



# EMN Legislative Mapping Report CROATIA

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This series of national factsheets provides a snapshot of the various legislative frameworks concerning the provision of microcredit in Europe by non-bank financial intermediaries.

The national factsheets cover the following thematic areas:

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## Regulation of Lending Activity

In Croatia, banks<sup>1</sup> and credit unions<sup>2</sup> are the only financial institutions permitted by law to engage in lending on a commercial basis. The Consumer Credit Law also allows private limited companies to disburse credit, provided that is granted free of interest (and any other charges) and repaid within three months. However, due to these limitations, this is more of a theoretical possibility rather than actual market practice.

In the early-to-mid 2000s, savings and loan cooperatives (SLCs), which used to be the most prevalent financial institution in Croatia (120+ organizations), were also authorized to offer credit to their members. The few non-bank MFIs<sup>3</sup> operating in the country, financed by international donors, were also organized as SLCs since that was the only available legal form for a non-profit microfinance institution in Croatia<sup>4</sup>.

In December 2008, the Croatian Parliament, at the proposal of the Ministry of Finance with the support of the Croatian National Bank (CNB), passed a new law abolishing SLCs and mandating their transformation into:

- ➔ Credit unions (for smaller SLCs): authorized to operate with some operational restrictions. Unlike previous SLCs, the minimum required capital for credit unions is 500.000 Kuna (around EUR 68.500).
- ➔ Savings banks (for larger SLCs): can operate with more flexibility than credit unions; however, the minimum capital for savings banks was set at 8 million Kuna at least (around EUR 1,1 million).

With a single exception, all 50+ SLC applications for a savings bank license were rejected. SLC's were forced to choose between liquidation or becoming a credit union. As a result, non-bank MFIs were almost completely eliminated from the market due to the limitations of the credit union legal form.

1. Typically, commercial banks do not serve microfinance clients as they considered too risky. However, in Croatia, there are intermittent government programs (financed with structural funds) to stimulate lending to micro and small businesses through commercial banks.

2. Regulated by the [Credits Unions Act](#)

3. NOA, DEMOS, MikroPlus

4. [Croatian challenges with microfinance](#)

## 2

### Supervisory Framework for Non-Bank Lending

Credits unions are supervised by the CNB and must comply with a series of requirements that make it difficult for them to reach scale and operate in a sustainable way. Credits unions have the following limitations:

- ➔ Operations are limited to the boundaries of one administrative unit (county), which severely constrains the potential market for credit unions.<sup>5</sup>
- ➔ Must apply the principle of membership with a common link by accepting only members that share a common bond, i.e. credit union members pursue a common interest on the principle of reciprocity. Therefore, members work for the same employer, work in the same profession or engage in the same type of activity.
- ➔ Must have 30 founding members (all from the same county).
- ➔ Are restricted from external borrowing.
- ➔ Deposits are not guaranteed and all payments must be made through the banking system.

## 3

### Products

Credit Unions can disburse both business<sup>6</sup> and personal loans with no restriction in terms of loan size. The effective interest rate on both products is limited by the Consumer Credit Law (Article 20). According to Article 20, the effective interest rate can exceed the standard interest rate by 2 percent (regulated by CNB and reassessed twice a year).

Credit unions can share client data to credit bureaus and in turn receive information on the credit history of clients.

## 4

### Incentives and Support

In Croatia, national or regional funds dedicated to support microcredit provision do not exist and there is no tax deduction scheme available to individuals or organizations to financially support microcredit provision.

## 5

### Development of the Existing Framework for Non-Bank Microcredit Provision

No significant developments in the regulatory framework by non-bank microcredit providers have been taken at this time in Croatia. However, the Croatian Association of Credit (HUKU) is constantly active in efforts to change the Credit Unions Act with the objective to remove some of the restrictions listed in section 2 above.

5. Croatia (less than 4.2 million inhabitants) has 21 counties.

6. As long as business is registered as natural person since credit unions in Croatia are not allowed to disburse loans to legal persons

## Inclusive Entrepreneurship and Microenterprise Development

Inclusive entrepreneurship faces the following challenges: the absence of a simplified administrative procedure for microenterprises, the lack of a mandatory welfare bridge to assist entrepreneurs in event of business failure, the absence of entrepreneurial education in secondary schools and its failure to create awareness for inclusive entrepreneurship in the country. However, it is worth pointing out that publicly subsidized business development services are widely available to micro-entrepreneurs in Croatia.



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