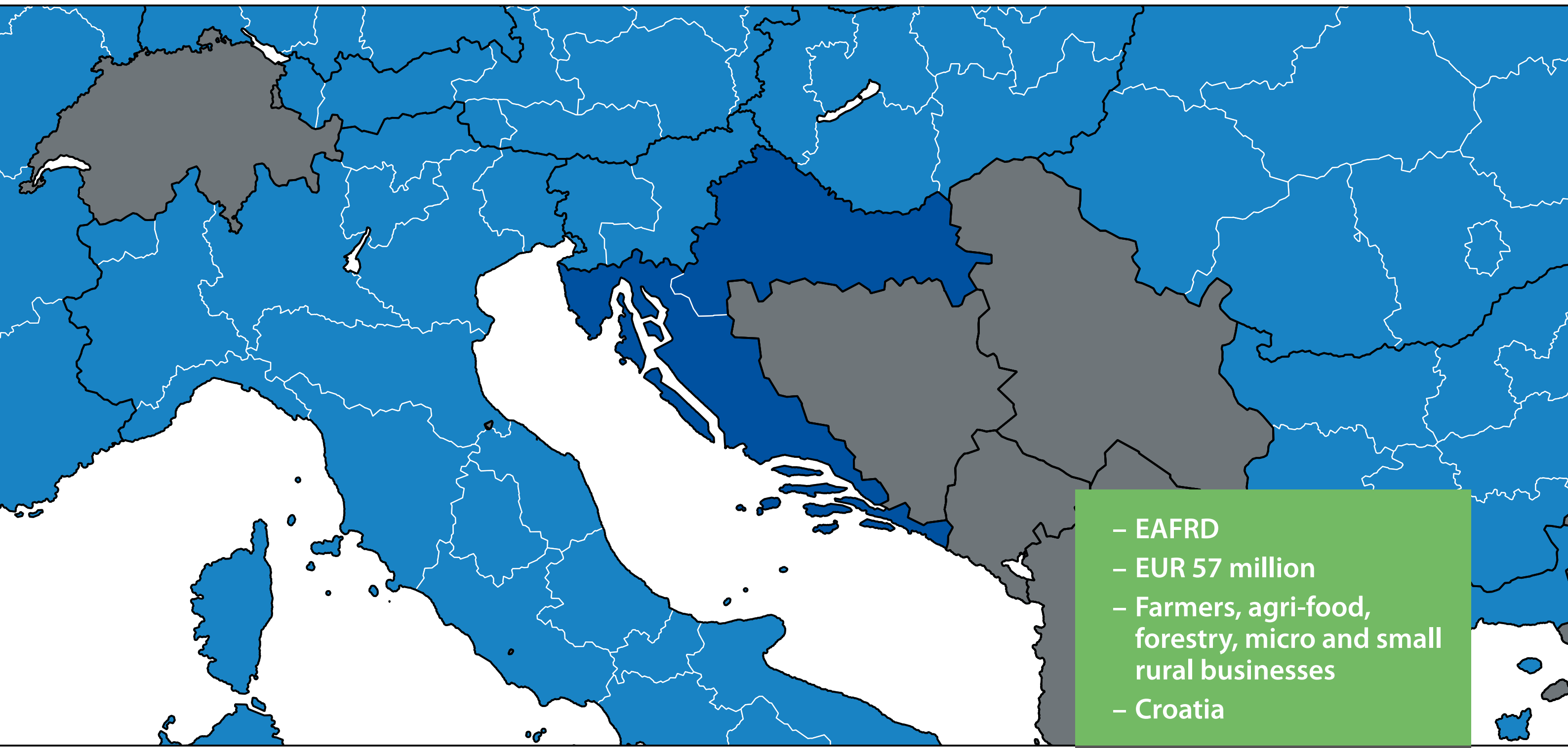

- EAFRD
- EUR 57 million
- Farmers, agri-food, forestry, micro and small rural businesses
- Croatia

... improving access to finance for micro and small enterprises in rural areas ...

Micro and small loans for rural development 2014-2020, Croatia

Case Study

European Commission

European Investment Bank The EU bank

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Abbreviations

Abbreviation	Full name
CDR	Commission Delegated Regulation
CPR	Common Provisions Regulation
DG AGRI	European Commission Directorate-General for Agriculture and Rural Development
EAFRD	European Agricultural Fund for Rural development
EC	European Commission
EIB	European Investment Bank
ERDF	European Regional Development Fund
ESIF or ESI Funds	European Structural and Investment Funds
HAMAG BICRO	Croatian Agency for Small Business, Innovation and Investment
HBOR	Croatian Bank for Reconstruction and Development
LGU	Local Government Unit
MIN AGRIC	Ministry of Agriculture
OP	Operational Programme
OPCC	Operational Programme Competitiveness and Cohesion 2014-2020
RDP	Rural Development Programme
SME	Small and medium-sized enterprise

Table of contents

1. Summary

This case study describes the set-up and implementation of a financial instrument under the Rural Development Programme (RDP) 2014-2020 in Croatia. The instrument includes micro and small loans for rural development, and third financial product that was added during the COVID-19 crisis – micro working capital loans.

An ex-ante assessment[1] identified market gaps for short-term working capital, especially for autumn and spring sowing, cattle breeding, raw materials and repairs. It also highlighted medium and long-term needs to finance investments, along with related working capital. These needs mainly concern equipment purchases (machinery) and other investments such as land purchases, plant extensions, new technology, forest and renewable energy. A key driver of the financing gap in the agri-food sector was the high lending risk perceived by commercial banks, resulting in strict cash flow and collateral requirements.[2]

The assessment highlighted a lack of microfinance products to match the needs of agricultural producers, food processors and forestry enterprises, particularly micro producers. It recommended that micro and small loans would be highly beneficial for enterprises excluded from bank financing, especially young farmers and newly created firms with inadequate credit records.

This case study shows how European Agricultural Fund for Rural Development (EAFRD) financial instruments can support access to funding for the agricultural sector. The financial instrument has been effective in easing access to financial resources for micro and small producers, processors and the forestry sector with no access to bank finance. For example, with a loan from the financial instrument a family-owned blueberry business, Borovnice Ltd., could increase production and improve product quality (see Section 5).

Micro and small loans are provided by the implementing body, the Croatian Agency for Small Business, Innovation and Investment (HAMAG BICRO), at favourable conditions with lower interest rates and reduced collateral requirements. The instrument was launched in 2018 with a budget of EUR 17.65 million (EUR 15 million from EAFRD and a national contribution of EUR 2.65 million). Final recipients immediately showed significant interest, with the first investments being made in October 2018, leading the managing authority to increase the instrument's budget three times. After the latest increase in March 2022, the RDP allocation was EUR 86 million (EUR 73.1 million from EAFRD and EUR 12.9 million national contribution).

The design and set-up of this financial instrument was challenging for the managing authority, as there was no previous experience with EAFRD financial instruments in Croatia. Also the time frame was short, so the ex-ante assessment was a dynamic process. However, good organisation and the implementing body's previous experience with similar instruments proved to be an important starting point. Close collaboration between stakeholders during preparation of the ex-ante assessment and selection of the implementing body enabled a rapid operational rollout and contributed to successful implementation. In addition, the managing authority also requested and benefitted from targeted coaching on EAFRD financial instruments delivered by fi-compass and experts from the European Commission Directorate-General for Agriculture and Rural Development (DG AGRI).

1 EIB, 2018, Potential future use of FIs in Croatia's agricultural sector in the 2014-2020 programming period, Final report, https://ruralnirazvoj.hr/files/documents/Final-Report-Ex-ante-Croatia-Agriculture-1.pdf.

2 Banks in Croatia charge higher interest rates compared to other EU countries, making the cost of borrowing discouraging for agri-food firms.

Designed specifically for the needs of micro and small businesses in the agricultural, processing and forestry sectors, the financial instrument is well on track to achieve priorities and objectives of the RDP, with an absorption rate of 62.26% as at January 2022.

Micro and small loans for rural development 2014-2020, Croatia

THE FINANCIAL INSTRUMENT

Funding source

EAFRD Rural Development Programme 2014-2020 Croatia

Type of financial products

Micro and small loans for rural development, micro working capital loans[3]

Financial size

EUR 86 million (EUR 73.1 million from EAFRD and a national contribution of EUR 12.9 million)[4]

Thematic focus

Investments in agricultural holdings, processing, marketing and/or development of agricultural products, forestry technology and forest product processing, investment in non-agricultural activities in rural areas

Timing

From 2018 to 2025[5]

Partners involved

Ministry of Agriculture (managing authority)
Croatian Agency for Small Business, Innovation and Investment, HAMAG BICRO (implementing body/financial intermediary)
Paying Agency for Agriculture, Fisheries and Rural Development (paying agency)

ACHIEVEMENTS

Absorption rate

62.26% as at January 2022

EU leverage[6]

1.17 times

Leverage of public resources[7]

1 time

Main achievements

As at January 2022, the financial instrument supported 1 164 final recipients with loans for a total of EUR 44.7 million.

3 Micro working capital loans were introduced later, during the COVID-19 crisis.
4 Latest increase in March 2022.
5 As at January 2022 based on information provided by the managing authority.
6 Estimated EU leverage is calculated as the total amount of finance to eligible final recipients, i.e. EUR 86 million,divided by the total amount of EAFRD allocation to this financial instrument, i.e. EUR 73.1. It does not include the reuse of resources returned to the instrument .
7 Leverage of public resources is calculated as the total amount of finance to eligible final recipients, i.e. EUR 86 million, divided by the total amount of public resources allocated to the financial instrument, i.e. EUR 86 million. It does not include the reuse of resources returned to the instrument.

2. Objectives

As identified by the ex-ante assessment[8], financial products for the agricultural, food processing and forestry sector in Croatia are mainly commercial bank corporate or business products. The assessment noted that commercial banks in Croatia require substantial collateral and guarantees from farmers and small and medium-sized processors to provide them with financing. Other key factors regarding finance for the agriculture sector in Croatia concern unresolved property issues[9], the low value of real estate and a lack of historical records.[10]

Furthermore, the supply of microfinance was very limited and did not meet demand. As demonstrated in the ex-ante assessment, microfinance for the agricultural sector was covered only through regular short-term and medium-term loans from banks.[11] The assessment 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), especially for micro producers and young farmers starting a business. These beneficiaries face significant obstacles to accessing finance or are self-excluded due to a lack of knowledge and familiarity with the banking system. The ex-ante assessment also showed that investments in agriculture have been highly correlated with grants from the RDP. If calls for proposals were not published, or project proposal evaluations were late there was a noticeable decrease in investments.[12]

To address these difficulties, a financial instrument was set up under the Croatian RDP 2014-2020 for the following measures and sub-measures:

Measures	Sub-measures
M04 'Investments in physical assets'	M4.1 'Support for investments in agricultural holdings'
	M4.2 'Support for investments in processing/marketing and/or development of agricultural products'
M06 'Farm and business development'	M6.4 'Support for investments in creation and development of non-agricultural activities'
M08 'Investments in forest area development and improvement of the viability of forests'	M8.6 'Support for investments in forestry tehnologies and in processing, mobilising and marketing of forest products'

8 EIB, 2018, Potential future use of FIs in Croatia's agricultural sector in the 2014-2020 programming period, Final report, https://ruralnirazvoj.hr/files/documents/Final-Report-Ex-ante-Croatia-Agriculture-1.pdf.

9 Agricultural producers in Croatia face difficulties to prove property ownership due to unclear property-legal relations.

10 EIB, 2018, Potential future use of FIs in Croatia's agricultural sector in the 2014-2020 programming period, Final report, https://ruralnirazvoj.hr/files/documents/Final-Report-Ex-ante-Croatia-Agriculture-1.pdf.

11 The survey conducted under the ex-ante assessment highlighted the large number of micro and small entities that need financing support.

12 EIB, 2018, Potential future use of FIs in Croatia's agricultural sector in the 2014-2020 programming period, Final report https://ruralnirazvoj.hr/files/documents/Final-Report-Ex-ante-Croatia-Agriculture-1.pdf.

The financial instrument contributes to priorities 2 'Enhancing farm viability and competitiveness of all types of agriculture in all regions and promoting innovative farm technologies and the sustainable management of forests', 3 'Promoting food chain organisations, including processing and marketing of agricultural products, animal welfare and risk management in agriculture', 5 'Promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy in agriculture, food and forestry sectors' and 6 'Promoting social inclusion, poverty reduction and economic development in rural areas'. More specifically, the financial instrument contributes to focus areas 2A, 2C+, 3A, 5C, 5D and 6A[13].

13 Investments in processing and marketing agricultural products (focus area 3A), Improvement of economic value of forestry and development of forest area (focus area 2C+), Renewable sources and waste management (focus area 5C), Greenhouse Gas (GHG) & ammonia emissions (focus area 5D), Diversification and job creation (focus area 6A).

3. Design and Set-up

The micro and small loans for rural development instrument set up under the 2014-2020 RDP is the first experience of implementing an EAFRD funded financial instrument in the country. However, Croatia had experience with financial instruments under Thematic Objective 3 (TO3 Enhancing the competitiveness of SMEs) of the Operational Programme Competitiveness and Cohesion (OPCC), co-financed by the ERDF.[14]

The ex-ante assessment for the financial instrument featured in this case study was conducted from June 2017 to March 2018 and defined the financing gap. The funding agreement was signed in April 2018 by the Ministry of Agriculture (MIN AGRIC) as the managing authority, HAMAG BICRO as the implementing body and the Paying Agency for Agriculture, Fisheries and Rural Development.

The financial instrument opened for applications in September 2018 with the total allocation of EUR 17.65 million. The managing authority amended the funding agreement several times, to launch a new product, to reallocate funds between financial products and to increase the allocation. The managing authority increased the budget three times due to high demand (see Section 3.3). The latest amendment in March 2022 increased the fund size to EUR 86 million. The main implementation steps are summarised in Table 1.

14 The ex-ante assessment for financial instruments under TO3 of the OPCC, http://arhiva.strukturnifondovi.hr/UserDocsImages/Izvje%C5%A1%C4%87a%20i%20evaluacije/Ex-ante%20evaluacija%20izvje%C5%A1%C4%87e%20OPKK_2014-2020.pdf.

Table 1: Timeline of the financial instrument

Date	Event
March 2018	Ex-ante assessment for the use of financial instruments in the RDP 2014-2020 completed
April 2018	Funding agreement signed between HAMAG BICRO and the managing authority
May 2018	RDP Amendment adopted by the Commission
May 2018	Preparation of the Micro and Small Loans for Rural Development Credit Programme
June 2018	Adoption of the Credit Programme by the Croatian government
September 2018	Opening of applications for loans under the financial instrument
October 2018	First disbursements to final recipients
December 2019	Amendment to the funding agreement to reallocate funds between financial products and increase the allocation for small loans[15]
March 2020	Amendment to the funding agreement to introduce a new financial product 'Micro working capital loans for rural development' for uninterrupted production on SMEs during the COVID-19 pandemic crisis and reallocation of funds from small to micro loans[16]
February 2021	Amendment of the funding agreement to increase allocation for small loans[17]
September 2021	Amendment of the funding agreement to increase the upper limit for small loans (from EUR 50 000 to EUR 100 000 per loan)[18]
March 2022	Amendment of the funding agreement to revise the allocations for the micro loans (and individual guarantees) and to increase allocation for small loans
December 2025	End of the financing eligibility period (31 December)

3.1 Ex-ante assessment

The ex-ante assessment was conducted from June 2017 to March 2018 by the EIB with the contribution of Croatian stakeholders. This included close collaboration with representatives from MIN AGRIC and active engagement with two public institutions, HAMAG BICRO and HBOR.

The report analysed Croatia's agricultural economy, the RDP strategy and measures for which financial instruments were envisaged, as well as experiences of other financial instruments in the sector. The purpose of the assessment was to provide analytical support and guidance to the managing authority, as well as to examine the potential implementation and use of financial instruments in the agriculture sector in Croatia.

15 Due to the higher demand for small loans from the target groups.
16 In May 2020, the provision of small loans for a rural development product was suspended due to a number of reasons including full utilisation of the EAFRD resources allocated to the product and the COVID-19 pandemic, which led to an increased demand for micro loans for working capital.
17 This amendment was introduced to respond to high demand from the target groups after reopening the instrument.
18 This amendment was introduced due to the needs of potential beneficiaries in the agriculture, processing and forestry sectors for loans up to EUR 100 000.

The assessment included desk research, 36 interviews with stakeholders covering both the demand and the supply sides. These stakeholders included representatives of private and public sector bodies (banks, agricultural organisations, development agencies, etc.) There was also an online survey targeting Croatian farmers, rural SMEs, including non-agricultural businesses, firms processing agricultural products and forestry activities.

The supply side analysis concluded that Croatian banks provide a wide range of financial products to businesses in general, but no tailor-made products for food processing or forestry. Banks tend to perceive large and medium-sized agriculture holdings as similar to enterprises in any other industry.

The main reasons for banks rejecting loan applications from agricultural holdings were:

- collateral and unresolved property issues[19] and the low value of real estate as collateral;
- agriculture holdings usually not having enough own resources to finance investments not covered by the loan;
- poor quality business plans;
- bad credit history, e.g. investments by clients who have previously defaulted on loans will not be financed even though their new projects are bankable.

As demonstrated in the assessment, the agricultural sector faced multiple barriers to accessing finance. Some are linked to the lack of supply, while others relate to the capability of agricultural business to structure their businesses, which could help them to attract the interest of financial institutions.

As described in the ex-ante assessment, the unmet credit demand per year (the financing gap) was for:

- producers - more than EUR 464.78 million.
- processors - more than EUR 768.28 million.
- forestry sector businesses - more than EUR 51.79 million.

Three financial instruments were identified to address these gaps and support financing for agricultural activities, the one featured in this case study includes microfinance and small loans. Two other instruments included in the proposed investment strategy defined in the ex-ante assessment are an individual guarantee and a co-investment loan (see Figure 1 below).

The assessment highlighted a lack of microfinance products to match the needs of agricultural producers, food processors and forestry sector enterprises, particularly micro producers and young farmers starting their businesses. Additionally, the assessment recommended that a microfinance and small loans instrument could facilitate access to finance for potential beneficiaries because the supply of such products was very limited.

The ex-ante assessment concluded that HAMAG BICRO could implement this financial instrument. It could be responsible for identifying, evaluating and selecting applications for funding, as well as monitoring funding and preparing the activity reports required by regulation.

The challenges for the managing authority highlighted during the ex-ante assessment were the lack of experience in implementing EAFRD financial instruments and the short time frame for conducting the assessment. However, the managing authority was satisfied with the ex-ante process, considering it a good tool for making decisions on designing and implementing a financial instrument.

19 Agricultural producers in Croatia face difficulties in proving ownership of property due to unclear legislation.

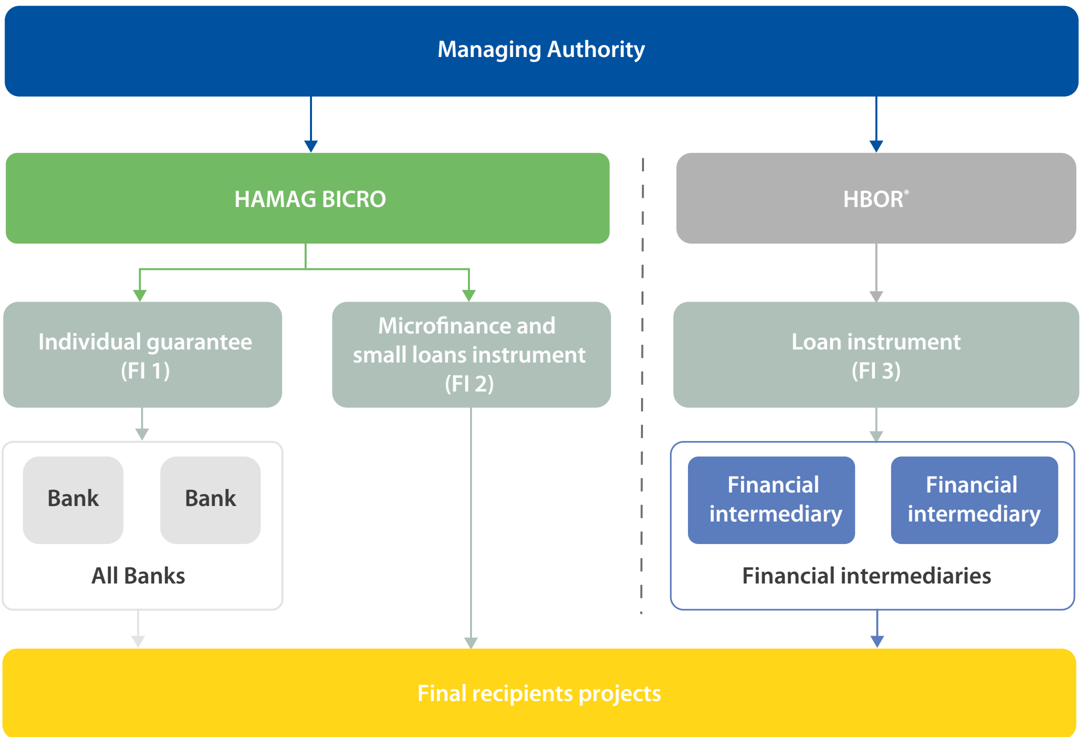
3.2 Selection of the implementing body

HAMAG BICRO is an independent institution in Croatia acting under the supervision of the Ministry of Entrepreneurship and Crafts. Among its activities, HAMAG BICRO facilitates new small businesses, financing their operations and development through loans and guarantees. Before offering micro and small loans HAMAG BICRO provided guarantees for agricultural holdings through the 'Farmers' Programme which was active in November 2017. So, it had experience of implementing financial instruments. In 2016, HAMAG BICRO also worked on harmonising its product portfolio with the measures and priorities of ESIF OPs in Croatia.

The ex-ante assessment recommended HAMAG BICRO as the implementing body for micro and small loans, due to their experience and capacity. The managing authority decided to follow the ex-ante assessment investment strategy and initiate implementation of the financial instrument as soon as possible. Collaboration with HAMAG BICRO, given their expertise, enabled a rapid operational rollout as desired by the managing authority.

The governance structure recommended by the assessment is presented in the Figure below.

Figure 1: Proposed governance structure



Source: Ex-ante assessment, 2018[20].

Note: *HBOR/ Croatian Bank for Reconstruction and Development[21].

20 EIB, 2018, Potential future use of FIs in Croatia's agricultural sector in the 2014-2020 programming period, Final report https://ruralnirazvoj.hr/files/documents/Final-Report-Ex-ante-Croatia-Agriculture-1.pdf.
21 HBOR is a development and export bank established with to finance the reconstruction and development of the Croatian economy. HBOR was identified in the ex-ante assessment as potentially able to manage the proposed loan instrument. Further information is available at: https://www.hbor.hr/en/.

The managing authority decided to implement the proposed instruments by direct award. Under Article 38 of the Common Provisions Regulation (CPR)[22], the managing authority may entrust financial instrument implementation to local financial institutions established in the Member State operating in the public interest and under the control of a public authority (e.g. HAMAG BICRO). The EU Procurement Directive (No. 2014/24/EU)[23] sets out the conditions for directly awarding such appointments to a publicly owned entity. The criteria for selecting bodies implementing financial instruments are also included in Article 7 of the Commission Delegated Regulation (CDR)[24].

In addition to criteria in Article 7 of the CDR, the managing authority took into account the following elements when selecting the implementing body:

- Organisation, human resources and competences to implement the proposed financial instrument;
- Back-office functions and systems for processing, recording, and reporting transactions;
- Previous experience with the management of similar instruments;
- Successful track record with implementation of similar instruments;
- Experience and capacity to manage calls for expressions of interest;
- Financial strength and creditworthiness;
- Governance (appointment, composition and functioning of governing bodies);
- Reputation and credibility (based on perceptions of the managing authority and key supply-side stakeholders).

The managing authority verified these criteria were met prior to entrusting financial instrument management to HAMAG BICRO. Operational, financial and market due diligence gave the managing authority the evidence and comfort that the implementing body could administer the financial instrument properly and efficiently.

3.3 Funding and governance

The financial instrument was launched in September 2018 with a budget of EUR 17.65 million from the Croatian RDP (EUR 15 million from EAFRD and EUR 2.65 million of national contribution). To respond to high demand from the target groups and to changing market conditions, there were a number of amendments to the funding agreement.

22 Regulation (EU) No. 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC).

23 Directive 204/24/EU of the European parliament and of the Council on public procurement and repealing Directive 2004/8/EC, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0024 .

24 Commission Delegated Regulation (EU) No. 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive.

Table 2: Amendments to the funding agreement and allocations

Year	Amendment	Micro loans allocation, EUR	Small loans allocation, EUR	Total, EUR
2019	Increasing the allocation for small loans and adjusting other allocations for the financial instrument	1.9 million (EAFRD) 0.3 million (national resources)	31.8 million (EAFRD) 5.6 million (national resources)	39.8 million
2020	Transferring the allocation from small to micro loans	16.5 million (EAFRD) 2.9 million (national resources)	17.3 million (EAFRD) 3 million (national resources)	39.8 million
2021	Increasing the allocation for small loans	16.5 million (EAFRD) 2.9 million (national resources)	31.9 million (EAFRD) 5.6 million (national resources)	57 million
2022	Increasing the allocation for small loans and adjusting other allocations for the financial instrument	8.25 million (EAFRD) 1.45 million (national resources)	64.9 million (EAFRD) 11.4 million (national resources)	86 million

Source: MIN AGRIC, 2022.

In 2019 the allocation for small loans was increased from EUR 17.65 million, bringing the total budget of the instrument to EUR 39.8 million (EUR 33.8 million from EAFRD and EUR 6 million national contribution).

In 2020, due to the COVID-19 pandemic, a new financial product was introduced, micro working capital loans.

Furthermore, in May 2020, the provision of small loans for a rural development product was suspended as the allocation was spent, so demand in 2020 concentrated mainly on micro loans for working capital. After reopening the small loan instrument, the allocation for small loans was increased again in 2021 and 2022 due to high demand from potential final recipients.

Following this increase, the financial instrument budget was EUR 86 million (EUR 73.1 million from EAFRD and EUR 12.9 million of national contribution).

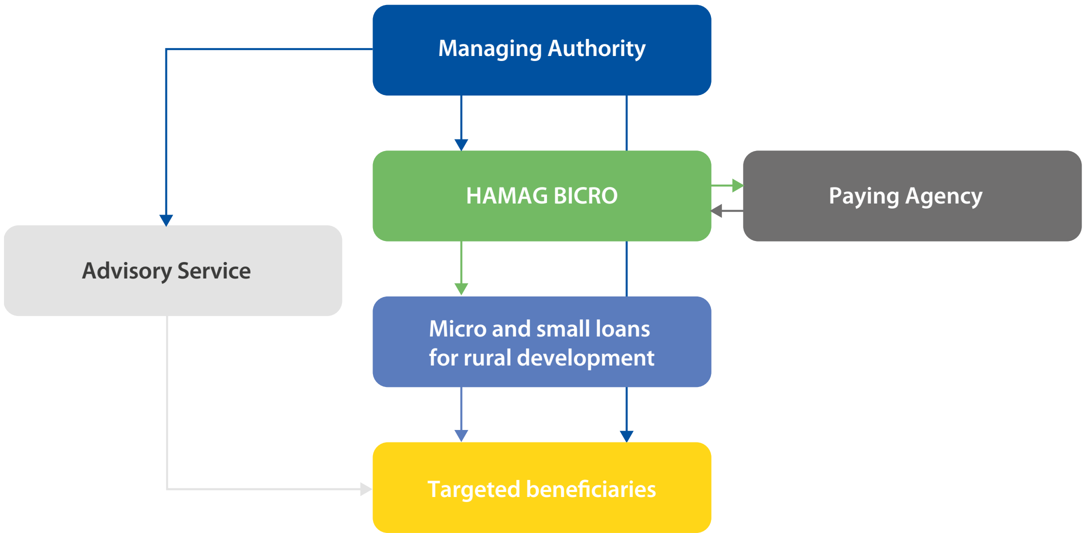
Table 3: Funding sources and amounts

Funding source	Amount
EAFRD	EUR 73.1 million (85%)
National Budget	EUR 12.9 million (15%)

Source: MIN AGRIC, 2021.

When deciding on the governance structure, the managing authority considered the available national and ESI Funds, as well as the competences of people in charge of implementation and the time constraints related to absorption of ESI funding against expected implementation duration and market capacity. The governance structure is presented in the Figure below.

Figure 2: Governance structure



Source: HAMAG BICRO and MIN AGRIC, 2021.

The managing authority is responsible for strategic orientation of HAMAG BICRO activities, as well as for identifying the budgetary and other resources necessary for the financial instrument set-up and implementation. Furthermore, under the managing authority there is a Professional Support Directorate which specialises in advice for agriculture, rural development, fisheries and forest management. Among its activities[25], it operates in 21 Croatian counties raising awareness of the financial instrument for targeted beneficiaries.

The Board of Directors of HAMAG BICRO must approve the financial instrument following which HAMAG BICRO can publish information on the web[26] and start receiving applications. Applications under the instrument were permitted from 1 September 2018.

After the recipient has spent the funds, they are obliged to justify their use to HAMAG BICRO. The Paying Agency also checks if support from the financial instrument is used for the intended purpose. Furthermore, HAMAG BICRO monitors implementation of the financial instrument and sends reports once a month and quarterly to the paying agency, which reviews the data and approves the reports. The managing authority is responsible for reviewing progress, ongoing evaluation of reports and other issues regarding implementation, as well as proposing amendments to the funding agreement, if needed.

25 County headquarters and local offices have experts from agricultural production, forestry, fisheries and rural development – depending on local needs.
26 Further information available at: https://hamagbicro.hr/.

4. Implementation

The financial instrument was launched in September 2018. Final recipients immediately showed significant interest with the first investments already made in October 2018. As mentioned in the previous section, the managing authority increased the instrument's budget three times. due to high demand from the target groups. Furthermore, the upper limit for small loans was increased from EUR 50 000 to EUR 100 000 per loan to further reduce difficulties in accessing capital for final recipients. Finally, due to the COVID-19 crisis, a new financial product was introduced.

4.1 Financial products and terms

When it was launched in September 2018, the financial instrument provided two financial products. As a response to COVID-19, in March 2020 MIN AGRIC, in cooperation with HAMAG BICRO, introduced a new product - micro working capital loans. This aims to address liquidity difficulties and support farmers in preparing for sowing and production. Implementation is entrusted to HAMAG BICRO.

The loans under the instrument are for family farms, crafts, companies, cooperatives, producer organisations and other legal entities. The financial instrument is valid until the funds are used, or up to 31 December 2025.

Characteristics of the financial products are presented in Table 4.

Table 4: Characteristics of the financial products

	Micro loans for rural development/ Micro working capital loans	Small loans for rural development
Target group	Micro and small-sized economic operators eligible for financing from this instrument according to conditions in the RDP 2014-2020	Micro, small and medium-sized economic operators eligible for financing from this instrument according to conditions in the RDP 2014-2020
Loan amount	From EUR 1 000 to EUR 25 000	From EUR 25 000.01 to EUR 100 000[27]
Interest rate	0.1% and 0.25%, depending on the development index of the local goverment unit (LGU) and 0.5% for standalone working capital micro loans[28]	0.1% and 0.25%, depending on the development index of the local goverment unit in which the investment takes place[29]
Grace period	Up to 12 months if the repayment period is a minimum of 2 years	Up to 12 months if the repayment period is a minimum of 2 years
Maturity	Up to 5 years, including the grace period, up to 3 years for standalone working capital micro loans	Up to 10 years, including the grace period
Collateral	Promissory notes, other collateral according to the risk assessment	Promissory notes, other collateral according to the risk assessment
Intended use	Fixed/working capital up to 100% of the loan	Fixed/working capital up to 30% of the loan

Source: HAMAG BICRO, 2021.

The demand for financial products was beyond initial expectations. In most instances, loans were to buy equipment or machinery. Information from the implementing body shows that the financial instrument loans are usually used by final recipients for investments within six months of signing the loan. Final recipients must use the loan for the intended purpose in accordance with the financial product.

Information on the possibilities related to the use of the financial instrument is provided by HAMAG BICRO and the managing authority.

27 The Micro and Small Loans for Rural Development programme was amended due to the needs of potential beneficiaries, increasing the upper limit for financing small loans from EUR 50 000 to EUR 100 000.
28 Interest rates are defined by the location of the investment, i.e. the LGU according to the level of development in accordance with Article 35 of the Regional Development Act of the Republic of Croatia (OG 147/14, 123/17). Classification of local and regional self-government units according to the level of development is on https://narodne-novine.nn.hr/clanci/sluzbeni/2017_12_132_3022.html.
29 Interest rates are defined by the location of the investment, i.e., the LGU according to the level of development in accordance with Article 35 of the Regional Development Act of the Republic of Croatia (OG 147/14, 123/17). The classification of local and regional self-government units according to the level of development is on: https://narodne-novine.nn.hr/clanci/sluzbeni/2017_12_132_3022.html.

COVID-19 implications

In May 2020, the provision of small loans for rural development product was suspended primarily because of full utilisation of the resources allocated to the product. Following some adaptations of the product features with an increase of the maximum loan amount to EUR 100 000[30], applications were reopened in 2021. However, due to the COVID-19 pandemic and higher working capital needs, demand concentrated on micro loans.

The evolution of demand for the two financial products is presented in Table 5.

Table 5: Number of received applications on yearly basis since financial instrument's launch

Year	Small loans for rural development	Micro loans for rural development/Micro working capital loans
2018	158	22
2019	508	84
2020	444	248
2021	217	274
2022	8	11
TOTAL	**1 335**	**639**

Source: HAMAG BICRO, 2022.

4.2 State aid

In cooperation with MIN AGRIC, HAMAG BICRO designed the programme for micro and small loans for rural development[31], which is the basis for defining State aid for this instrument.

For investments in primary agricultural production (Annex I products) the rules on State aid and/or *de minimis* do not apply[32]. For investments in these products, the financial instrument complies with EAFRD Regulation (EU) No. 1305/2013[33]. The amount of public aid must be in accordance with Annex 2 of the EAFRD Regulation, emphasising that it is not considered State aid or *de minimis*. This particularly concerns investments under operations 4.1.1, 4.1.2, 4.1.3, 4.2.1 and 4.2.2[34]. The benefit transferred to a final recipient under the financial instrument is calculated in the form of a Gross Grant Equivalent (GGE)[35].

30 Amendment of the funding agreement to increase the upper limit for small loans to EUR 100 000 per loan signed in September 2021.
31 The Programme can be found on: https://hamagbicro.hr/financijski-instrumenti/kako-do-zajma/investicije/mikro-zajam-za-ruralni-razvoj/.
32 According to Regulation (EU) No. 1305/2013, Article 81.
33 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 and repealing Council Regulation (EC) No. 1698/2005, paragraphs 487-548.
34 4.1.1 Restructuring, modernisation and increasing competitiveness of agricultural holdings, 4.1.2 Disposal, handling and use of manure fertilizer in order to reduce the harmful effects on the environment, 4.1.3 Use of Renewable Energy Sources, 4.2.1 Increase of added value of agricultural holdings and 4.2.2 Use of Renewable Energy Sources.
35 GGE in this case is calculated on the difference between the market interest rate and the rate charged by HAMAG BICRO, and is discounted to when the loan is granted but should not exceed 50% of the eligible costs per investment.

For investments falling outside the scope of Annex I products, the financial instrument complies with State aid and *de minimis* requirements set out in Commission Regulation (EU) No. 1407/2013[36]. The amount of *de minimis* aid should not exceed EUR 200 000 over three fiscal years. This particularly concerns investments under operations 4.2.1, 4.2.2, 6.4.1, 8.6.1, 8.6.2[37] and for working capital.

With a loan, HAMAG BICRO informs the recipient of the amount of aid granted, calculated in the form of GGE[38]. When calculating GGE, HAMAG BICRO takes into account the loan amount, the recipient's rating, repayment plan and the difference between the market interest rate and the rate charged by HAMAG BICRO[39].

Before granting aid, HAMAG BICRO obtains a written/electronic statement of any aid to which Regulation (EU) No. 1407/2013 applies which was potentially received by the loan recipient during the current and two previous fiscal years. This involves checking with the paying agency to ensure the sum of all support is within the maximum allowed for the investment. The recipient is notified in writing of the aid provided.

4.3 Financial flow and appraisal process

Potential beneficiaries send a loan application and related documentation which is published on the HAMAG BICRO website as part of the programme conditions[40].

Most applications are submitted electronically but can also be sent by post or delivered in person to the HAMAG BICRO office in Zagreb.

After receiving the application and related documentation[41], HAMAG BICRO checks whether the beneficiary and the investment purpose comply with the programme and exchanges information with the Paying Agency. A business projection is made by HAMAG BICRO, then a final decision on approving or rejecting the application can be made. HAMAG BICRO obtains promissory notes from the final recipients to ensure proper execution of loan obligations. Other guarantees can be obtained according to a risk assessment by HAMAG BICRO.

After the paying agency conducts an audit and provides an opinion, an instruction is sent to the Ministry of Finance to transfer the funds to a separate sub-account of HAMAG BICRO, created only for resources related to the financial instrument's implementation[42]. HAMAG BICRO then concludes a loan agreement. The final recipient opens a special purpose account, which is a sub-account of their existing account in a commercial bank and HAMAG BICRO disburses the loan directly. The recipient repays the loan in quarterly instalments.

36 Commission Regulation (EU) No. 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid, paragraphs 1-8.

37 4.2.1 Increase of added value of agricultural holdings, 4.2.2 Use of Renewable Energy Sources, 6.4.1 Development of non-agricultural activities in rural areas, 8.6.1 Modernisation of technology, machinery, tools and equipment for wood harvesting and forestry works and 8.6.2 Modernisation of technologies, machines, tools and equipment in pre-industrial wood processing.

38 GGE is calculated according to de minimis requirements set out in Commission Regulation (EU) No. 1407/2013. Working capital is eligible up to 30% of the eligible costs, or (for guarantees and investment loans) up to EUR 200 000 depending on which amount is higher.

39 The interest rate charged by HAMAG BICRO for micro and small loans is 0.1% or 0.25% depending on the LGU and 0.5% for standalone working capital micro loans (see Table 4).

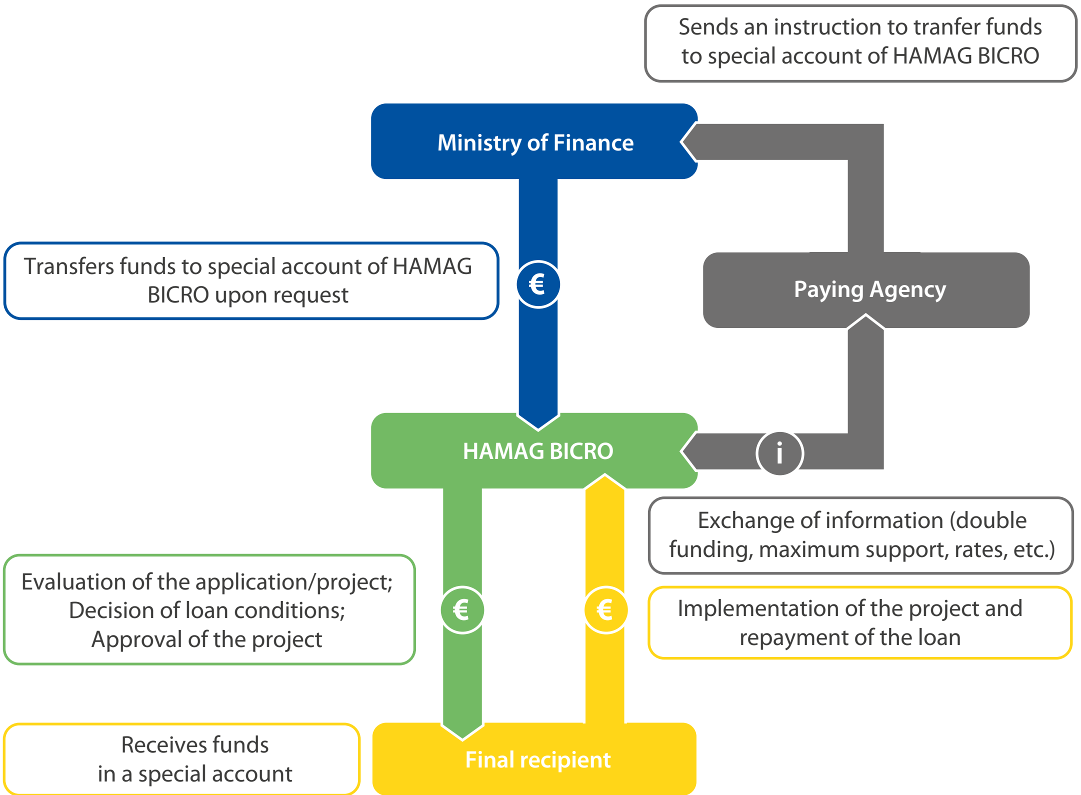
40 List of documentation needed: https://hamagbicro.hr/financijski-instrumenti/kako-do-jamstva/msp/esif-jamstva/pojedinacna/dokumentacija/.

41 Documentation refers to general financial documentation that is standard for loan applications, such as checking the business history of the applicant, the management, the intended investment, business plan, regular settlement of existing obligations, etc. The documentation is on: https://hamagbicro.hr/financijski-instrumenti/kako-do-jamstva/msp/esif-jamstva/pojedinacna/dokumentacija/.

42 From that account, HAMAG BICRO's accounting department makes a payment to the final recipient after loan signature.

HAMAG BICRO controls the intended use of the loan. Final recipients must submit documentation on the use of the loan to HAMAG BICRO. HAMAG BICRO is responsible for verifying implementation of the project and takes the necessary steps to recover the finance if the applicant does not fulfil its obligations.

Figure 3: Financial flow and appraisal process



Source: HAMAG BICRO and MIN AGRIC, 2021.

4.4 Awareness raising

Awareness raising was considered important for successful implementation of the financial instrument, especially ensuring potential applicants are familiar with the options and requirements.

After launching the instrument in September 2018, the managing authority conducted an extensive promotional campaign in four Croatian cities (Zagreb, Rijeka, Osijek and Split) with separate in-house training for managing authority staff enabling them to provide information on financial instruments.

When signing the funding agreement with HAMAG BICRO, the managing authority organised a media event to promote and explain the financial instrument to the public and target groups. In 2018 and 2019 more than 40 workshops were organised throughout Croatia by the managing authority and HAMAG BICRO providing a complete overview of what financial instruments are, what they offer and for whom. These on-site workshops reached many potential beneficiaries interested in using financial instruments. HAMAG BICRO also promotes the instrument, together with HAMAG BICRO's other financial products, through workshops and assistance for potential applicants. Four regional workshops were organised at the beginning of 2020, before the social distance measures due to COVID-19 crisis.

In 2020, because of the pandemic, the managing authority did not conduct workshops and other promotional events but undertook promotional activities via the website[43]. The COVID-19 pandemic also affected the activities of the paying agency in 2020 with an impact on the administrative system and in-person communication with beneficiaries.

43 Further information is available at: https://poljoprivreda.gov.hr/ and https://ruralnirazvoj.hr/.

5. Output

Disbursement of loans started in October 2018 and by 31 January 2022, 1 267 micro and small loans had been provided to final recipients totalling EUR 50.4 million. Detailed information on the output per financial product is in Table 6.

Table 6: Applications for micro and small loans for rural development in Croatia to October 2021

	Applications received		Applications approved		Applications rejected	
	Number	Amount, EUR[44]	Number	Amount, EUR	Number	Amount, EUR
Micro loan for working capital	226	4.4 million	134	2.6 million	80	1.6 million
Micro loan for investments	413	8.2 million	259	5.1 million	131	2.7 million
Small loan	1 335	63.7 million	874	42.7 million	420	19.2 million
TOTAL	1 974	76.4 million	1 267	50.4 million	631	23.6 million

Source: HAMAG BICRO, 2022.

89 applications are currently being reviewed, totalling EUR 3.6 million.

The main reasons for rejection of the loans by HAMAG BICRO were:

- unacceptable financial position (loss-making businesses);
- unacceptable investment structure (working capital greater than 30% of the loan);
- outstanding liabilities to the state (the final recipient or related parties have a debt based on public benefits);
- non-transparent business and bookkeeping;
- negative project cash flows;
- irregular repayment of existing debts;
- funding of activities that do not comply with the RDP (investments financed from the National Assistance Program wine sector or investments financed from the National Beekeeping Program).

As at September 2021, most of the loans were for RDP measure M4.1 'Support for investments in agricultural holdings', with 94% for the purchase of equipment, machinery and investments in primary agriculture under operation 4.1.1. Most of the recipients were family farms. The distribution of financial product per type of final recipient as at September 2021 is presented in Table 7.

44 According to the Exchange rate of the Croatian National Bank on 31 January 2022: https://www.hnb.hr/temeljne-funkcije/monetarna-politika/tecajna-lista/tecajna-lista.

Table 7: Distribution of financial product for rural development per type of final recipient

Organisational form	Micro loans	Small loans
Family farm	288	650
Craft	41	87
Limited/simple company	38	53
Cooperative	3	4
TOTAL	370	794

Source: MIN AGRIC, January 2022.

By 31 January 2022, five loans for investments in rural development had been repaid.

The micro and small loan instrument is useful to promote the financial inclusion of small businesses. There has been a swift and significant take-up of the instrument, which appears to confirm substantial, previously unmet investment needs for agricultural, processing and forestry small businesses.[45]

45 fi-compass, 2020, Financial needs in the agriculture and agro-food sectors in Croatia, Country report, available at: https://www.fi-compass.eu/publication/publications/financial-needs-agriculture-and-agri-food-sectors-croatia.

Borovnice Ltd.

Borovnice Ltd. is a family owned blueberry plantation blueberries in Šenkovec municipality, near Čakovec. It was founded in 1998 as the 'Blueberry Ranch' family farm with only 0.8 hectares, but today it has some 6 hectares with about 12 500 American blueberry bushes of 15 varieties. In 2009 the family farm had to register as a limited company according to tax regulations due to its size. Therefore, in 2009 Borovnice Ltd. was founded.

In 2018 Borovnice Ltd. had a production bottleneck as too many blueberries were harvested and there was not enough time to pack them. American blueberries do not ripen, at the same time like most fruits, but come to fruition gradually. The early and late varieties ripen from the end of June to the middle of September, so the time needed to procure blueberry packaging machinery was vital.

At the Croatian Chamber of Commerce workshop, Borovnice Ltd. learned about the possibility of using financial instruments. During the process of investigating the best options, loans from HAMAG BICRO and commercial banks were compared and HAMAG BICRO was chosen due to much better conditions, especially the interest rate and collateral.

The first contact was by e-mail and the communication between the recipient and HAMAG BICRO was fast and professional. Under the financial instrument, Borovnice Ltd. was granted a micro loan to buy the blueberry packing machine, increasing productivity and product quality. The conditions were a 1% interest rate, up to 5 years for repayment and the collateral was a promissory note of the borrower and owner of the company, as well as a pledge of the property. The application was made without the help of external experts due to the simplicity of the financial instrument and because the process was supported by HAMAG BICRO. Reporting included the duty to inform HAMAG BICRO when the funds were used, with related statements to verify the funds were spent in accordance with the business plan.

The total investment was approximately EUR 23 000. Once the packaging machine was procured, 17.5 tons of blueberries were packed that season. The machine contributed to increased productivity. Furthermore, the machine, in addition to packing blueberries, also cleans and sorts them, so the final product is better quality.

In the future, Borovnice Ltd. plans to continue investing in the plantation with the reconstruction of solar panels and irrigation systems, as well as further mechanisation to facilitate work production and the quality of products.

6. Lessons learned

With no previous experience with EAFRD financial instruments, conducting the ex-ante assessment was challenging for the managing authority. The challenges were primarily administrative, such as ensuring compliance with public procurement and State aid rules and adapting to agricultural specifics in Croatia. A major challenge was the huge amount of preparatory work required within a limited time. However, efforts from all stakeholders intensified the process and the results met the initial expectations of the managing authority to use the ex-ante as a solid basis when deciding on the design and set-up of the financial instrument.

The main challenge in selecting the implementing body was to understand the regulatory options, as well as the requirements in the CPR and CDR. However, an efficient organisational structure and the implementing body's previous experience with similar instruments was a good starting point for setting up and launching the financial instrument. Harmonising implementation with RDP conditions without burdening final recipients administratively was the main challenge for HAMAG BICRO.

The financial instrument brought added value to the RDP allowing final recipients to get faster access to the funds. The eligibility conditions are considered to be more flexible compared to a grant or loan from a commercial bank.

In the programming period 2021-2027, the managing authority is considering continuing with the micro and small loans for rural development with the same characteristics. Final recipients are satisfied as they currently have the most favourable conditions on the market. Even though interest in the financial instrument is high, it could be increased by additionally reducing administration and simplifying the application system.

The new legal framework for shared management financial instruments in the CPR for the 2021-2027 programming period makes it easier to combine financial instrument and grant support in one operation. This could allow the managing authority and the paying agency to develop tools that can further improve the effectiveness of the financial instrument.

The micro and small loans for rural development financial instrument in Croatia contributed to development of the 3 sectors in areas where the level of investment has often been suboptimal. Access to finance is often difficult for companies in the agriculture and forestry sector. However, some projects are more attractive for investment due to the availability of this financial instrument.

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