

INTEGRATED SAFEGUARDS DATA SHEET CONCEPT STAGE

Report No.: ISDSC1104

Date ISDS Prepared/Updated: 09-Dec-2014

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I. BASIC INFORMATION

A. Basic Project Data

Country:	Croatia	Project ID:	P152130
Project Name:	Croatia Innovation & Entrepreneurship VC (P152130)		
Task Team Leader:	Paulo Guilherme Correa		
Estimated Appraisal Date:	23-Mar-2015	Estimated Board Date:	18-Jun-2015
Managing Unit:	GTCDR	Lending Instrument:	Investment Project Financing
Sector(s):	General industry and trade sector (60%), Other non-bank financial intermediaries (40%)		
Theme(s):	Other Private Sector Development (60%), Other Financial Sector Development (40%)		
Financing (In USD Million)			
Total Project Cost:	20.00	Total Bank Financing:	20.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			0.00
International Bank for Reconstruction and Development			20.00
Total			20.00
Environmental Category:	F - Financial Intermediary Assessment		
Is this a Repeater project?	No		

B. Project Objectives

24. The project objective is to help foster innovation, entrepreneurship, and private sector growth by increasing the supply of risk capital financing for young knowledge intensive SMEs (including start-ups).

C. Project Description

1. The €20 million operation will be implemented over ten years and will have three components: a) a pilot venture capital fund ; b) a seed co-investment fund; c) technical assistance. The proposed program follows up from the STP and STP II programs by assisting the government to close the risk capital financing gap for young knowledge intensive SMEs. It will do this by three means. It will contribute to creating a venture capital segment interested in financing knowledge-based, innovative SMEs; it will contribute to generate deal flow from such firms; and it will increase the Croatian government's ability to spend European Structural and Investment funds on supporting young, knowledge intensive SMEs including startups going forward.

2. HAMAG-BICRO will be the implementing agency for the project management, financial management and the procurement of the overall program. HAMAG-BICRO is an independent agency founded by the Republic of Croatia under the Ministry of Entrepreneurship and Crafts. The Ministry of Entrepreneurship and Crafts will appoint a Project Implementation Team (PIU), which would consist of HAMAG-BICRO's experts and consultants for specific functions. The entity BICRO - which was recently merged with HAMAG as part of the current agency - has experience in the implementation of past and current World Bank Science and Technology Projects (STP and STPII).

3. A brief description of the three components is presented below. Funding allocation for each component is indicative at this stage.

4. Component 1 (€14.5 million): The venture capital fund will be a pilot that takes the first steps towards establishing a venture capital industry in Croatia. It is envisaged that it will be initially a €29 million fund with €14.5 million from the loan (through HAMAG-BICRO) and up to a further €14.5 million to be raised from private sources (which might include pension funds, and IFIs). The fund will be privately managed by a firm to be selected by tender; the selected firm will be responsible for raising the additional €14.5 million from the private sector. The mandate of the venture capital fund will be to invest in young, knowledge-intensive SMEs. The fund managers will seek projects with the potential to earn standard returns typically sought by venture capital funds. Initial investments are expected to be in the range of €100,000-€1.5 million.

5. Component 2 (€2.5 million): The establishment of a seed co-investment fund is envisaged in order to strengthen the early stage (seed) investing industry in Croatia. The fund will be €2.5 million (from the loan) and will be managed by HAMAG-BICRO. It will co-invest (in a pari-pasu basis) alongside pre approved investors (as angel syndicates, venture capital funds, accelerators and incubators). The fund's mandate is to invest in young, knowledge-intensive SMEs. Investments made by the fund are expected to range from €30k to €100k.

6. Both Component 1 and Component 2 aim at providing risk capital financing to knowledge intensive SMEs (including startups). The firms are expected to be less than ten years old and relatively small (less than 50 employees). For both funds, no attempt will be made at establishing priorities in terms of sectors. However, given the type of finance the funds will provide, the firms are expected to operate in sectors such as, for example, information communication technology (ICT), life sciences, medical and health related fields, and biotechnology. They are expected to invest in non-tangible assets. Both funds will not invest in certain sectors, which will be determined subsequently. This negative list will follow World Bank Group Safeguards practices and, drawing on international best practices as well as ICF guidelines. To ensure that investments occur in knowledge intensive firms the list may include activities such as hospitality, retail and real estate. The fund will

also not invest in deals where there is a conflict of interest between the investees and investors. The venture capital fund will be expected to be in compliance with the Equator Principles and not invest in projects on the IFC's exclusion list as well as the additional restrictions the IFC applies to Financial Intermediaries (FI).

7. Component 3. Technical Assistance (€ 3 million): This component would be established to assist in the creation and operation of the program. The funds would provide for: (i) Payment of the venture capital firm management fees; (ii) Advisory Board staffed with international experts to provide guidance and support to HAMAG-BICRO's staff on the implementation of the program; (iii) Capacity building for investors, entrepreneurs and universities; (iv) M&E system to ensure accountability in the use of government's money, and provide guidance on how the program can be improved; (v) Other: this could include assistance with technical due diligence and studies on targeted regulatory and policy reforms.

D. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

8. The project will be implemented countrywide.

E. Borrowers Institutional Capacity for Safeguard Policies

9. HAMAG BICRO has previous experience in implementing WB projects more specifically they have experience in implementing WB safeguards policies through the First and Second Science and Technology Project. Furthermore, some members already participated in the WB organized Safeguards Training in Belgrade 2011.

F. Environmental and Social Safeguards Specialists on the Team

Natasa Vetma (GENDR)

II. SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	TBD	<p>The Environmental Management Framework will be prepared for the project prior to appraisal and will define environmental procedures and due diligence for the project as a whole. The EMF will be built on existing Croatian Science and Technology Project II which has the same implementing agency.</p> <p>For Component 1 Pilot Venture Capital Fund and Component 2 Co-investment fund, an EMF will be developed focusing on variety of environmental impacts that come from knowledge intense and life sciences based start-up companies. Sub-projects might range from low to high category B projects, implying possible preparation of various due diligence documents like: EIA, EMP, EMP checklist, for which criteria will be defined in EMF. Category A projects will be excluded, as well those listed on IBRD non-eligible project list. The EMF will as well deal with environmental and ethical risks posed by</p>

		some of the activities (like life science - biotech) supported by the Funds. The EMF will make sure that the implementation of the project complies with both National and WB safeguards procedures.
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	No. The project will not support purchasing pesticides and its activities will not lead to their increased usage.
Physical Cultural Resources OP/BP 4.11	No	No. The project is not supporting any kind of construction or rehabilitation activities.
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	The project would not trigger OP 4.12. The eligibility criteria that will be defined in EMF would specify that no potential beneficiaries can participate in the project if they would need land acquisition for the activities to be supported under this project. Rehabilitation and reconstruction (which could involve demolition of no longer suitable structure and erection of a new one) of existing buildings within the roughly same footprint would be permissible, although unlikely to be supported by the project. Investments will only be accepted if they involve unencumbered land or property (i.e. no squatters or encroachers or not requiring the eviction of anyone resident in such property). The PIU should verify for each sub project the unencumbered status of the property prior to approving any sub-project which could raise such issues. The EMF should clearly note the above.
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

III. SAFEGUARD PREPARATION PLAN

A. Tentative target date for preparing the PAD Stage ISDS: 16-Mar-2015

B. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing¹ should be specified in the PAD-stage ISDS:

¹ Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.

EMF is expected to be prepared by HAMAG-BICRO by the end of January 2015 after which EMF will be disclosed on HAMAG-BICRO website both in English and Croatian and hardcopy will be available at HAMAG-BICRO premises for at least two weeks. At the same time call for public consultation meeting will be issued (through HAMAG-BICRO webpage and direct mail to different stakeholders) and date and venue of the meeting will be set. HAMAG-BICRO will as well request written comments and will provide both postal and email address for sending comments and suggestions on EMF. The public consultation meeting is expected to be held before or latest on March 1, 2015, i.e. prior to appraisal. The EMF will be finalized, according to the comments from public consultations latest by March 14, 2015 and sent to InfoShop.

During project implementation, the type of environmental due diligence documents for individual sub-projects would be determined, based on the screening, during the sub-project application process. The Sub-project beneficiary will prepare the required documents, which will be reviewed by the PIU, disclosed and consulted according to EMF (prepared for the project), prior to approval of the sub-project.

IV. APPROVALS

Task Team Leader:	Name: Paulo Guilherme Correa	
<i>Approved By:</i>		
Regional Safeguards Coordinator:	Name: Agnes I. Kiss (RSA)	Date: 09-Dec-2014
Practice Manager/ Manager:	Name: Paloma Anos Casero (PMGR)	Date: 10-Dec-2014