



State of play - Financial Instruments in Croatia

24/11/2015, Zagreb



Indicative potential use of FIs

Operational Programme Competitiveness and Cohesion 2014-2020

1 - Strengthening research, technological development and innovation	1b	1b1 - Increased development of new products and services resulted from R&D activities 1b2 - RDI activities of business sector increased through creation of favorable innovation environment
2 - Enhancing access to, and use and quality of, information and communication technologies	2a	2a1 - Development of NGN broadband infrastructure in areas without sufficient commercial interest for investments in NGN broadband infrastructure, for maximum increase of social and economic benefits
3 - Business Competitiveness	3a	3a1 - Better access to finance for SMEs
4 - Supporting the shift towards a low-carbon economy in all sectors	4b	4b1 - Increasing energy efficiency and use of RES in manufacturing industries
		4b2 - Increasing energy efficiency and use of RES in private service sector (tourism and trade)
	4c	4c1 - Reduction of energy consumption of the public sector buildings
		4c2 - Reduction of energy consumption of the residential buildings (multi apartment buildings and family houses)
7 - Promoting sustainable transport and removing bottlenecks in key network infrastructures	7ii	7ii2 - To increase the number of transported passengers in urban public transport



Indicative potential use of FIs Operational Efficient Human Resources 2014-2020

08 - Promoting sustainable and quality employment and supporting labour mobility	8i - Access to employment for job seekers and inactive people, including the long term unemployed and people far from the labour market, also through local employment initiatives and support for labour mobility
09 - Promoting social inclusion, combating poverty and any discrimination	9v - Promoting social entrepreneurship and vocational integration in social enterprises and the social and solidarity economy in order to facilitate access to employment



Indicative possibility of using FIs Operational Programme Competitiveness and Cohesion 2014-2020

Ex-ante assessments

1. Ex-ante assessment for Financial Instruments for Business Competitiveness, Employment and Social Enterprise
2. Assessing the potential future use of Financial Instruments in Energy Efficiency, Sustainable Urban Development and RDI



Indicative possibility of using FIs Operational Programme Competitiveness and Cohesion 2014-2020

**Ex-ante assessment for Financial Instruments for Business
Competitiveness, Employment and Social Enterprise**



Main findings and recommendations

- High level of uncertainty in regard to economic outlook and financial position of enterprises resulting in the negative effect on the availability of finance, especially for SMEs, as banks are highly risk averse
- Highly leveraged companies with low profitability and insufficient collateral cannot access finance and are not able to invest even if there are investment opportunities
- Capital markets are underdeveloped and businesses feature poor financial performance, compromising investments in venture capital vehicles
- Due to high overleveraging companies need working capital more pronouncedly than elsewhere in the EU
- With severely low levels of employment opportunities there is lack of financial sources that could stimulate self-employment opportunities.



Main findings and recommendations

- The most immediate investment needs (financing gap) are between €308 million and €542 million, including long- and short-term financial needs. Due to weak financial position of businesses these needs can be addressed by supporting lending to enterprises and provision of grants
- Equity gap is estimated at between €22 million and €53 million
- The amount set aside for FI's within TO3 of the OPCC 2014-2020 is deemed to be sufficient to address basic needs of Croatian SMEs at this juncture. Higher allocations can cause implementation and absorption constraints due to brand new implementation modalities of some FI's

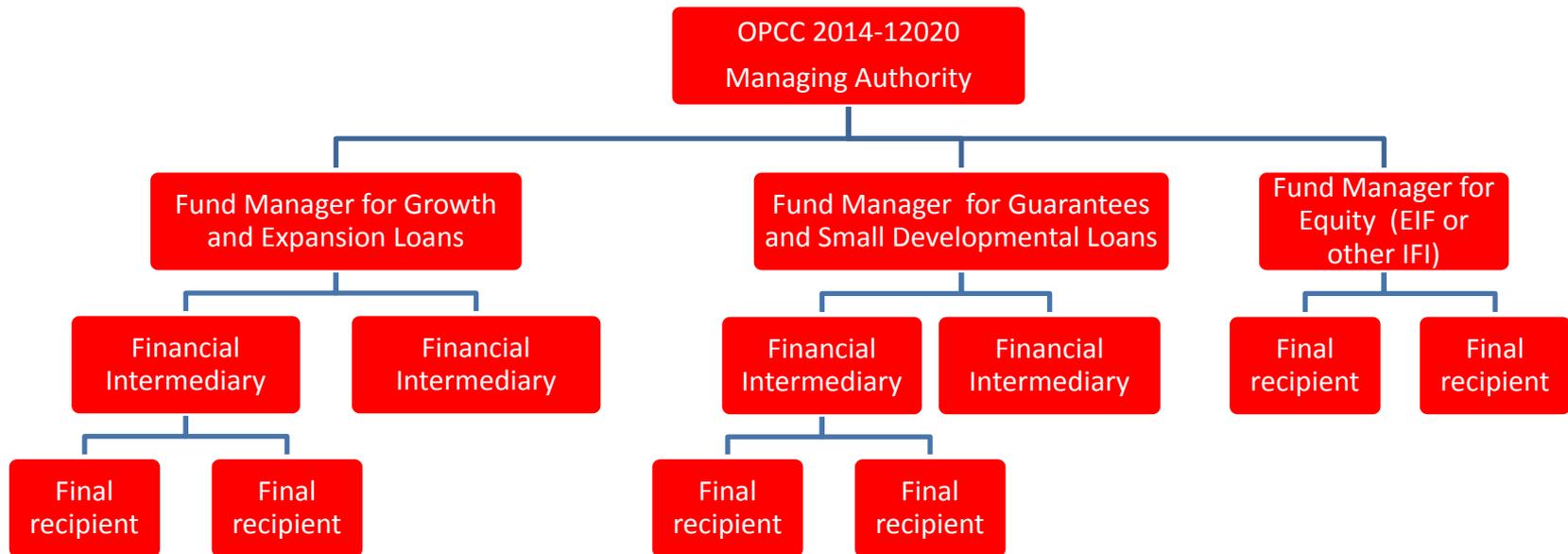


Indicative Financial Instruments

- Long-term loans for firms in growth and expansion phase
- Developmental small loans (including micro loans) with combination of investment finance and working capital finance or working capital loan
- Loan guarantees between micro-lending and long-term loans
- Equity finance: venture capital for investments targeting amounts higher than other FIs offered and realized primarily in sectors with high growth potential
- Optional/alternative: e.g. subordinated loans or hybrid finance for growth and expansion or projects associated with technology transfer
- Micro start-up loans to set-up a business by unemployed individuals
- Optional: loans for social enterprises



Proposed Implementation Mechanism





Indicative possibility of using FIs Operational Programme Competitiveness and Cohesion 2014-2020

Assessing the potential future use of financial instruments in Energy Efficiency, Sustainable Urban Development and RDI



Introduction

The study focused on following investment areas:

- Promoting EE and the use of RES in (i) buildings - private and public, residential and non-residential; (ii) the improvement of industrial production processes
- Promoting sustainable urban and territorial development through infrastructure, renewal and regeneration schemes, sustainable urban transport, and other urban investments
- Promoting private-sector investment in RDI in support of an innovative and competitive business and research environment



Energy Efficiency and the use of renewable energies in

(i) buildings - private and public, residential and non-residential

- Total energy consumption in Croatia has decreased over the recent years (e.g. 4.7% lower in 2012 than in 2011, and 12.6% lower than in 2007), average energy consumption per household (kWh/m²) is higher than in the neighboring EU countries
- For public sector buildings, approx. EUR 504 million would have to be invested to achieve a reduction of approx. 262.50 million kWh (foreseen by the NEEAP)
- For private buildings, approx. EUR 1.10 billion would have to be invested to meet the 2020 III NEEAP target
- a pipeline of projects for approx. EUR 46.5 million, most of them (c. EUR 40.5 million) requiring medium-term investments



Energy Efficiency and the use of renewable energies in (ii) the improvement of industrial production processes

- The industrial sector accounts for approx. 17% of the final energy consumption in Croatia
- Investments to improve industrial production processes could be in the range EUR 300-700 million over 2016-2022
- A combination of low profitability, low attractiveness of bank loans, and limited own resources have resulted in companies being largely unwilling to implement EE improvements in their production processes
- As EE investments are not the core budgeting priority for many companies, there are no sufficiently-developed projects or long-term project portfolios



Energy Efficiency and the use of renewable energies in (iii) public lighting

- Public lighting consumes 446.33 GWh of electricity, which is approximately 3% of the total final electricity consumption in Croatia
- It is expected that measures to be implemented in public lighting under the III NEEAP could produce savings of up to 60 GWh/year
- Approximately EUR 59 million would have to be invested to achieve the 2020 EE targets set by the III NEEAP
- The stakeholder consultation for this study helped identify a list of projects worth EUR 1 million



Energy Efficiency and the use of renewable energies

- Loans (medium and long-term) to facilitate medium and long-term financing on attractive terms (soft loans), thus supporting financial feasibility of projects
- Equity for ESCOs to improve their credit rating and help with commercial financing, allowing for larger-scale investments



Sustainable Urban and Territorial Development – Urban mobility

- Potential demand for investment in urban development for the 2014-2020 period, which even under cautious assumptions is likely to be at least in the EUR 100-200 million range.
- List of urban mobility projects valued at approx. EUR 80 million, with most of them (approx. EUR 59 million) requiring investment support in short to medium term

Conclusions:

- SUD projects in public transport should be supported through grant funding where appropriate, before the suitability of financial instruments could be confirmed and instruments designed in a way attractive to final recipients
- No sufficient evidence to justify the immediate introduction of financial instruments in SUD



Private-sector investment in RDI to support an innovative and competitive business and research environment

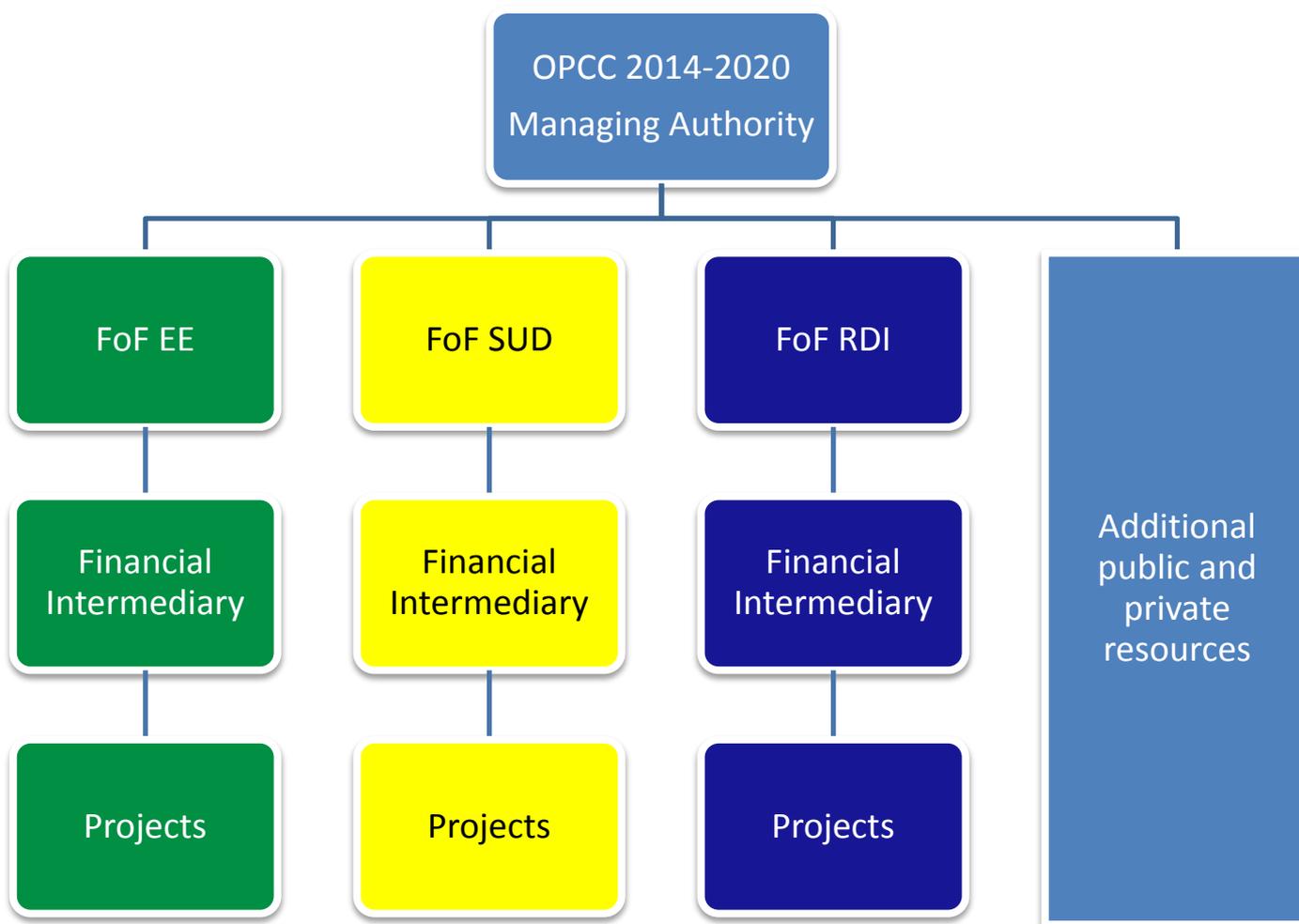
- The overall investment in RDI (0.75% of GDP) is significantly below the EU average (2.02% of GDP), below the national target (1.4% of GDP), and well below the target of 3% of GDP set out in the Europe 2020 strategy
- investments between EUR 634 million and 1.90 billion would be needed over 2014-2022 to meet the OPCC target and, consequently, to raise the overall investment in RDI to 1.4% of GDP by 2020

Conclusions:

- RDI projects would benefit from a robust dose of grant support, where appropriate and whilst the use of FIs consolidates enough to allow stakeholders to progress on their learning curve
- The scope to employ FIs in the RDI investment area exists for a niche market which can only address a part of the investment gap, with a focus on a limited range of sophisticated beneficiaries and likely to take a certain time to deliver effective results



Proposed Implementation Mechanism





Initial financial instruments to be offered: indicatively

TO	IP	SO	FI	ESIF
3	3a	3a1	Small developmental loans	
			Guarantees	
			IR subsidies on guaranteed loans	
			Growth and expansion loans	
			IR subsidies for growth and expansion loans	
TOTAL TO 3			215.000.000	
4	4b	4b1	MT/LT Soft loans	
		4b2	Equity for ESCOs	
	4c	4c1	Grant in the form of TA	
		4c4		
TOTAL TO 4			80.000.000	
TOTAL FI			295.000.000	



Thank you

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