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Development of sustainable financing in Croatia

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> Introduction

> Regulatory framework

> Role of financial institutions

> Comment

Introduction

As Europe is heading towards a climate-neutral green and efficient economy, Croatia, as one of the member states, is trying to follow its lead.

Sustainable development is based on environmental, social and governance (ESG) factors. The ultimate goal is to channel financing into green projects and create an economy that is resilient to climate change, all in accordance with EU taxonomy.

Regulatory framework

It has been almost two years since the Act on Implementation of the Disclosure and Taxonomy Regulation (the Act) was enacted.⁽¹⁾ This act constitutes the legal framework for sustainability together with the regulation on sustainability-related disclosures in the financial services sector⁽²⁾ and the Taxonomy Regulation⁽³⁾ with the accompanying amendments and other relevant EU regulations. In theory, this framework represents solid ground for sustainable loans. However, in practice, there are potential setbacks as to why the green loans themselves have not been fully exploited. This is mostly because of the lack of clear criteria that must be met for access to the funds.

According to the Act, the Croatian Financial Services Supervisory Agency is responsible for the supervision of the entities and persons who are taking part in the financial market and their compliance with the EU legislation.

Role of financial institutions

It is not surprising that financial institutions, mostly banks, are the main green loan providers in the development of the sustainable financing as they offer financial stability.

Almost all banks are now involved in offering some kind of sustainable loan, or at least are trying to raise awareness of the importance of ESG financing.

The implementation of financial instruments within the framework of the National Recovery and Resilience Plan 2021-2026 (NRRP) is currently in progress in Croatia. The NRRP will prepare Croatia for the challenges and opportunities for green and digital transitions by becoming more sustainable and resilient. It is expected that approximately €542 million will be invested in supporting businesses for green transition and energy efficiency, which will result in a more efficient and sustainable economy.

Croatian Bank for Reconstruction and Development (HBOR) is one of the designated institutions in implementing the NRRP. The HBOR is in charge of the implementation of six financial instruments, namely:

- direct loans;
- subsidies under HBOR loans to public sector entities;
- MidCaps and large enterprises;
- subsidies under HBOR loans to small to medium enterprises;
- guarantee fund for MidCaps and large enterprises; and
- the promotion of the development of new venture capital funds.

The implementation must be aligned with the Do No Significant Harm principle, which implies that no actions should cause serious harm to the environment.

In 2022, the HBOR implemented a project called "Reorient HBOR's operations towards sustainable financing and green transition", which is currently continuing into 2023. The main goal of the project is to strengthen HBOR's understanding of environmental, climate and social risks and their implications on the economy, as well as to ensure the development of financial politics.

Comment

Sustainable financing contributes to an energy and resource-efficient economy. It can ensure the commitment of companies and entrepreneurs to dealing with climate change and environmental issues that may affect their business. This became evident in Croatia particularly after the earthquake hit Zagreb in 2020 and 2021 and since the mitigation of negative economic consequences of the war in Ukraine, both events that led to an awareness boost of the importance of green and sustainable financing.

There is still much room for improvement, such as determining the requirements for sustainable financing and increasing public awareness regarding environmental issues. However, Croatia is on a good path to follow other EU members in this new green era.

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Endnotes

(1) Official Gazette No. 70/2021.

(2) Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (text with European Economic Area relevance).

(3) Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (text with European Economic Area relevance).