

**INTEGRATED SAFEGUARDS DATA SHEET
APPRAISAL STAGE**

Report No.: ISDSA12170

Date ISDS Prepared/Updated: 27-May-2015

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I. BASIC INFORMATION

1. Basic Project Data

Country:	Croatia	Project ID:	P152130
Project Name:	Croatia Innovation & Entrepreneurship VC (P152130)		
Task Team Leader(s):	Mariana Iootty De Paiva Dias		
Estimated Appraisal Date:	26-May-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):	Micro, Small and Medium Enterprise support (60%), Other Financial Sector Development (40%)		
Is this project processed under OP 8.50 (Emergency Recovery) or OP 8.00 (Rapid Response to Crises and Emergencies)?			No
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		

2. Project Development Objective(s)

The project development objective is to strengthen risk capital financing for innovative SMEs and startups.

3. Project Description

The Project has a tenure of six years and will have three components: a) a pilot venture capital fund b) a seed co-investment fund; and c) technical assistance (TA). The Project will be financed 100% through a World Bank loan to the Republic of Croatia. Each component is described as follows:

Component 1: Pilot Venture Capital Fund (€ 15.5 million)

The Pilot VC Fund will be registered in Croatia as a closed end fund established as a limited liability company in accordance with the Alternative Investment Fund Act, and as a EuVECA, in accordance with the European Venture Capital Fund Regulation. The Fund will be supervised by HANFA. It will be a 10-year euro-denominated fund, with an option for a two year extension. The Fund will consist of both public and private financing, in a ratio consistent with EU state aid regulation. It will be established with the purpose of providing financing, in the form of equity or quasi equity instruments, to innovative SMEs (including startups) with the locus of activity in Croatia. The Fund will be managed by a private fund manager selected through an international tender process. The Fund Manager must be established as a limited liability company or a joint stock company, in accordance with the Alternative Investment Fund Act. The Fund Manager must have an EU AIFM passport, meaning that it is either registered in Croatia or licensed by HANFA or that it is registered in another Member State and licensed by the relevant Regulatory Authority. To ensure the commercial viability of the fund, and its uptake by private investors, the Government of Croatia will provide financial contribution towards the Fund's structure (up to €3.5 million of the loan will be used to cover management fees – in effect, lowering the cost to private investors from management fees -- to ensure the viability of the fund structure). This means the net amount available for investment under the VC Fund is €12 million.

Component 2: Seed Co-Investment Fund (€ 2.5 million)

This component will provide €2.5 million towards establishing a Seed Co-Investment Fund (“Co-Investment Fund”). The Co-Investment Fund will be an open-ended fund with initial capital of €2.5million that will be financed by proceeds of the World Bank loan. It will be administered by the implementing agency of the whole Project, HAMAG-BICRO. The objective of this component is to strengthen the early stage investing industry in Croatia by providing smaller amounts of risk capital financing alongside investors in the market such as angel investors and incubators. It is envisaged that the fund will provide smaller amounts of financing than will be made available by the Pilot VC Fund. The Co-Investment Fund is expected to provide a range from €30k- €200k (ticket size; €300k maximum per beneficiary) of flexible debt financing to innovative SMEs (including startups) with the locus of activity in Croatia. Specifically, the Seed Co-Investment Fund will provide financing through loans that will be subordinated to other debt holders, and will not require collateral. The loan will be paid out of income from the investment over the 15 year life of the loan. The terms of the loan are envisaged to be that the initial income generated from the investment will be paid to the co-investor(s) and HAMAG-BICRO on a pro rata basis. Once the return on the investment has exceeded a hurdle rate (6 percent) the subsequent income will be distributed asymmetrically to the benefit of the co-investor(s). After the hurdle rate has been achieved HAMAG-BICRO would receive around 10 percent of any additional income from the investment.

Component 3: Technical Assistance (€ 1.5 million)

This component of the program would be established to assist in the creation and operation of the program. This component will have four sub-components.

(a) Sub Component 3.1: The Global Advisory Network (€400 k). The objective of this sub-component is to establish a network of experts who will provide advice and guidance for the implementation of both funds designed under this Project (Pilot VC Fund and Co-Investment Fund).

(b) Sub Component 3.2: Capacity Building and Networking (€400 k). The objective of this sub-component are twofold. First, to develop human capabilities of the main actors involved in the infant early stage financing industry in Croatia; such as HAMAG-BICRO staff, investors and entrepreneurs. Second, to strengthen social capital and networks – both local and global among incubators, accelerators, business angel networks, matchmaking services, entrepreneurs and larger investors.

(c) Sub Component 3.3: Monitoring & Evaluation (€100 k). The aim of this subcomponent is to ensure accountability in the use of government's money, and provide guidance on how the program can be improved

(d) Sub Component 3.4: Project Management (€600 k). This subcomponent will finance necessary activities for establishment of the PIU, project management and implementation, and carrying out outreach activities.

The key beneficiaries of the proposed Project will be innovative SMEs and startups. Due to their innovative potential, these firms are in a position to leverage the country's low cost base, to boost productivity and to export. However, as their track record and products are difficult to collateralize, these firms face a substantive funding gap. In this sense, to the extent that lack of risk capital financing undermines the innovation ecosystem by preventing innovative ideas with commercial potential from reaching the market, the proposed project seeks to fill in this funding gap and strengthen the innovation and entrepreneurship system.

An eligible investee company to receive finance by the Pilot VC Fund or the Seed Co-Investment Fund to be established under the proposed Project is the one that, on the date of the initial investment:

a) is classified as an “SME” or small and medium-sized enterprise – as defined in Annex I to Commission Regulation (EU) No 651/2014 which uses a combined criteria of staff headcount combined with annual turnover or annual balance sheet.

b) is engaged in innovative activities with the aim of creating new (or upgrading existing) products (good or services), processes and/or business models which are new to Croatian or to other markets.

(i) According to (EU) 651/2014 art. 2 (80), ‘innovative enterprise’ means an enterprise:

(1) that can demonstrate, by means of an evaluation carried out by an external expert that it will in the foreseeable future develop products, services or processes which are new or substantially improved compared to the state of the art in its industry, and which carry a risk of technological or industrial failure, or

(2) where the research and development costs represent at least 10 percent of the firm's total operating costs in at least one of the three years preceding the granting of the aid or, in the case of a start-up enterprise without any financial history, in the audit of its current fiscal period, as certified by an external auditor.

c) is at the early expansion stage of its business development for the Pilot VC Fund.

(i) According to (EU) 651/2014 art 21, eligible undertakings shall be undertakings which at the time of the initial risk finance investment are unlisted SMEs and fulfill at least one of the following conditions:

(3) they have not been operating in any market;

(4) they have been operating in any market for less than 7 years following their first commercial sale;

(5) they require an initial risk finance investment which, based on a business plan prepared in view of entering a new product or geographical market, is higher than 50 percent of their

average annual turnover in the preceding 5 years.

d) or at the start-up or seed stage for the Seed Co-Investment Fund.

(i) According to (EU) 651/2014 art 22, eligible undertakings shall be unlisted small enterprises up to five years following their registration, which have not yet distributed profits and have not been formed through a merger. For eligible undertakings that are not subject to registration the five years eligibility period may be considered to start from the moment when the enterprise either starts its economic activity or is liable to tax for its economic activity.

e) is a legal entity registered in Croatia and has the locus of their activities in Croatia; this includes companies owned by foreigners but which are based in Croatia. However, as companies develop their locus may shift outside the country.

f) is not classified under the negative list of activities as described in the overall Program Operations Manual.

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

The eligible applicants will come from all over the country and the project will be implemented countrywide.

5. Environmental and Social Safeguards Specialists

Natasa Vetma (GENDR)

6. Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	<p>The Environmental Management Framework is prepared for the project prior to appraisal and defines environmental procedures and due diligence for the project as a whole. The EMF builds 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 Seed Co-Investment Fund, an EMF is developed focusing on variety of environmental impacts that come from knowledge intensive based (including life sciences and bio-tech) and innovative 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 are well defined in EMF. Category A projects will be excluded, as well those listed on IBRD non-eligible project list. The EMF as well deals with environmental and ethical risks posed by some of the activities (like life science - biotech) supported by the Funds. The EMF makes sure that the implementation of the project complies with both National and WB safeguards procedures.</p>
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 project activities will not lead to their increased usage.
Physical Cultural Resources OP/BP 4.11	No	No. The project will not support any rehabilitation of protected buildings or buildings of high historical significance.
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 defined in EMF 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. Re-habilitation 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 clearly notes 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	

II. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

<p>1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:</p> <p>The project triggers Environmental Assessment (OP/BP 4.01) policy. The project structure classifies the project under FI category. The Ministry of Entrepreneurship and Crafts will intermediate the funds to Pilot Venture Capital Fund (to be managed by future Fund manager) that will finance eligible sub-projects. Also in Co-investment Fund, HAMAG BICRO will act as the implementing and fund managing agency approving and financing eligible sub-projects implemented by the sub-borrowers (SB).</p> <p>Environmental due diligence will be applied through set of procedures defined in the Environmental Management Framework (EMF) prepared by the HAMAG-BICRO. EMF defines</p>

screening, assessment, review and selection procedures for sub-projects upon which the decision on funding will be reached. These procedures are agreed upon by the Bank, and beneficiary institutions (HAMAG BICRO and later VC Fund manager) and is in line with the national, EU and WB environmental procedures. The EMF will become integral part of project Operational Manual. HAMAG-BICO will make sure that the safeguards requirements stipulated in EMF become part of the operating practice of VC Fund, upon its establishment. In addition, EMF defines procedures, requirements, roles and responsibilities regarding environmental management and monitoring in project design, implementation as well as operation phase of the sub-project. The EMF looks at the environmental impacts that could come from innovative and knowledge based startup companies to be supported under the project related, but not limited to information communication technology (ICT), life sciences, medical and health related fields and biotechnology.

It is not expected for the overall project to have large, significant or reversible environmental impacts. Sub-project classified as A project category will not be eligible for funding as these represent sub-projects with significant environmental impact. Only environmental assessment categories B and C will be funded under this project. The eligible sub-project as envisaged would not produce significant, adverse or long-term impacts to the environment or human health. Environmental mitigation measures are not expected to be complex or expensive.

The project will not fund any land acquisition activities thus does not trigger Involuntary Resettlement (OP/PB 4.12) policy, nor it would support any construction, re-construction or rehabilitation activities in or on protected objects or those of high cultural value thus Physical and Cultural Resources (OP/BP 4.11) policy is not triggered.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

The project will support a wide range of innovative and knowledge intensive sub-projects varying in theme from information communication technology (ICT), life sciences, medical and health related fields to biotechnology, etc. It is not expected that any of implemented sub-projects will produce long-term, adverse, significant or irreversible impacts. The screening procedures and eligibility conditions specified in the EMF are set to eliminate possibility of funding such projects.

The sub-projects might include medical, biotechnological or other scientific research where cancerogenic and mutagenic agents might be used. Some ethical issues related practices might be applied such as testing on laboratory animals. As a member of EU, Croatian legislation is in line with EU legislation on management and disposal of chemicals, toxic agents as well as treatment of laboratory animals. To ensure compliance, EMF requires description of procurement, supply, management, handing and disposal to be submitted with funding application as well as related permissions, contracts (e.g. with hazardous waste management authorized company) and authorizations.

The EMF also includes list of the type of projects that will be excluded from the support like Category A projects and those listed on IBRD non-eligible project list. The environmental due diligence procedures identified in the EMF comply both with Croatian national and World Bank environmental safeguards procedures.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

The project will exclude from funding all projects (i) classified as the A Category project, (ii)

projects which include land acquisition thus might trigger Involuntary Relocation WB policies, (iii) non-eligible projects listed in the EMF (IBRD and WB list of non-eligible projects).

Category B projects might vary in the potential impacts hence are divided in two sub-categories;

Category B+ projects are considered those that carry potential impacts lesser than Category A, and are short term, but impacts still potentially adverse and significant.

Projects classified under category B- are those including smaller scale research, re-construction, assembling and activities causing intermediate predictable or accidental emissions. This includes research activities that might use cancerogenic and mutagenic agents, or perform animal testing.

Environmental compliance of implementation with Bank's and national policies will be regularly reported by project beneficiaries to PIU and the Bank as a part of general progress reporting.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

The Borrower prepared the EMF which contains a set of approval procedures, measures and monitoring activities to address the potential negative impact of the project on the environment and human health. All these are included in project Operation Manual.

Environmental screening, assessment and approval procedures are a part of the procedures of selecting and approving the sub-loan applications. In accordance with EMF the applicants will be required to carry out an appropriate type of environmental assessment for the applied sub-project in line with WB procedures as well as national legislation. Project Beneficiaries (HAMAG-BICRO and VC Fund) processing for sub-project applications include defining environmental categorization, checking the eligibility, defining scope and checking quality and validity of environmental assessment, emissions permitting and other environmental documentation. Project Beneficiaries will monitor the sub-borrower's compliance with EMP and report to WB.

Depending on the assigned environmental category, the sub- project application package would include one of the following: a) EIA with EMP; b) EMP alone; c) simplified (checklist) EMP alone; d) explanation why no EA or EMP is required.

EMF includes templates for development of specific Environmental Management Plans (EMPs) and EMP Checklists that are developed to provide guidance on implementation of mitigation measures and monitoring activities for sub-projects. Sub-borrowers are obliged to implement EMPs and EMP Checklists to their projects and report on their implementation regularly.

The World Bank will assist HAMAG-BICRO and VC Fund in screening procedures according to EMF. In addition, WB will perform environmental evaluations and review procedures on ad hoc basis. WB will perform: a) a prior review and clearance of all sub-projects falling in category B+ requiring EIA and/or full EMP, prior review of first five (5) category B- sub-projects under each PB; as well as those involving use of mutagenic, teratogenic or cancerogenic substance and b) post review for all other projects.

HAMAG-BICRO has long experience in financing and assessing the projects according with the national and EU legislation as well as WB policies, since they had implemented a similar (Science and Technology I and II) project previously. In order to participate in the Project, both, HAMAG

<p>BICRO has identified a person and VC Fund Manager, will identify a person or a team in charge of environmental due diligence during the project implementation. Training was and will be provided for the staff in charge of the safeguards issues. The main purpose of this training is to enhance the capacity of HAMAG BICRO and VC Fund to successfully review sub-project applications, perform environmental screening of proposed projects and monitor implementation of environmental requirements set in environmental due diligence documentation. HAMAG BICRO staff underwent safeguard trainings in Belgrade in 2011 and Dubrovnik 2015 while for VC Fund Manager staff the training will be organized upon the appointment.</p>
<p>5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.</p>
<p>The key stakeholders in the project are MSES, HAMAG BICRO, the Ministry of Finance and SME and knowledge intense community.</p> <p>The draft Environmental Management Framework (EMF) along with an announcement of the public consultation meeting was disclosed in English and Croatian language on the web-pages of the HAMAG-BICRO (http://www.hamagbicro.hr/poziv-na-javnu-raspravu/) on March 17, 2015. The hard copy of the document was also available at HAMAG-BICRO premises. The draft document, along with individual invitations was sent out to the key stakeholders in the Project. The Public Consultations presentations meeting was held at the premises of the HAMAG-BICRO, on March 31, 2015. Final EMF which included minutes from public consultation was sent to InfoShop on May 14, 2015.</p>

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other	
Date of receipt by the Bank	13-Mar-2015
Date of submission to InfoShop	14-May-2015
For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors	////
"In country" Disclosure	
Croatia	17-Mar-2015
<p><i>Comments:</i> The draft Environmental Management Framework (EMF) along with an announcement of the public consultation meeting was disclosed in English and Croatian language on the web-pages of the HAMAG-BICRO (http://www.hamagbicro.hr/poziv-na-javnu-raspravu/) on March 17, 2015. The hard copy of the document was also available at HAMAG-BICRO premises. The draft document, along with individual invitations was sent out to the key stakeholders in the Project. The Public Consultations presentations meeting was held at the premises of the HAMAG-BICRO, on March 31, 2015. Final EMF which included minutes from public consultation was sent to InfoShop on May 14, 2015.</p>	
<p>If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.</p>	
<p>If in-country disclosure of any of the above documents is not expected, please explain why:</p>	

C. Compliance Monitoring Indicators at the Corporate Level

OP/BP/GP 4.01 - Environment Assessment	
Does the project require a stand-alone EA (including EMP) report?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Are the cost and the accountabilities for the EMP incorporated in the credit/loan?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
The World Bank Policy on Disclosure of Information	
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
All Safeguard Policies	
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Have costs related to safeguard policy measures been included in the project cost?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]

III. APPROVALS

Task Team Leader(s):	Name: Mariana Iooty De Paiva Dias	
<i>Approved By</i>		
Practice Manager/ Manager:	Name: Paloma Anos Casero (PMGR)	Date: 29-May-2015