateral
						submitted application for subsidy for the current year.		
Privredna banka Zagreb d. d.	PBZ Agro loan	Loan	Producers that are registered in Register of Agricultural Holdings, Craftsmen and legal entities that are registered in Registrar of enterprises, cooperatives and craftsmen in agriculture, Individuals in agriculture	<ul style="list-style-type: none"> crop production 	6.5% (fixed interest rate)	Loan amount from HRK 10,000 (EUR 1,350.28) to HRK 150,000 (EUR 20,254.21), depending on the reported agricultural area of certain crops	1	Debentures, guarantees, promissory note of the borrower.
OTP banka Hrvatska d.d.	Agribusiness loans for working capital purposes	Loan	Small enterprises, crafts, family farms	<ul style="list-style-type: none"> Current payments Procurement of materials and raw materials used for investment in production 	7.49% (11.0% for borrowers without OTP Agribusiness Package) and depending on the borrower's credit status	N/A	3	Loans in the amount of up to EUR 25,000 in HRK equivalent can be backed with negotiable security instruments only. Security for loans in excess of that amount is negotiated with the borrower.
OTP banka Hrvatska d.d.	Agribusiness investment loans	Loan	Small enterprises, crafts, family farms	<ul style="list-style-type: none"> Purchase of machinery, equipment and tools Purchase, construction, renovation or 	6,99% (8,99% for borrowers without OTP Agribusiness Package) and depending on the	Up to 150,000 EUR for purchase of land. Up to 40,000 EUR for	10	A loan up to 25,000 EUR can be approved with operating insurance instruments (bills of exchange and debentures), and for larger amounts,

Institution	Name of the financial product	Type of product	Beneficiary	Purpose	Pricing (%)	Loan limit	Maturity in years	Collateral
				extension of business premises • Purchase of land • Extension of the basic herd or flock • Raising long-term plantation • Refinance of existing loans in OTP banka or other banks	borrower's credit status	purchase of used machinery, equipment and tools Unknown for purchase of new machinery, equipment and tools		insurance instruments are agreed separately.
OTP banka Hrvatska d.d.	Agribusiness loan facilities in the form of transaction account overdrafts	Loan	Small enterprises, crafts, family farms	• Non-dedicated	N/A	Depends on the borrower's creditworthiness	1	Loans in the amount of up to EUR 25,000 in HRK equivalent can be backed with negotiable security instruments only. Security for loans in excess of that amount is negotiated with the borrower.
OTP banka Hrvatska d.d.	Agribusiness loan for agricultural production	Loan	Small enterprises, crafts, family farms	• For autumn sowing • For spring sowing • For milk production • For cattle breeding • Redemption of olives • Redemption of grapes • For other agricultural production	N/A	N/A	1	Loans in the amount of up to EUR 25,000 in HRK equivalent it is possible to contract with operating security instruments. Security for loans in excess of that amount is negotiated with borrower.

Institution	Name of the financial product	Type of product	Beneficiary	Purpose	Pricing (%)	Loan limit	Maturity in years	Collateral
OTP banka Hrvatska d.d.	Agribusiness loan for purchase of agricultural production	Loan	Small enterprises, crafts, family farms	<ul style="list-style-type: none"> Purchase of new and used machinery, equipment and tools 	N/A	Up to 40,000 EUR for purchase of used machinery, equipment and tools Unknown for purchase of new machinery, equipment and tools	10	Loans in the amount of up to EUR 25,000 in HRK equivalent can be backed with negotiable security instruments only. Security for loans in excess of that amount is negotiated with the borrower.
OTP banka Hrvatska d.d.	Agribusiness loan for purchase of agricultural land	Loan	Small enterprises, crafts, family farms	<ul style="list-style-type: none"> Purchase of agricultural land 	N/A	Up to 150,000 EUR	10	Property rights (mortgages) Property insurance policy against basic damages Bills of exchange and debentures of creditors
Zagrebačka banka d.d.	Short - term agro - loans for farmers	Loan	Enterprises, crafts, family farms, cooperatives	<ul style="list-style-type: none"> Purchase of seeds, fertilizers, preservatives Procurement of fuels and maintenance of agricultural mechanization Payment of wages and settlement of tax liabilities 	According to the Decision on Interest Rates / variable interest rate (to be verified with the Bank as no clear reference in the Decision is made)	Depends on the borrower's creditworthiness	1	In agreement with the beneficiary of the loan different combinations of security instruments can be used, with a minimum coverage of 1:1.2.

Institution	Name of the financial product	Type of product	Beneficiary	Purpose	Pricing (%)	Loan limit	Maturity in years	Collateral
				<ul style="list-style-type: none"> • Purchase of agricultural and construction land • Expansion or construction of facilities for agricultural activities • Procurement of machinery and agricultural machinery • Purchase of equipment and freight vehicles • Purchase of basic herd and raising of permanent crops • Other working capital and investments in agriculture 				
Zagrebačka banka d.d.	Long - term agro – loans for farmers	Loan	Enterprises, crafts, family farms, cooperatives	<ul style="list-style-type: none"> • Purchase of seeds, fertilizers, preservatives • Procurement of fuels and maintenance of agricultural mechanization • Payment of wages and settlement of tax liabilities 	According to the Decision on Interest Rates / variable interest rate (to be verified with the Bank as no clear reference in the Decision is made)	Depends on the borrower's creditworthiness	15	In agreement with the beneficiary of the loan different combinations of security instruments can be used, with a minimum coverage of 1:1.2.

Institution	Name of the financial product	Type of product	Beneficiary	Purpose	Pricing (%)	Loan limit	Maturity in years	Collateral
				<ul style="list-style-type: none"> • Purchase of agricultural and construction land • Expansion or construction of facilities for agricultural activities • Procurement of machinery and agricultural machinery • Purchase of equipment and freight vehicles • Purchase of basic herd and raising of permanent crops • Other working capital and investments in agriculture 				
Hrvatska poštanska banka d.d.	Short – term agricultural loan to business entities in HRK	Loan	Family farms, crafts or business that carry out some of the agricultural activities and are beneficiaries of state aid (incentives) in agriculture.	<ul style="list-style-type: none"> • Current payments • Procurement of materials and raw materials used for investment in production 	5,99% (variable interest rate)	1,352 EUR (10 000 HRK)	1	Mortgage, bills of exchange and debentures, insurance policy, deposits, etc.
Hrvatska poštanska banka d.d.	Short – term agricultural loan to business entities in EUR	Loan	Family farms, crafts or business that carry out some of the agricultural activities and are	<ul style="list-style-type: none"> • Current payments, • Procurement of materials and raw materials used for 	5,99% (variable interest rate)	1,352 EUR (10 000 HRK)	1	Mortgage, bills of exchange and debentures, insurance policy, deposits, etc.

Institution	Name of the financial product	Type of product	Beneficiary	Purpose	Pricing (%)	Loan limit	Maturity in years	Collateral
			beneficiaries of state aid (incentives) in agriculture.	investment in production				
Hrvatska poštanska banka d.d.	Long – term agricultural loan to business entities in HRK	Loan	Family farms, crafts or business that carry out some of the agricultural activities and are beneficiaries of state aid (incentives) in agriculture.	<ul style="list-style-type: none"> • Purchase of machinery, equipment and tools • Purchase, construction, renovation or extension of business premises • Purchase of land • Extension of the basic herd or flock • Raising long – term plantation • Refinancing of existing loans 	5,00% (variable interest rate)	Depends on the creditworthiness	10	Mortgage, bills of exchange and debentures, insurance policy, deposits, etc.
Hrvatska poštanska banka d.d.	Long – term agricultural loan to business entities in EUR	Loan	Family farms, crafts or business that carry out some of the agricultural activities and are beneficiaries of state aid (incentives) in agriculture.	<ul style="list-style-type: none"> • Purchase of machinery, equipment and tools • Purchase, construction, renovation or extension of business premises • Purchase of land • Extension of the basic herd or flock • Raising long – term plantation 	4,95% (variable interest rate)	Depends on the creditworthiness	10	Mortgage, bills of exchange and debentures, insurance policy, deposits, etc.

Institution	Name of the financial product	Type of product	Beneficiary	Purpose	Pricing (%)	Loan limit	Maturity in years	Collateral
				<ul style="list-style-type: none"> Refinancing of existing loans 				
Podravska banka d.d.	Short-term Agro loan	Loan	Family farms, crafts or business that carry out some of the agricultural activities and are beneficiaries of state aid (incentives) in agriculture.	<ul style="list-style-type: none"> Current payments, Procurement of materials and raw materials used for investment in production 	9,50% (information regarding the interest rate type is not publicly available)	30,000 EUR	1	N/A
Podravska banka d.d.	Long – term Agro loan	Loan	Family farms, crafts or business that carry out some of the agricultural activities and are beneficiaries of state aid (incentives) in agriculture.	<ul style="list-style-type: none"> Purchase of machinery, equipment and tools Purchase, construction, renovation or extension of business premises Purchase of land Extension of the basic herd or flock Raising long – term plantation Refinancing of existing loans 	9,00% (information regarding the interest rate type is not publicly available)	150,000 EUR	Depending on the purpose	N/A
Slatinska banka d.d.	Short – term loan for working capital purpose – Preparation for sowing for holders of family agricultural holdings – Revolving loan	Loan	Family farms	<ul style="list-style-type: none"> Preparation for sowing 	7.00 – 9.00% (fixed interest rate)	N/A	Less than a year (6-9 months)	Lien or fiduciary transfer of real estate or movable property, bills of exchange, promissory notes, co-debtors, guarantors, insurance policies and other security instruments

Institution	Name of the financial product	Type of product	Beneficiary	Purpose	Pricing (%)	Loan limit	Maturity in years	Collateral
								depending on the creditworthiness of loan seekers
Croatia banka d.d.	Short-term agro loan	Loan	N/A	<ul style="list-style-type: none"> • development of agricultural activities, • investments in agriculture for the construction or adaptation of agricultural holdings for agricultural purposes, • long-term plantings • purchase of basic livestock, • purchase of agricultural land, equipment and mechanization, • sowing and other agricultural purposes. 	N/A	N/A	N/A	N/A
Croatia banka d.d.	Long-term agro loan	Loan	N/A	<ul style="list-style-type: none"> • development of agricultural activities, • investments in agriculture for the construction or adaptation of agricultural holdings for agricultural purposes, • long-term plantings • purchase of basic livestock, • purchase of agricultural land, equipment and mechanization, • sowing and other agricultural purposes. 	N/A	N/A	N/A	N/A

Institution	Name of the financial product	Type of product	Beneficiary	Purpose	Pricing (%)	Loan limit	Maturity in years	Collateral
Croatian Bank for Reconstruction and Development (HBOR)¹³⁷	Financing the preparation of agricultural production	Loan	Physical and legal persons (family farms in the VAT system, enterprises, cooperatives), in the range of micro, small and medium – sized enterprises.	<ul style="list-style-type: none"> Working capital used in the framework of operations for current production (purchase of raw materials, raw materials and other materials for agricultural production) Working capital used for the purchase of agricultural products 	3% ¹³⁸ (variable interest rate)	Maximum amount is not limited	1	Final borrower negotiates the collateral with the commercial bank (bills of exchange, debentures, pledge of property or transfer of fiduciary title to property, guarantees of banks and other collateral customary in the banking operations).
Croatian Bank for Reconstruction and Development (HBOR)¹³⁹	Financing of EU rural development, fisheries and wine envelope projects	Loan	Applicants who meet the requirements of the Open Call for Proposal for which they apply.	<p>Loans are intended to finance project implementation costs that include:</p> <ul style="list-style-type: none"> Part of the project that will apply for ESI funds – eligible expenditures in accordance with 	1.7% or 1.9% (variable interest rate) ¹⁴⁰	Maximum loan amount is not limited and it depends on HBOR's financing possibilities, the purpose of	15	Bills of exchange and debentures, pledge of property or transfer of fiduciary title to property supported by property insurance policy endorsed in favor of HBOR, guarantee issued by HAMAG – BICRO under the HAMAG –

¹³⁷ HBOR in cooperation with: Addiko Bank d.d., Croatia bank d.d., Hrvatska poštanska banka d.d., Kentbank d.d., OTP banka Hrvatska d.d., Podravska banka d.d., Raiffeisenbank Austria d.d., Slatinska banka d.d., Štedbanka d.d., Banka Kovanica d.d., Erste & Steiermärkische bank d.d., Istarska kreditna banka d.d., Kreditna banka Zagreb d.d., Partner banka d.d., Privredna banka Zagreb d.d., Sberbank d.d., Splitska banka d.d. and Zagrebačka banka d.d.

¹³⁸ In certain cases, the loan can be approved with a subsidized interest rate according to "de minimis" rules.

¹³⁹ HBOR in cooperation with: Addiko bank d.d., Croatia banka d.d., Hrvatska poštanska banka d.d., Kentbank d.d., OTP banka Hrvatska d.d., Podravska banka d.d., Raiffeisenbank Austria d.d., Slatinska banka d.d., Erste & Steiermärkische bank d.d., Istarska kreditna banka d.d., Privredna banka Zagreb d.d., Splitska banka d.d. and Zagrebačka banka d.d.

¹⁴⁰ At least 1.7% p.a. (with repayment up to 10 years) or 1.9% p.a. (with repayment longer than 10 years) for applications approved until 31st December 2018.

Institution	Name of the financial product	Type of product	Beneficiary	Purpose	Pricing (%)	Loan limit	Maturity in years	Collateral
				<p>the requirements of the Call for Proposals,</p> <ul style="list-style-type: none"> Expenditures that are part of the project and which are not eligible in scope of Call for Proposals – unacceptable expenditure (basic and working capital up to 30% of the loan amount). 		investment, the very investment project the creditworthiness of the final borrower, and the value and quality of collateral offered.		BICRO Guarantee Programmers and other collateral acceptable to HBOR. In case a loan is on – lent through a commercial bank, the final borrower negotiates collateral with the commercial bank.

Annex 6 – HBOR’s loan products dedicated for financing of the agricultural sector¹⁴¹

1. Agriculture and Balanced Development¹⁴² Programme

The final borrowers of this loan may be small and medium-sized enterprises: companies, craftsmen, co-operatives, institutions, FAHs and fishermen.

The purpose of the loan is to finance:

- Fixed assets: initial funding, land plots, buildings, equipment and devices, breeding units, perennial plants, vegetables and flower growing;
- Working capital: up to 30% of the total loan amount.

The loan amount ranges from HRK 80,000 (~ EUR 10,800) up to HRK 3,500,000 (~EUR 472,500). Loans are granted in HRK or in HRK indexed to the euro. The disbursement period is up to 12 months, and the repayment period is 14 years including grace period of 3 years (up to 5 years for planting and/or restructuring of perennial crops). HBOR finances up to 100% of the estimated investment value, VAT not included. HBOR can, in certain cases, consider a possibility of financing the estimated investment value with VAT. Interest rates on the loans are as follows:

- 2% per annum - for borrowers investing in a region of special state concern or supported areas – units of local government classified into groups I and II according to the development index or agriculture or fishery or a hill or mountain area and borrowers having proven their competitiveness by successful sales in domestic and/or foreign markets;
- 4% per annum - for all other business entities investing in a region of special state concern or supported areas – units of local government classified into groups I and II or agriculture or fishery or a hill or mountain area.

For collateral, HBOR accepts: bills of exchange and debentures, pledge of property or transfer of fiduciary title to property supported by property, insurance policy endorsed in favour of HBOR bank guarantees, guarantees issued by HAMAG-BICRO, other customary security in banking.

2. Financing the preparation of agricultural production¹⁴³

Final borrowers for this loan can be natural persons and legal entities (AHs within the VAT system, crafts, companies and co-operatives) in the size of micro, small or medium-sized enterprises.

The purpose of this loan is to finance working capital needed for agricultural production as follows:

- Working capital for current production activities (purchase of raw materials, base materials and other materials);
- Working capital for the purchase of agricultural products.

The minimum loan amount is HRK 50,000 (~ EUR 6,750), while the maximum loan amount is not limited and depends on the availability of HBOR’s funds. Loans are approved in HRK only. The

¹⁴¹ Dana from 2nd November 2017.

¹⁴² HBOR loan programmes, 2017. Available at: <https://www.hbor.hr/en/agriculture-and-balanced-development/>

¹⁴³ HBOR loan programmes, 2017. Available at: https://www.hbor.hr/en/kreditni_program/financing-the-preparation-of-agricultural-production/

disbursement period is up to 3 months, and the repayment period is 12 months. The loan may be repaid in equal monthly or three-monthly instalments or with bullet repayment. The interest rate for final borrowers is 3% per annum.

For collateral, HBOR accepts: bills of exchange and debentures, pledge of property or transfer of fiduciary title to property supported by property, insurance policy endorsed in favour of HBOR, bank guarantees, guarantees issued by HAMAG-BICRO, other customary security in the banking operations. Final borrowers negotiate collateral with commercial banks.

3. Financing of EU rural development, fisheries and wine envelope projects¹⁴⁴

This loan programme is designed to finance projects whose promoters applied for co-financing from the European Agricultural Fund for Rural Development, the European Agricultural Guarantee Fund and the European Maritime and Fisheries Fund. Final borrowers for this loan are applicants who meet the requirements of the relevant calls for proposals.

The purpose of the loan is to finance project implementation costs that include:

- ESI Funds eligible costs pursuant to the terms and conditions of the calls for proposals;
- Non-eligible costs pursuant to the terms and conditions of the calls for proposals - fixed assets and working capital up to 30% of the loan amount.

The minimum loan amount is HRK 80,000 (~ EUR 10,800), while the maximum loan amount is not limited and it depends on HBOR's financing capabilities, the purpose of investment, the quality of the investment project, creditworthiness of the final borrower, value and quality of the offered collateral. The disbursement period is up to 18 months (for projects in the winegrowing sector, longer periods may be approved), and the repayment period up to 15 years, including grace period of 3 years (or up to 5 years for the planting and/or restructuring of perennial crops). The most recent interest rates are as follows:

- 1.7% per annum - with repayment up to 10 years;
- 1.9% per annum - with repayment longer than 10 years - for applications approved until 31st December 2018.

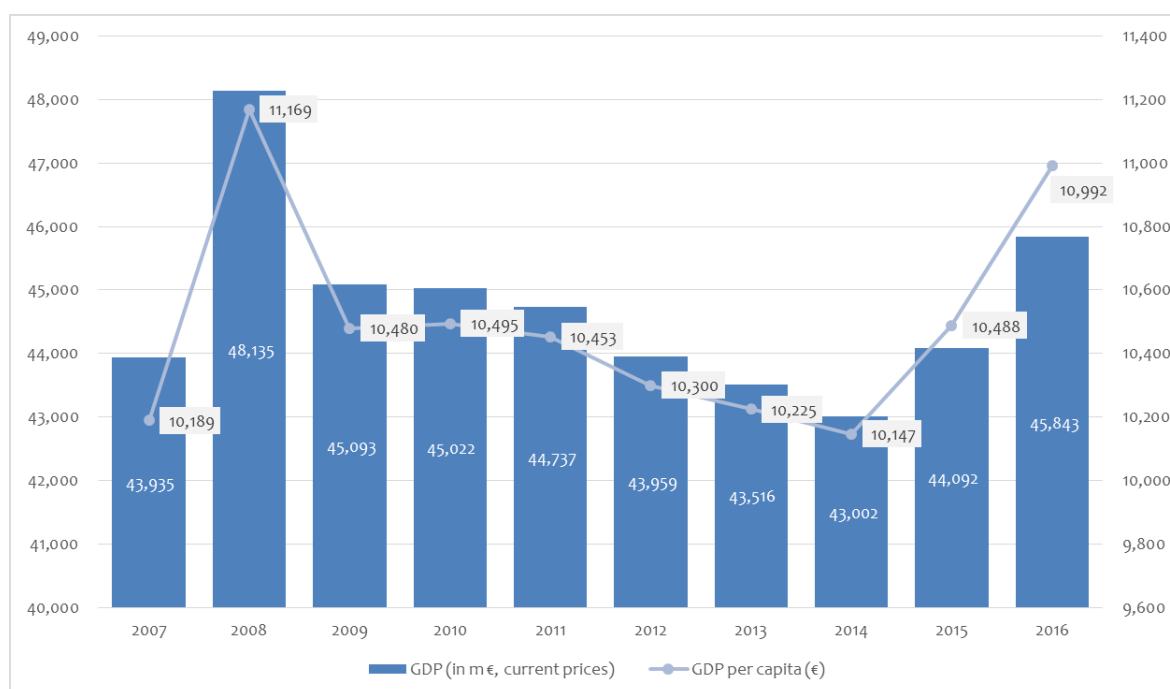
For collateral, HBOR accepts: bills of exchange and debentures, pledge of property or transfer of fiduciary title to property supported by property insurance policy endorsed in favour of HBOR, guarantees issued by HAMAG-BICRO under the HAMAG-BICRO Guarantee Programmes, other customary security in the banking operations. In case a loan is on-lent through a commercial bank, final borrowers negotiate collateral with commercial banks.

¹⁴⁴ HBOR loan programmes, 2017. Available at: https://www.hbor.hr/en/kreditni_program/financing-of-eu-rural-development-fisheries-and-wine-envelope-projects/

Annex 7 – Economic environment

As of 2015, after six years of recession, Croatia has been experiencing a faster than expected economic recovery. Forecasts for 2017 point to further favourable developments, especially because of higher personal and investment consumption. The rising optimism of enterprises and consumers together with the expansionary monetary policy is contributing to a small growth of banks credit activity.

Figure 38: GDP and GDP per capita change, 2007-2016



Source: Croatian National Bank, 2017.

However, although increasing at an average rate of 2.4%¹⁴⁵ per quarter since Q4 of 2014, the economy has reported growth of only 1.66% in real GDP terms since the beginning of the economic crisis in 2009. For 2017, projections indicate that the real GDP is going to expand by a 2.9% and slightly decelerate thereafter.¹⁴⁶

The severity of the economic crisis has driven up unemployment firmly into double digits, with the highest rate of 17.7% registered in March 2014. However, the unemployment rate reached stagnation during 2013-2014 and significantly decreased thereafter to 10.8% in July 2017¹⁴⁷. Despite the high unemployment rate, some sectors have been experiencing worker shortages (such as tourism, construction and shipbuilding).

Croatia has recently exited the EU's excessive-deficit procedure by significantly narrowing its fiscal deficit in the 2015-2016 period. In 2016, the Government sector continued with the fiscal consolidation initiated in 2015, and the general Government deficit was only 0.8% of GDP.

¹⁴⁵ Croatian Bureau of Statistics, 2017.

¹⁴⁶ European Commission: Spring 2017 Economic Forecast – Croatia, May 2017.

¹⁴⁷ Eurostat, 2017.

The public debt fell to 83.7% of GDP. The budget outturn was driven by a noticeable increase in revenues, partly due to favourable cyclical trends, and partly by only a moderate rise on the costs side.¹⁴⁸

Despite a more positive economic environment, many Croatian companies are still struggling under the burden of unpaid receivables, inability to pay their debts, high operational costs, and weak competitiveness.¹⁴⁹

¹⁴⁸ Croatian National Bank: Macroeconomic Developments and Outlook, July 2017.

¹⁴⁹ CEEMEA Business Group: Croatia Business and Economic Outlook, April 2017.

Annex 8 – Ex-ante assessment completeness checklist

The current section presents the completeness checklist of this ex-ante assessment. All uncompleted tasks will be presented in the final report.

This final report will include a proposition with regards to the investment strategy based on the market failures identified during the market assessment, as well as a proposition with regards to the governance structure of the management of the proposed financial instruments, and an indicative calendar and action plan to guide the activities that the Managing Authority will need to conduct to implement the financial instruments.

Table 42: Ex-ante assessment completeness checklist

Checklist points	Chapter reference	Done
Economic context	2	✓
Demand for finance	6	✓
Supply of finance	5	✓
Gap between supply and demand	6	✓
Quantitative evaluation of the value added	7	✓
Qualitative evaluation of the value added	7	✓
Consistency with other forms of public intervention addressing the same market	7	✓
State aid implications	7	✓
Additional public and private resources	7	✓
Need for and extent of preferential remuneration for private investors	7	✓
Collation of information on experience, particularly from the same country or region	4	✓
Identification of success factors and/or pitfalls of these experiences	4	✓
Using the information to enhance performance of the FI (e.g. risk mitigation)	7	✓
An examination of implementation options within the meaning of Article 38	7	✓
Analysis of financial products to be offered	5	✓
Definition of target final recipients and any combination with grant support	7	✓
Set up and quantification of the expected results by means of output, result and performance indicators	7	✓
Specification of how the envisaged FI will contribute to the strategic objectives	7	✓
Definition of the system to efficiently monitor the FI, facilitate reporting requirements and identify improvements	8	✓
Definition of conditions and/or timing for a revision or update of the ex-ante assessment & incorporation of this in the monitoring and reporting provisions (optional)	9	✓
Summary findings and conclusions are published within 3 months of finalisation of the ex-ante assessment	9	✓
Submission of ex-ante assessment to the monitoring committee	9	✓

