

ANNEX 2 - Financial Instrument: Description and Selection Criteria

Part I: Description of the Financial Instrument

Capitalised expressions utilised herein shall have the meaning attributed to them in the above-mentioned Call for Expression of Interest, unless otherwise defined below or the context requires otherwise. Unless the contrary intention appears, words in the singular include the plural and words in the plural include the singular.

1 Rationale

The purpose of the Financial Instrument is to support SMEs by providing funding in the form of either equity or quasi-equity in Croatia. The Financial Intermediary (Fund Manager) is expected to allocate the total funds under the instrument under two sub-compartments of the Venture Capital Fund with an Acceleration compartment:

- Acceleration Compartment: Initial financing up to a predefined amount by the Financial Intermediary supporting the entrepreneurs (Eligible SMEs) to research, assess and develop an initial concept.
- Venture Capital Compartment: In this stage the Financial Intermediary shall provide (i) follow-on financing up to the maximum amount to Eligible SMEs supported in the Acceleration stage, upon successful graduation of each Eligible SME from the Acceleration stage; and (ii) financing to Eligible SMEs which have not participated in the Acceleration stage, as long as initial concept is developed (provided that financing SMEs with a business plan only will not be allowed at this stage).

2 The Financial Instrument – terms of reference

Financial Instrument	<p>Venture Capital Fund with an Acceleration compartment having the following distinct features:</p> <ul style="list-style-type: none"> • The Acceleration compartment provides initial financing to emerging entrepreneurs to research, assess and develop an initial concept. • The Venture Capital compartment provides follow-on financing to successful graduates from the Acceleration compartment, as well as direct investments in early stage innovative companies, which have not been part of the Acceleration compartment.
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Indicative maximum amount of funding foreseen for the Financial Instrument (CVCi contribution)	EUR 32.55m
Envisaged state aid regime	Investments in the Acceleration compartment shall be governed by the De Minimis Regulation ¹ . Investments in the Venture Capital compartment shall be free of state-aid in line with art. 2.1.1 of the Guidelines on State aid to promote risk finance investments (2014/C 19/04).
Investment focus	The investment strategy shall be focused on innovative early stage companies. It is expected that the Financial Instrument will primarily target Eligible SMEs at their Seed and Start-up stages as per the definitions of investment stages by Invest Europe. Investments in Eligible SMEs in their early growth, which have been operating but may or may not yet be profitable, are also permitted, especially in the cases where the investment is a follow-on round in an existing portfolio company.
Fund's investment period	Up to 5 years, but in any case no later than 31/12/2023.
Private Investors	Private investors for the purposes of this clause are deemed to be any private investors which are economically and structurally independent from the portfolio companies where an investment is made, and in the reasonable determination of the General Partner, are normal economic operators (i.e. independent private investors operating in circumstances corresponding to the market economy operator principle in a free market economy, irrespective of the legal nature of such operators, to the extent that they bear the full risk in respect of their investment). Upon the creation of a new company, private investors, including the founders, are considered to be independent from that company
Private investors contribution	Acceleration compartment – no Private Investors, apart from the Fund Manager's contribution, shall be required as long as the total invested amount in an Eligible SME, together with other de minimis aid that may be received by the enterprise, remains within the de minimis ceiling of EUR 200,000 over 3 consecutive years, in accordance with the De Minimis Regulation. The rules for cumulation of the aid shall apply in accordance with art. 3 and 5 of Commission Regulation (EC) No 1407/2013.

¹ 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

	<p>In accordance with art. 5, par. 2 of Commission Regulation (EC) No 1407/2013 de minimis aid shall not be cumulated with State aid in respect of the same eligible costs if such cumulation would result in an aid intensity exceeding that fixed in the specific circumstances of each case by a block exemption Regulation or Decision adopted by the Commission.</p> <p>Venture Capital compartment – a minimum of 30% financing from private investors is required at the fund level in accordance with art. 2.1.1 of the Guidelines on State aid to promote risk finance investments (2014/C 19/04).</p> <p>It is expected that the applicants will secure the necessary financing from private investors to satisfy the 30% requirement as per above. It is reminded that the ability to source private financing is part of the quality assessment criteria of applicants.</p> <p>Nevertheless, it should be noted that the Croatian Bank for Reconstruction and Development ("HBOR") has expressed its strong intention to commit up to EUR 7.5m to the Venture Capital compartment of the Financial Instrument, to the extent the above mentioned capital is not raised from other private investors. Depending on the allocation of CVCi's contribution between the Acceleration compartment and the Venture Capital compartment, HBOR's commitment could possibly represent up to 30% of the required financing from private investors as per the paragraph above. Should HBOR become an investor in the Financial Instrument, it will rank pari-passu with all other private investors in the Financial Instrument, enjoying the industry standard rights and obligations of a limited partner in a fund.</p>
Type of financing	Equity and quasi-equity
Financial Instrument availability (Fund duration)	10 + 1 + 1 years
Data Protection Statement	<p>The Fund Manager will acknowledge the EIF statement on the processing operations of Applicants and Financial Intermediaries' personal data, as published on the EIF's website.</p> <p>(http://www.eif.org/attachments/eif_data_protection_statement_financial_intermediaries_due_diligence_en.pdf)</p>
Investment amount into an Eligible SME (maximum amount)	<ul style="list-style-type: none"> • Acceleration compartment - EUR 200,000 over 3 consecutive years, in accordance with the De Minimis Regulation. • Venture Capital compartment - typically up to 15% of the total capital committed to the Venture Capital Fund with an Acceleration compartment in any single investee (possible fund Advisory Board approval in case that limit

	needs to be exceeded to 20%).
Eligible SMEs and activities	<p>Eligible SMEs and respectively eligible activities shall comply with the following criteria:</p> <ol style="list-style-type: none"> 1. The Final Recipient is an SME (as defined) at the date of the investment; AND 2. The Final Recipient is not an undertaking in difficulty²; AND 3. Eligible SMEs will be at the time of the investment (1) registered in Croatia and (2) have its main place of business in Croatia such that the substantial majority of SME's business value creating professional staff (including, without limitation, engineers, technical staff, academics and senior operations executives involved in the business strategy and/or product development) is located in Croatia or the SME has substantial product development operations in Croatia. <p>It should be noted that for SMEs defined under Commission Recommendation 2003/361/EC, notwithstanding the place of registration of such SMEs, which are the controlling owner of an Eligible SME that meets the requirements under (2) above, the requirements under (2) above are considered satisfied on consolidated group level.</p>
Prohibited types of sectors and activities	<p>Investments can be made in all eligible sectors of the economy, except:</p> <ul style="list-style-type: none"> • <u>For the Acceleration compartment – exclusions stated in Article 1 of the De Minimis Regulation.</u> • <u>For all investments by the Financial Instrument: the provisions of the EIF Guidelines on Restricted Sectors shall apply. The Guidelines are available for consultation at http://www.eif.org/attachments/publications/about/2010_Guidelines_on_restricted_sectors.pdf.</u> • <u>For all investments: exclusions stated Article 3.3 of Regulation (EU) No 1301/2013.</u> • The Fund Manager should ensure compliance with the prohibited sectors and activities as per the applicable EU rules.
Place of business of SMEs	The Funds(s) shall only invest into enterprises that will be established and operating in Croatia in line with the definition described in "Eligible SMEs and activities".
Fund Manager	The Financial Intermediary selected by EIF to manage the Venture Capital Fund with an Acceleration compartment. The

² within the meaning of point 20 of Community guidelines on State aid for rescuing and restructuring firms in difficulty (2014/C 249/01)

	Fund Manager will comprise a team of experienced professionals, operating according to best industry practices, complying with professional standards issued by the Invest Europe (formerly known as EVCA) ³ or other equivalent organisation. Such team will be expected to act independently. One or more Fund Managers (Financial Intermediaries) could be selected as a result of the Call and subsequent selection process.
Fund manager's commitment	The management team will be required to commit a certain percentage of the total size of the Financial Instrument as an alignment tool between investors and the manager, which is to be assessed against the fund economics and the broader financial position of the manager's team.
Investees' advisers / pool of mentors' structure	The selected Financial Intermediary will be expected to establish a structure from which relevant industry experts could be recruited on an as needed basis by the investee companies (the form, size, industry concentration, commitment and incentivisation scheme of the structure remains at the full discretion of the Financial Intermediary).
Management fee and costs – basis for calculation	<p>During the Investment Period (no later than 31.12.2023)</p> <p>Base Remuneration: 2.5 % per annum for the first 24 months after the signature of the funding agreement, thereafter 1 % per annum, of programme contributions committed under the relevant Operational Agreement to the Financial Instrument, calculated pro-rata temporis from the date of signature of the relevant Operational Agreement until the end of the eligibility period (31.12.2023), repayment of the contributions to the to the fund of funds, or the date of winding up, whichever is earlier.</p> <p>Performance-based remuneration: 2.5 % per annum of the programme contributions paid within the meaning of Article 42(1)(a) of Regulation (EU) No 1303/2013 to final recipients in the form of equity, as well as of resources re-invested which are attributable to programme contributions, which have yet to be paid back to the financial instrument, calculated pro rata temporis from the date of payment to the final recipient until repayment of the investment, the end of the recovery procedure in the case of write-offs or the end of the eligibility period (31.12.2023), whichever is earlier;</p> <p>After the Investment Period</p> <p>Management costs and fees to be paid after 31 December 2023 shall not exceed 1.5 % per annum of the net invested capital (i.e. programme contributions paid within the meaning of Article 42(1)(a) of Regulation (EU) No 1303/2013 to final</p>

³ www.investeurope.eu

	<p>recipients in the form of equity, which have yet to be paid back to the financial instrument), calculated pro rata temporis from 31 December 2023 until repayment of the investment, the end of the recovery procedure in the case of defaults or 31 December 2029, whichever is earlier.</p> <p>The period through which the management fee is paid after 31 December 2023 cannot exceed six years.</p> <p>Furthermore, pursuant to Article 13 (3) of the Delegated Act, the aggregate amount of management costs and fees over the eligibility period laid down in Article 65(2) of the CPR shall not exceed 20 % of the total amount of programme contributions paid to the financial instrument.</p> <p>Alternatively, if deemed more suitable vis-a-vis market terms and the type of product to be implemented, applicants could propose different thresholds than the ones listed above in line with Delegated Act Art 13 (6).</p> <p>The selection of funds through this Call for Expression of Interest constitutes a selection through a competitive tender for the purposes of Article 13(6) of the Delegated Act 480/2014. As a result, the management fee caps referred to in Article 13(2) and (3) of said regulation do not apply if the outcome of the Call for Expression of Interest proves the need for higher management fees and costs.</p>
Management fee and cost cap	<p>The management fee and costs cap shall be deemed to include any fees, expenses and costs necessary to set up, manage and wind-up the Fund including transaction costs.</p> <p>The aggregate management fees and costs paid to the Fund Manager throughout the fund's duration will be negotiated with the EIF, but may not exceed 20% of ESIF total capital commitments to the Financial Instrument during the eligibility period.</p>
Fund's distribution cascade	<p>The distributions of proceeds from the Venture Capital Fund with an Accelerator will follow the schedule below:</p> <ul style="list-style-type: none"> ○ From the Acceleration compartment: <ol style="list-style-type: none"> 1. First, up to 100% to the EIF and Fund Manager (pro-rata to their underlying economic interest) until they have received distributions in aggregate equal to the total capital allocated in the Acceleration stage of the Fund; 2. 50/50 Split: Thereafter, 50% to the EIF and 50% to the Fund Manager (Carried Interest).

	<ul style="list-style-type: none"> ○ From the Venture Capital compartment: <ol style="list-style-type: none"> 1. First, 100% to all investors (pro-rata to their underlying economic interest) until they have received distributions in aggregate equal to the total capital committed to the VC Fund compartment of the Fund; 2. Second, 100% to the Private Investors and the EIF (pro-rata to their underlying economic interest) until each investor has received sums equal to a Hurdle Rate of [•]⁴% on their capital drawn to the VC Fund compartment of the Fund; 3. Third, 100% to the Fund Manager until the Fund Manager has received an additional amount equal to 25% of the total preferred returns distributed to the investors under paragraphs above; 4. Thereafter, 80% to the EIF and Private Investors (pro-rata to their underlying economic interest) and 20% to the Fund Manager (Carried Interest).
Fund's due diligence before investments	The Fund Manager will make investment decisions based on each investee's business plan, which should contain product description, turnover and profitability calculations and forecasts, previous assessment of project viability, as well as each investment's clear and real exit strategy compatible with relevant EC regulations.
Additional features of the Financial Intermediary	<p>The Fund Manager will manage the Fund based on commercial principles.</p> <p>Investors' representatives shall be appointed in appropriate advisory committee structures to review inter alia Fund corporate governance.</p> <p>In the management of the Fund, the Financial Intermediary shall apply best practices, inter alia considering guidelines developed by Invest Europe, and shall perform controls as required by the public nature of the FoF investment.</p>
Reporting	<p>The fund manager shall provide EIF with periodical information in a standardised form and scope as per Invest Europe guidelines for reporting, in compliance with ESIF regulations, as to be specified in the Operational Agreement.</p> <p>It is important to note that ESIF and state aid reporting rules will require fund managers to provide new data points (such as a split between base and performance management fees and the split between private and public nature of investors) which typically are not being tracked and a higher granularity of data</p>

⁴ The respective hurdle rate is expected to be proposed by the applicants.

	(such as but not limited to Level 2 NACE and NUTS codes and country fiscal numbers). Furthermore, the fund manager should report any additional data that may derive from future changes to the ESIF regulations.
Monitoring and Audit	The fund manager and the investee companies shall agree to keep records as required under ESIF rules and to allow and to provide access to documents related to the Financial Instrument for the representatives of the European Commission (including the European Anti-Fraud Office (OLAF)), the Court of Auditors of the European Communities, EIF, Managing Authority and any other authorised bodies duly empowered by applicable law to carry out audit and/or control activities. To that effect, the fund manager shall include appropriate provisions in each investment agreement.
Publicity	The Fund Manager, in line with applicable law and ESIF rules, shall carry out adequate marketing and publicity campaigns aimed at making the ESIF contribution known, as to be specified through the Operational Agreement.
Compliance	<p>The Applicant shall refer to EIF Policies, in particular:</p> <ul style="list-style-type: none"> - Anti Fraud Policy; - Policy on Offshore Financial Centres & Governance Transparency; <p>published on the EIF website.</p> <p>Clear procedures for KYC/AML and integrity checks on the sourced private investors and management of conflicts of interest shall be implemented by the Fund Manager in line with requirements of national legislation.</p>
Additional requirements	<p>When selecting a financial intermediary, the selection panel shall satisfy itself that this intermediary fulfils the requirements of Art. 7 of Delegated Act 480/2014.</p> <p>The fund manager shall ensure compliance with applicable law, including rules covering the ESIF and relevant national law and regulations, state aid, money laundering, the fight against terrorism and tax fraud. The fund manager, may, in line with its internal rules and procedures and particularly in the cases where fraudulent behaviour is suspected, be required to perform monitoring checks at the level of the investee companies.</p> <p>The fund shall not be established and shall not maintain business relations with entities incorporated in territories, whose jurisdictions do not cooperate with European Union in relation to the application of the internationally agreed tax standards and shall transpose such requirements in its contracts with final beneficiaries.</p>

	<p>The fund will be required to return amounts invested which become affected by irregularities. For irregularities affecting amounts invested by the fund into target SMEs, the fund will be required to apply all applicable contractual and legal measures with due diligence for the purpose of recovering the relevant amounts.</p>
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Part II: SELECTION CRITERIA for the Financial Intermediary

1.	ELIGIBILITY CRITERIA	System of appraisal
		Yes/ No
1.1.	The Expression of Interest is submitted within the Deadline;	
1.2.	The Expression of Interest is submitted both by registered mail and e-mail;	
1.3.	The Expression of Interest is completed and submitted in English;	
1.4.	The Expression of Interest is duly signed;	
1.5.	The Expression of Interest is prepared substantially in accordance with Annex 1 to the Call for Expression of Interest. All necessary supporting documents are provided.	
1.6.	The Declaration of Honour (Appendix 4 to Expression of Interest) is attached and duly signed;	
1.7.	Applicant's commitment for own investment in the Fund as requested in the Description of the Financial Instrument;	
1.8.	Applicant has or adequately demonstrates that it will establish accounting system providing accurate, complete and reliable information in a timely manner;	
1.9.	Applicant has acknowledged and agreed, if selected, to be audited by Member State audit bodies, the Commission and the European Court of Auditors.	

2.	QUALITY ASSESSMENT CRITERIA	WEIGHTING
2.1.	Relevance 2.1.1. Evaluation of the Fund focus and proposed investment strategy, including viability of Fund's size; 2.1.2. Evaluation of the Fund Manager team profile, stability and ability to implement the Financial Instrument; 2.1.3. Assessment of operational, financial, technical and early stage investment competences; 2.1.4. Track record of the Fund Manager team; 2.1.5. Capability as members of boards and/or committees of an investment and/or advisory nature; 2.1.6. Evaluation of Applicant's investment processes, including dealflow generation, ability to invest, ability to build companies and add value and exit strategy; 2.1.7. Ability to demonstrate additional activity in comparison to present activity (only applicable to existing teams).	60 points
2.2.	Quality and Maturity 2.2.1. Applicant's own investment in the fund; 2.2.2. Demonstration of ability to source deals in Croatia; 2.2.3. Demonstration of ability to raise private financing, considering the minimum requirements described in the product termsheet.	20 points

2.3.	<p>Sustainability</p> <p>2.3.1. Fund Manager long-term viability;</p> <p>2.3.2. Assessment of the robustness and credibility of the envisaged methodology/procedures for identifying and appraising investees;</p> <p>2.3.3. Assessment of the investees' advisers / pool of experts' structure to be put in place;</p> <p>2.3.4. Assessment of legal structures and independence;</p> <p>2.3.5. Terms and Conditions, including management costs and fees, and incentive structure/profit share calculation methodology proposed;</p> <p>2.3.6. Assessment of the alignment of interests between the Fund Manager and FoF, and of the measures to mitigate possible conflicts of interest;</p> <p>2.3.7. Assessment of Reporting Procedures;</p> <p>2.3.8. Terms and conditions applied in relation to financing provided to investees, including pricing.</p>	20 points
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