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Financial incentives applicable to Small Forest Holdings and their impacts

Country Fact Sheet
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The lead authors of the report are Mia Vučevac and Alida Ban Pavlovic. Agnieszka Markowska as Task 2.4.2 leader and Marta Ballesteros as Milieu’s project manager are responsible for its quality review. For any questions they both can be contacted at Milieu Consulting as follows: marta.ballesteros@milieu.be and agnieszka.markowska@milieu.be

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Financial incentives applicable to Small Forest Holdings

WP2, Task 2.4.2

Executive Summary

In the Republic of Croatia there are not many financial incentives available to Small Forest Holdings.

The Operational programmes for the financial period of the European Union 2021-2027 do not have special reference to forestry. Priority number 3 of the Operational Programme Competitiveness and Cohesion 2021-2027 and priorities 2 and 3 of the Integrated Territorial Programme 2021-2027 may trigger projects relevant for small forest holdings. However, no relevant projects have been published so far and thus no financial incentives have been provided for forestry-related activities.

The Strategic Plan of the Common Agricultural Policy of the Republic of Croatia 2023-2027 prescribes four measures applicable for small forest owners: measure 72.01. Support for limitation in forest management (NATURA 2000, NKS); measure 73.05. Reconstruction (conversion) of degraded forests; Measure 73.06. Investments – Modernization of forestry technologies in timber harvesting, silvicultural works and production of SRM (forest reproductive material); Measure 73.08. Investments – Construction of forest infrastructure.

There are no new State Aid financial incentives in the forestry sector.

Subsidies and support for capital investments of private forest owners are provided from the state budget. The national funding source for forestry works is the fee for the use of Payments for Forest Ecosystem Services ("PFES"). Forest Ecosystem Services refer to the various beneficial effects that forests provide to humans and the environment. Payments for Forest Ecosystem Services are paid by legal and natural persons who carry out economic activities in the Republic of Croatia. The funds, collected within the Payments for Forest Ecosystem Services, are then used to support activities such as biological forest restoration works, karst management works, demining, fire protection, and scientific works in forestry.

M+ Group with strategic partners Erste & Steiermärkische Bank and the European Bank for Reconstruction and Development (EBRD) issued in 2022 the first sustainability-linked bonds with a value of almost EUR 40 million in Croatia. The relevance of these bonds for SFHs is not known.

Through desk research, no information was found on funding provided by regional and local authorities; funding provided by foundations, business associations, educational or other institutions; and innovative funding (such as crowdfunding and other PES).

1. Financial incentives based on EU funding

1.1. The European Regional Development Fund

For the financial period of the European Union 2021-2027, the following operational programmes related to cohesion policy are established in the Republic of Croatia:

- Operational Programme Competitiveness and Cohesion 2021-20271

On November 9, 2022, the European Commission approved the Competitiveness and Cohesion Programme 2021-2027, which created the basis for the use of EUR 5.203 billion, of which EUR 4.020 billion from the European Regional Development Fund and EUR 1.182 billion from the Cohesion Fund, which will be implemented through six priorities with the aim of balanced development of Croatia. The main objective of the supported interventions is to strengthen the economy, support the digital and green transition, digitalisation for citizens and businesses, improve connectivity and mobility throughout the Republic of Croatia, and strengthen the quality of life of the population.

Priority goal number 3 is based on promoting energy efficiency and renewable energy sources, climate change adaptation, risk prevention, environmental protection and resource sustainability. For this purpose, EUR 2.081 are allocated to be used.

- Operational Programme Efficient Human Resources 2021-20272

On October 11, 2022, the European Commission adopted the Efficient Human Resources Programme 2021-2027, which will be financed from the European Social Fund Plus with a total value of around 2.27 billion euros.

- Integrated Territorial Programme 2021-20273

On 2 December 2022, the European Commission approved the Integrated Territorial Programme 2021-2027. The programme has a budget of €1.569 billion, of which €1.384 billion comes from the European Regional Development Fund and €185 million from the Just Transition Fund. The funds will be directed towards strengthening the regional economy through the industrial transition process of the regions, investing in the development of smart and sustainable islands, the development of smart and sustainable cities and mitigating the effects of the transition towards a climate-neutral economy in the Sisak-Moslavina and Istria Counties.

Priority goal number 2 is based on strengthening green, clean, and smart and sustainable city transport within the framework of integrated territorial investment in cities for which is allocated EUR 146.556.000. Priority goal number 3 is based on the development of urban areas as drivers of regional growth and development of their functional areas and the development of sustainable and green islands for which is allocated EUR 682.763.845.

[1] https://mzom.gov.hr/istaknute-teme/eu-fondovi/program-konkurentnost-i-kohezija-2021-2027/5884
[2] https://eufondovi.gov.hr/eu-fondovi/program-ucinkoviti-ljudski-potencijali-2021-2027/
[3] https://razvoj.gov.hr/istaknute-teme/eu-fondovi-2021-2027/programi-republike-hrvatske-2021-2027/4854

The EU sources of funding for the Operational Programmes are for:

- Operational Programme Competitiveness and Cohesion 2021-2027 - European Regional Development Fund and Cohesion Fund
- Operational Programme Efficient Human Resources 2021-2027 - European Social Fund +
- Integrated Territorial Programme 2021-2027 - European Regional Development Fund, Cohesion Fund and Just Transition Fund.

Priority number 3 of the Operational Programme Competitiveness and Cohesion 2021-2027 and priorities 2 and 3 of the Integrated Territorial Programme 2021-2027 may trigger projects relevant for SFHs. However, none of these programmes have a special reference to forestry and no relevant projects have been published so far4.

1.2. Common Agricultural Policy (CAP)

The Strategic Plan of the Common Agricultural Policy of the Republic of Croatia 2023-20275 has four interventions/measures relevant to forestry.

- **Measure no. 72.01. Support for limitation in forest management (NATURA 2000, NKS)**

Through this measure forest owners (beneficiaries) can exercise the right to receive support for prescribed conservation measures they have to respect in relation to target species and ecological network areas:

- obligation to leave 10 m^3 of dry wood mass per hectare
- obligation to leave 15 m^3 of dry wood mass per hectare
- obligation to leave 3 % of dead wood and/or
- denial of economic activity or use of goods ("No management")

The total allocated budget is EUR 8.823.530,00 EUR. The lowest value of support per beneficiary is EUR 150 per year, i.e. a total of EUR 750 over five (5) years, and the highest value of support per beneficiary is EUR 140,000 per year, i.e. a total of EUR 700,000 over five (5) years6.

- **Measure no. 73.05. Reconstruction (conversion) of degraded forests**

The Regulation on the implementation of this intervention was published in the "Official Gazette", No. 150/24 of 20 December 20247.

Eligible beneficiaries are:
a) private forest owners
b) public forest owners.

Support is granted for forest conversion projects that include silvicultural procedures carried out in a stand in order to change and improve its structure (changes in stand form, cultivation form, degraded forest forms into cultivation forest forms and changes in forest management

[4] https://mmpi.gov.hr/infrastruktura/eu-programi-i-projekti-138/popis-sklopljenih-ugovora-iz-programa-konkurentnost-i-kohezija-2021-2027/24653
[5] https://eufondovi.gov.hr/eu-fondovi/strateski-plan-zajednicke-poljoprivredne-politike-sp-zpp-2023-2027/
[6] https://www.apprrr.hr/72-01-area-natura-2000-potpore-za-ograniceenje-u-gospodarenju-sumama-natura-2000-nks/
[7] https://narodne-novine.nn.hr/clanci/sluzbeni/2024_12_150_2462.html

methods). Acceptable material costs are expressed in the form of standard costs per hectare for a certain type of conversion, and structurally include the costs of habitat preparation, forest reproductive material and its transport, habitat fencing and dedicated protective aids, as well as general and other costs necessary for the implementation of the project, in accordance with the prepared Conversion Plan.

The lowest value of public support per project is EUR 10,000, and the highest value of public support per project is EUR 1,000,000.

The intensity of public support per project is up to 100% of the total eligible costs of the project.

The total budget allocation within the program period 2023-2027 for intervention 73.05. amounts to EUR 11,764,706.00.

- **Measure 73.06. Investments – Modernization of forestry technologies in timber harvesting, silvicultural works and production of SRM (forest reproductive material)**

The projects should be focused on the modernization of forestry technologies in timber harvesting, silvicultural works and production of SRM (forest reproductive material). Regulations on the implementation of intervention 73.06. Modernization of forestry technologies in timber harvesting, silvicultural works and production of SRM (forest reproductive material) and intervention 73.07. Modernization of technologies in pre-industrial wood processing from the Strategic Plan of the Common Agricultural Policy of the Republic of Croatia 2023-2027. (Official Gazette, No. 153/24,117/25)

Eligible beneficiaries are:
a) legal entities and crafts in the category of micro, small and medium-sized enterprises, which are not forest owners (excluding those subject to public procurement)
b) private forest owners, legal entities and crafts in the category of micro, small and medium-sized enterprises (excluding those subject to public procurement).

Support is granted for projects focused on the modernization of forestry technologies in timber harvesting, production of SRM (forest reproductive material) and silvicultural works.

The lowest value of public support per project is EUR 5,000, and the highest value of public support per project is EUR 7,000.

The intensity of public support per project is up to 50% of the total eligible costs of the project.

The total budget allocation within the program period 2023-2027 for intervention 73.05. amounts to EUR 20,000,000.00.

- **Measure 73.08. Investments – Construction of forest infrastructure**

The Regulation on the implementation of intervention 73.08. Construction of forest infrastructure from the Strategic Plan of the Common Agricultural Policy of the Republic of Croatia 2023-2027. (Official Gazette, No. 90/24)
The objective is to provide support for investments in the construction and/or reconstruction of primary forest transport infrastructure.

Eligible beneficiaries are:
a) forest owners
b) associations of forest owners
c) local government units that are not in the category of private forest owners.

Project eligibility conditions:
Within the framework of this intervention, support will be provided to projects for the construction of new and reconstruction of existing primary forest transport infrastructure (forest roads), which will enable better access and openness of forests in the Republic of Croatia as a prerequisite for implementing forest protection and maintaining a balance between sustainable forest management and the constantly growing demand for wood and forest biomass.

The lowest value of public support per project is EUR 10,000, and the highest value of public support per project is EUR 1,000,000.

The intensity of public support per project is up to 100% of the total eligible costs of the project.

The total budget allocation within the program period 2023-2027 for intervention is 11,764,706.25.

1.3. LIFE and Horizon Europe

Not analysed through country research.

2. Financial incentives based on MS funding

Information about MS funding should be gathered primarily for the years 2020-2025. You are also welcome to include some information about the most interesting financial incentives from previous years, especially if this is about a historical development of the incentives which are still available today.

2.1. State aid

No relevant information was found within the State Aid Transparency website of the European Commission in relation to State aid concerning the NACE Code 02, Forestry and logging, for Croatia.

2.2. Taxes and tax exemptions, subsidies

Pursuant to **Article 70 of the Forest Act** (Official Gazette 68/18, 115/18, 98/19, 32/20,145/20, 101/23, 36/24)8, improvement of the condition and management of private forest owners' forests, association of private forest owners and consolidation of forest estates will be encouraged by subsidies and support for capital investments of private forest owners from the state budget and other sources in accordance with special regulations.

Access to these forestry subsidies is based on information from the Registry of Private Forest Owners. Private owners must then be registered to access the funding. No other specific information on these subsidies has been found through desk research.

The national funding source for forestry works is the fee for the use of **Payments for Forest Ecosystem Services ("PFES")**.

Forest Ecosystem Services are a set of all beneficial effects of forests on humans and the environment. Payments for Forest Ecosystem Services are payable by legal and natural persons who carry out economic activities in the Republic of Croatia. From the funding of the Republic of Croatia until 2006, the fee did not change - all legal and natural persons carrying out economic activities in the Republic of Croatia were obliged to pay a fee in the amount of 0,015 % of total revenue. The fee has been reduced in the meantime, so that today it is paid in the amount of 0,01726 % of total revenue. Taxpayers of the Forest Ecosystem Services are legal and natural persons who are liable to profit tax and natural persons who are liable to income tax, and who carry out a registered activity in the Republic of Croatia and generate a total annual income and receipts exceeding 995.421,06 Euro. Of the total funds collected in this fund, the funds are allocated for biological forest restoration works, karst management works, demining, fire protection, and scientific works in forestry. The beneficiaries of the funds are Croatian Forests ltd, the Croatian Fire Service, the Croatian Mine Action Centre, scientific institutions and private forest owners.

[8] https://www.zakon.hr/z/294/zakon-o-sumama

Pursuant to the Article 4 of the FA, Forest Ecosystem Services are:

1. protection of soil, roads and other structures from erosion, torrents and floods
2. impact on the water regime and water quality
3. impact on soil fertility and agricultural production
4. impact on climate and mitigation of the consequences of climate change
5. protection and improvement of the human environment
6. creation of oxygen, carbon sink and purification of the atmosphere
7. recreational, tourist and health functions
8. creation of favourable conditions for game and other fauna
9. increased impact of protective forests and special-purpose forests on biodiversity.

The economic services of forests are:

1. production of wood forest products
2. production of forest reproductive material
3. production of non-wood forest products.

The funds raised through this fee and collected in the Payments for Forest Ecosystem Services are allocated to a range of forestry-related activities, including:

1. management works in protective forests and forest lands
2. costs of preparing and approving forest management plans
3. management works in commercial forests of small forest owners, except for works to obtain wood and non-wood forest products, as follows:

a) Preparation of habitats for natural regeneration of stands intended for natural regeneration

b) silvicultural works

c) Thinning of stands up to the age of one third of the specified rotation in managed stands, and in older ones if this is absolutely necessary for cultivation

d) Afforestation of felled areas after clear-felling

e) Rehabilitation of burned areas

f) Resurrection of degraded stands and conversion to a higher growing form

g) Forest conservation

h) Selection and marking of trees for felling

i) Preparation of forest management plans, and their revision and renewal

j) reforestation of bare forest land and establishment of plantations of fast-growing tree species on new areas

k) Preparation of habitats, care of newly established stands and cultures

l) Protection from harmful organisms and fires

m) Rehabilitation and restoration of forests damaged by disasters and war actions

n) Maintenance of forest infrastructure

4. management works in commercial forests of public forest owners, institutions, legal entities, medium and large forest owners, as follows:

a) establishment of new forests on bare forest land,

b) rehabilitation and restoration of forests damaged by biotic and abiotic factors,

c) maintenance of springs, wells and cisterns,

d) protection of forests from harmful organisms and fires

5. demining of forests and forest land,

6. scientific and professional works in the field of forestry,

7. firefighting activities.

In 2024. 1.2 million Euros was raised for the Payments for Forest Ecosystem Services 9.

2.3. Funding provided by regional and local authorities

There are no fundings provided by regional and local authorities.

2.4. Funding provided by foundations, business associations, educational or other institutions

No relevant information on funding provided by foundations, business associations, educational or other institutions was found through desk research.

2.5. Innovative funding sources

M+ Group with strategic partners Erste & Steiermärkische Bank and the European Bank for Reconstruction and Development (EBRD) issued the first sustainability-linked bonds with a value of almost EUR 40 million in Croatia. M+ Group is a Zagreb-based provider of business process and technology outsourcing services with operations in 58 countries, including BiH, Romania, Slovenia, Serbia, the United States and Turkey. EBRD has invested EUR 60 million in sustainability bonds issued by Raffeisenbank Austria, the Croatian branch of the Austrian Raiffeisen Bank International AG. The market for green equity in Croatia is still under development and it is only present in the private sector. The relevance of these bonds for SFHs is not known.

Payments for Forest Ecosystem Services ("PFES") as described in Section 2.2 can be regarded as innovative funding source. Desk research did not identify any other PES schemes, or Carbon credits or Biodiversity credits in Croatia.

2.6. Other funding sources

No other funding sources were identified through desk research.

[9] https://www.hsups.hr/smanjenje-sredstava-okfs-za-privatne-sume/

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