

General Eligibility Criteria

General Eligibility Criteria define the general characteristics, restrictions and special features that apply to lending for projects/clients under the loan programmes: **Youth, Female and Start-Up Entrepreneurship; Private Sector Investment; Public Sector Investment; EU Projects; Working Capital; Pre-Export Finance; Financial Restructuring.**

Article 3 of the General Eligibility Criteria applies to all other HBOR's loan programmes and products as well.

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1. Borrowers

Depending on the loan programme, borrowers that are financed are **private sector entities** (crafts businesses, companies, family farms, sole traders, co-operatives and institutions in private or majority private ownership) and **public sector entities** (units of local or regional government (municipalities, cities and counties) as well as companies, institutions and agencies in their ownership or in their majority ownership or in the ownership or majority ownership of the Republic of Croatia).

Special types of borrowers are set forth in the loan programmes. When establishing the size of an entrepreneur, it is necessary to consider the provisions of the Small Business Development Promotion Act (Official Gazette of the Republic of Croatia, Nos. 29/2002, 63/2007, 53/2012, 56/2013, 121/2016).

Loans are extended to borrowers either directly or in cooperation with commercial banks.

2. Criteria for defining special borrowers, areas and activities of investment

2.1. Youth, female and start-up entrepreneurship

Young entrepreneurs – business entities that are more than 50 percent owned by at least one young person or by several young people jointly (up to 40 years of age at the moment of submitting a loan application).

Female entrepreneurs – business entities that are more than 50 percent owned by at least one female or by several females jointly and that are also managed by a female. In case of a company that is neither a micro company nor a small company, a female or several females jointly can hold less than 50 percent of ownership provided that at least one female holds a key management position related to financial and/or operating activities and/or strategy.

Start-up entrepreneurs – entrepreneurs who establish a business entity for the first time, or business entities in the sector of micro, small and medium-sized entrepreneurship that have been operating for less than 2 (two) years at the moment of submitting a loan application. Start-ups have not owned or jointly owned before and do not currently own or jointly own a stake of more than 30 percent in another business entity.

2.2. Market-competitive entities

Market competitiveness is assessed by applying and meeting all of the following criteria:

- (1) Operating income exceeds operating expenses in the previous year,
- (2) Current liquidity higher than 0.6 (short-term assets /short-term liabilities),
- (3) Long-term financial stability ratio lower than 1.2 (long-term assets against capital, reserves and long-term liabilities),
- (4) Reduced currency-induced credit risk (at least 5% of operating income generated in foreign or international markets or at least 5% of foreign tourist overnight stays in total overnight stays in the previous business year).

As an exception, borrowers renting beds or offering accommodation services to guests may, alternatively, instead of the criteria referred to in lines (2) and (3), use the criterion of a 30% minimum share of capital, reserves and retained profits on the liabilities side of the balance sheet. If the borrower generates income/revenues of less than 5% of operating income/revenues in foreign or international markets, and he/she is a member of the group that generates more than 5% of operating income/revenues in foreign or international markets, as documented in the consolidated financial statements of the group, the criterion of reduced currency-induced credit risk will be considered fulfilled.

The documents for establishing the above criteria are the financial statements of entrepreneurs for the previous business year (balance sheet and profit or loss account, and for crafts businesses: income tax return, certified by competent persons) and for borrowers from the tourist industry: statistical data on tourist arrivals and overnight stays for the previous year as well.

As an exception, for borrowers whose financial statements do not meet the criterion referred to in indent 4 of this paragraph (reduced currency-induced credit risk), if the borrowers can demonstrate indirect income/revenues of at least 5% of operating income/revenues in foreign or international markets through intermediaries by presenting invoices on delivered goods and by presenting a statement of intermediaries certified by a notary public under material and criminal liability certifying that the borrowers' finished goods have been delivered to the foreign or international market in unaltered form, the criterion of reduced currency-induced credit risk will be considered fulfilled.

2.3. Special areas of the Republic of Croatia

Special State Concern Areas – pursuant to the Act on Areas of Special State Concern (Official Gazette of the Republic of Croatia, Nos. 86/2008, 57/2011, 51/2013, 148/2013, 76/2014, 147/2014, 18/2015, 106/2018).

Supported Areas – units of local government classified into groups I, II, III and IV pursuant to the Act on Regional Development of the Republic of Croatia (Official Gazette of the Republic of Croatia, Nos. 147/2014, 123/2017) and the Decision on Classification of Local or Regional Government Units on the Basis of the Level of Development (Official Gazette of the Republic of Croatia, No. 132/2017).

Hill or Mountain Areas – pursuant to the Act on Hill or Mountain Areas (Official Gazette of the Republic of Croatia, Nos. 12/2002, 32/2002, 117/2003, 42/2005, 90/2005, 80/2008, 148/2013, 147/2014) and the Decision on the Coverage and Classification of Local Government Units Gaining the Status of Hill or Mountain Area (Official Gazette of the Republic of Croatia, No. 24/2019).

The Islands – pursuant to the Islands Act (Official Gazette of the Republic of Croatia, No. 116/2018).

2.4. Activities of special interest and special investment areas

2.4.1. Activities of special interest

Investments in activities of special interest are broken down in the following table by sections, divisions and/or classes of the National Classification of Activities (hereinafter: NKD). Under the mentioned sections, divisions and/or classes, there are activities that are not of special interest and/or are activities and purposes not eligible for financing. Such activities are listed in the table under Exemptions.

Activities of special interest	Exemptions
01 – Crop and animal production from 01.11 to 01.50 except for 01.15 03 – Fishing	01.15 Growing of tobacco
Processing industry (Section C) All divisions and classes except for the stated exemptions	11 – Manufacture of beverages from 11.01 to 11.06 12 – Manufacture of tobacco products 18 – Printing and reproduction of recorded media only in case of loan applicants engaged in or being related in terms of ownership with business entities engaged in publishing of newspapers and other periodicals, radio and television programme activities and broadcasting, news

	agency activities and service activities of advertising and public relations agencies
62 – Computer programming, consultancy and related services	-

2.4.2. Industry 4.0 and investment in digitalisation

Industry 4.0 – production processes based on the latest technology and covered by devices for mutual autonomous communication; artificial intelligence controlled machines that can independently exchange information; application of smart factory models in which robotic machines control and monitor physical processes; production system that can independently exchange information during production process and knows at what stage the output product is at any time.¹

Investment in digitalisation (digital transformation) – introduction of digital technologies in all areas of business and their full integration as well as education of employees and users. It includes investment in digital infrastructure, digital transformation of enterprise, research in the field of digital technologies and support to the social economy to make use of the benefits of digital transformation.

It can include digital marketing, digitalisation and automation of business processes, digital procurement, digitalisation of sales representatives, change of all forms of business and processes in which employees of an organisation interact with its customers and the like.²

Investments in all activities are included in the area of investment in Industry 4.0 and digitalisation if they have the stated characteristics and if they are not excluded by these General Eligibility Criteria. The activities from the following NKD section are automatically included: 62 Computer programming, consultancy and related activities.

2.4.3. Research, development and innovation - RDI³

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

Investments in all activities may be included in the area of investment in research, development and innovation if they have the stated characteristics and if they are not excluded by these General Eligibility Criteria.

2.4.4. Social infrastructure and/or investment aimed at reducing negative demographic trends

Projects of local government units or of companies that are majority owned by them or majority owned by the Republic of Croatia and projects of other applicants aimed at improving social, educational, health, communal

¹ The main features of Industry 4.0: **Interoperability**: systems that connect cybernetic and physical production systems consisting of work-piece carriers, assembly stations and production itself. They allow humans and smart machines to connect and communicate with each other. **Virtualisation**: a virtual copy of the smart factory is created by linking sensor data with virtual plant models and simulation models. **Decentralisation**: ability of cyber-physical systems to make decisions of their own and to produce locally, thanks to technologies such as 3D modelling and printing. **Real-time capability**: the capability to collect and analyse data and provide the derived insights immediately. **Service orientation**: services that are enabled by automated drive and that reach users efficiently. **Modularity**: flexible adaptation of smart factories to changing requirements by replacing or expanding individual modules. Source: European Parliament, 2016.

² Source: European Commission https://ec.europa.eu/croatia/what_is_digital_transformation_changing_hr

³ RDI Research, Development and Innovation

infrastructure and transport connections in urban and rural areas. It is estimated that the implementation of the project contributes to increasing the standards of communal and social services in the local community and/or to reducing the negative demographic trends.

Investments in all activities are included in the area of investment in social Infrastructure and/or projects aimed at reducing negative demographic trends if they have the stated characteristics and if they are not excluded by these General Eligibility Criteria. The activities from the following NKD sections are automatically included if they are not excluded by these General Eligibility Criteria: 85 Education, 86 Human health activities; 87 Residential care activities; 88 Social work activities without accommodation.

3. Bans and restrictions on finance

3.1. Activities and purposes that are not eligible for finance

- a) Casinos, gambling premises and similar activities;
- b) Growing of tobacco and manufacture of tobacco products; wholesale and retail sale of tobacco products;
- c) Activities involving animals for experimental and scientific purposes;
- d) Activities which have adverse environmental impacts that are not largely mitigated or compensated;
- e) Financial transactions (e.g. trading in securities or other financial products) including changes in ownership (e.g. mergers and acquisitions) as well as exclusively real estate activities;
- f) Investments or parts of investments that serve for personal purposes;
- g) Purchase of immovable or movable property from related entities;
- h) Investment in immovable property not owned by the borrower⁴;
- i) Capital investment in trade activities⁵;
- j) Investment in apartments, rooms or summer houses/villas to let⁶;
- k) Notarial activity;
- l) Publishing of newspapers or other periodicals, production and broadcasting of radio and television programmes, news agency activities, advertising and public relations agency activities;
- m) Refinancing of existing loans in case of capital investments;
- n) Family-run residential care homes in accordance with the Social Welfare Act;
- o) All bans and restrictions pursuant to the contracts between HBOR and relevant financial institutions

⁴ As an exception, it is eligible to invest in immovable property that is not owned by the borrower in the case of scattered or integrated hotels and/or in the case when the facility is located on the land plot that is used on the basis of a concession contract, or the contract on the right to construct, lease or rent, where the concession, lease or rent period may not be shorter than the loan repayment period.

⁵ As an exception, capital investment in trade activities is eligible:

- (i) in the areas of special state concern or supported areas – local government units classified into groups I, II, III or IV, or hill or mountain areas or the islands.
- (ii) for the purpose of recovery from the consequences of the earthquake and for economic development in the area of Sisak-Moslavina County as well as for recovery from the consequences of the earthquake in the area of Zagreb and Karlovac Counties
- (iii) in the case of a loan under framework loan contract with a commercial bank or leasing company.

⁶ Applies to apartments, rooms and summer houses/villas to let pursuant to the Ordinance on Classification and Categorization of Catering Facilities in the group Other Accommodation Facilities.

As an exception, investment in apartments, rooms or summer houses/villas to let is eligible:

- (i) in the areas of special state concern or supported areas – local government units classified into groups I, II, III or IV, or hill or mountain areas or the islands classified into group I;
- (ii) in the case of traditional buildings (individual buildings that are protected as cultural goods, buildings located in settlement zones that are protected as cultural goods or are located in contact zones of protected zones, and all other individual buildings that are being built/reconstructed in accordance with the special conditions of the conservator regarding traditional construction, where the term conservator is considered to be the Conservation Department of the Ministry of Culture or another public legal body responsible for the protection of cultural property).

For tourist apartments pursuant to the Ordinance on Classification and Categorization and special standards for catering facilities in the group Hotels, there are no restrictions on lending.

if such contracts apply in the respective cases.

3.2. Restrictions on finance of business entities whose ownership interests are held by public officials and their family members

Pursuant to the Conflict of Interest Prevention Act (Official Gazette of the Republic of Croatia, Nos. 26/2011, 12/2012, 126/2012, 57/2015) and all subsequent amendments to the Act, restrictions are in force on lending to business entities whose ownership interests are owned by public officials and their family members.

HBOR **may not** consider the possibility of approving loans based on the applications of:

- Companies (and other business entities) in whose ownership structure are public officials performing a duty in HBOR, and having 0.5% or more shares or ownership interests, including those business entities in which the officials transferred their management rights based on the interest in the company's capital to another person or a separate body;
- Business entities in which a family member of a public official performing a duty in HBOR has 0.5% or more ownership interests (in case when the official's family member has in any possible way, either directly or indirectly, acquired the respective interest or shares from the public official in the period of two years before having been appointed or selected to perform this duty until the termination of the duty).

HBOR **may** consider the possibility of approving loans based on the applications of:

- Companies (and other business entities) in whose ownership structure are public officials having 0.5% or more shares or ownership interests, including those business entities in which the officials transferred their management rights based on the interest in the company's capital to another person or a separate body.
The company is obliged to inform the Commission for Decision-Making on Conflict of Interest in due time of entering into a business relationship with HBOR;
- Business entities in which a family member of a public official performing a duty in HBOR has 0.5% or more ownership interests (not in case when the official's family member has in any possible way, either directly or indirectly, acquired the respective interest or shares from the public official in the period of two years before having been appointed or selected to perform this duty until the termination of the duty).
The official performing a duty in HBOR is obliged to inform the Commission for Decision-Making on Conflict of Interest and HBOR of this circumstance in due time.

In case of doubt whether any behaviour is in compliance with the public duty principles, public officials must request an opinion from the Commission for Decision-Making on Conflict of Interest.

Public officials are obliged to arrange their private businesses in the manner so as to prevent a predictable conflict of interest. Should any conflict of interest arise, public officials are obliged to resolve it.

Members of the public officials' family are their spouses or co-habitation partners, their relatives by blood in direct line, brothers, sisters, adoptive parents or adopted persons of the officials.

4. Promotional interest rates and aid regulations

Pursuant to its loan programmes, HBOR approves loans at promotional interest rate or at general interest rate if the loan cannot be approved at promotional interest rate.

General interest rate is the reference interest rate⁷ that may be increased depending on HBOR's sources of funding and developments in the financial market as well as depending on the measures for the management of assets and liabilities for the purpose of capital protection.

Promotional interest rate is the effective interest rate⁸ that is lower than the reference interest rate. If the loan is approved/contracted at promotional interest rate, HBOR awards aid to the borrower.

Aid is the difference between the reference and promotional interest rate on certain loan during the entire lifetime of the loan and is calculated as discounted amount of the difference between these two interest rates for certain loan. The possibility of awarding aid depends on HBOR loan programme, on the reference interest rate level and the borrower's opportunities of exercising right to the award of aid pursuant to the valid state aid and de minimis aid regulations in force (including the borrower's type of investment and activities and its aids utilised so far).

Type of investment and support – investments in fixed assets (tangible and intangible assets) are generally financed in accordance with the state aid regulations, and financing is possible also in accordance with de minimis aid regulations, whereas investments in working capital can be financed in accordance with de minimis aid regulations exclusively.

Type of activity and aid regulations⁹

For industry and services sector as well as for the processing and marketing of agricultural products, aid is awarded pursuant to HBOR's State Aid Ordinance as follows:

- HBOR's State Aid Scheme used to approve aid for investments in accordance with the Commission Regulation (EU) No. 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (OJ L 187 of 26.6.2014) and/or
- HBOR's De Minimis Aid Scheme used to award de minimis aid in accordance with the 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.

For primary agricultural productions sector, aid is awarded pursuant to HBOR's Ordinance on State Aid to the Agricultural Sector as follows:

- State Aid Scheme for the Agricultural Sector used to approve aid for investments in accordance with the Commission Regulation (EU) No. 702/2014 of 25 June 2014 declaring certain categories of aid in the agricultural and forestry sectors and in rural areas compatible with the internal market in application of Articles 107 and 108 of the Treaty on the Functioning of the European Union (OJ L 193 of 1.7.2014) and/or
- De Minimis Aid Scheme in Favour of Primary Agricultural Production in line with the Commission Regulation (EU) No. 1408/2013 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 in the agricultural sector (OJ L 352 of 24.12.2013).

⁷ HBOR's rules for the setting of reference and discount rates are determined in accordance with the rules of the European Commission in force, i.e. the Communication from the Commission on the revision of the method for setting the reference and discount rates (OJ C 14, 19.1.2008).

Reference interest rate is the base rate (calculated and published by the European Commission) increased by a certain number of basis points (margin), depending on the assessment of the client (credit rating) and the assessment of collateral, in accordance with the Communication from the European Commission.

Discount interest rate is the base rate (calculated and published by the European Commission) increased by 100 basis points.

⁸ **Effective interest rate** (EIR) is the interest rate presenting the total loan costs in accordance with the Croatian National Bank's Decision on Effective Interest Rates in force.

⁹ Aid ordinances and schemes are available at: <https://www.hbor.hr/naslovnica/hbor/pravilnici-akti/>.

4.1. State aid and promotional effect¹⁰

Lending under the state aid regime is possible in cases where aid has a promotional effect, which means that the borrower (aid beneficiary) has to submit to HBOR or to the commercial bank a written application for aid contained in HBOR's loan prior to the start of works¹¹ on the project or the activity.

Only those costs arising after the submission of a written application for aid can be recognised as justified costs of a planned project.

In the case of direct lending, **information on the intended investment**¹² submitted to HBOR in the period of up to 6 (six) months before the submission of a loan application is considered to be a written application for aid.

If more than 6 (six) months have elapsed between the submission of information on the intended investment and the submission of a loan application or if the information on the intended investment has not been submitted at all, the **loan application** accompanied by documentation required for the application processing shall be considered a written application for aid.

In the case of lending in cooperation with commercial banks, the **entrepreneur's application for a loan** accompanied by documentation required for the loan processing in accordance with the commercial bank's rules, submitted to the commercial bank in the period of not more than 6 (six) months before the commercial bank submits the loan application to HBOR is considered to be a written application for aid.

If more than 6 (six) months have elapsed between the submission of entrepreneur's application for a loan and the submission of the loan application to HBOR by the commercial bank, the **loan application submitted by the commercial bank** co-signed by entrepreneur shall be considered a written application for aid.

4.2. Special programmes in terms of the application of aid rules

4.2.1. EU projects

In case of candidate projects for co-financing from proceeds of the European Structural and Investment Funds (hereinafter: ESI funds), HBOR loan is generally granted at general interest rate, since public support for the financing of the same eligible costs can be cumulated to the maximum allowed intensity under the call for submission of project proposals to be submitted by the EU funds implementing entity, and is generally allocated to borrowers.

As an exception, granting of HBOR loan at promotional interest rate for a part of the project that will be nominated for ESI funds is allowed only if it is not forbidden by the call for submission of project proposals by the EU funds implementing entity to cumulate the aid awarded through an ESI fund instrument with other aid instruments (including the aid from national sources of member countries) with respect to the same justified costs, and if the maximum allowed intensity of aid has not been cumulatively awarded to the borrower from the EU funds and other sources.

In the event that the respective ban on cumulation of the aid awarded with respect of the same justified costs has been prescribed, as well as in case of the award of the maximum allowed intensity of aid from the ESI funds and/or other sources, financing at promotional interest rate is allowed exclusively for justified costs

¹⁰ State aid and promotional effect are applied to the programmes that enable investments in fixed assets.

¹¹ Start of works means either the start of construction works relating to the investment or the first legally binding commitment to order equipment or any other commitment that makes the investment irreversible, whichever comes first, excluding preparatory works (buying land and preparatory works such as obtaining permits and conducting feasibility studies are not considered to be the start of works). In case of take-overs, start of works means the moment of acquiring the assets directly linked to the acquired establishment.

¹² Forms for information on intended investment and loan application have been published on HBOR's websites or can be obtained from HBOR at request.

forming part of the project, which, in accordance with the terms of the call for submission of project proposals and/or other documentation are not eligible for financing through ESI funds.

4.2.2. Public sector investments

In case of financing infrastructure that is not intended for commercial use, state aid regulations are generally not applied, i.e. it is allowed to approve a loan at promotional interest rate, regardless of whether the conditions from the relevant state aid regulations have been met. This relates, for example, to general infrastructure such as public roads, bridges and canals that are made available to the public without receipt of tolls, as well as to the infrastructure intended for activities usually performed by the state in the execution of its public authority.

In case of borrowers that may be classified as entrepreneurs in terms of the state aid regulations¹³, loan can be approved at promotional interest rate, i.e. in the state aid and/or de minimis aid regime, depending on the purpose of infrastructure/project to be financed, i.e. whether or not and to what extent the project is intended for economic exploitation, which has to be evaluated by taking into account all the circumstances of an individual investment.

If the purpose of an investment is an economic activity (entrepreneur in terms of aid regulations), and if the borrower does not qualify for the award of state aid and/or de minimis aid, the loan can be approved at general interest rate.

4.2.3. Financial restructuring

Financing at promotional interest rate is possible exclusively pursuant to the criteria from the Guidelines on State Aid for Rescuing and Restructuring Non-Financial Undertakings in Difficulty (OJ C 249, of 31.7.2014) and de minimis aid regulations.

Financing of companies in difficulty in terms of item 20 of the mentioned Guidelines is implemented exclusively in accordance with the provisions of the State Aid Act (Narodne novine, Official Gazette of the Republic of Croatia Nos. 47/14, 69/17) and its subsequent amendments, i.e. with obligatory prior notification of the aid for rescuing and/or the aid for restructuring to the European Commission/the Ministry of Finance for assessment and subject to all the criteria of the mentioned Guidelines.

In case of a direct lending to borrowers secured by a guarantee of the Republic of Croatia or a guarantee of a commercial bank acceptable for HBOR, generally in the amount of at least 80% of unrepaid amount of the principal, interest and other expenses relating to the loan, HBOR can finance business entities even when they are in difficulty, i.e. when they fulfil one of the criteria referred to in item 20 of the Guidelines on State Aid for Rescuing and Restructuring Non-Financial Undertakings in Difficulty (OJ C 249, of 31.7.2014)

<https://eur-lex.europa.eu/legal-content/HR/TXT/PDF/?uri=OJ:C:2014:249:FULL&from=HR>.

4.3. Exemptions

Financing at promotional interest rate is not possible:

- In case of programmes for export financing (Pre-Export Finance, Buyer Credit, Supplier Credit) since the state aid regulations exclude exclusively the possibility of awarding aid for export-oriented activities to third countries or member countries, or aid connected directly with exported quantities, with the establishment and functioning of distribution network or with other current expenses related to the export activity;

¹³ Entrepreneur is any entity active in an economic activity, regardless of its legal form. This includes, particularly, self-employed persons and family entrepreneurs that are active in crafts businesses or other business activities, partnerships or associations regularly engaged in an economic activity.

- In the fisheries and aquaculture sector, including the activities of producing, processing and marketing of fisheries and aquaculture products.

5. Others

Applicants are not automatically entitled to obtain a loan. HBOR makes a decision on each individual application.