



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, xxx
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COMMISSION DECISION

of [...]

on a Multi-annual Indicative Planning Document (MIPD) 2008-2010 for Croatia

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THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA)¹, and in particular Article 14 (2) (a) thereof,

Whereas:

(1) Regulation (EC) No 1085/2006 creates a coherent framework for Community assistance for candidate countries and potential candidate countries. Article 6 (1) of that Regulation requires that the assistance shall be provided on the basis of Multi-annual Indicative Planning Documents established by country in close consultation with the national authorities. The Commission adopted on 20 June 2007 the MIPD 2007–2009 for Croatia².

(2) Article 6 (5) of Regulation (EC) No 1085/2006 requires that Multi-annual Indicative Planning Documents, which are established following a three-year perspective, shall be reviewed annually.

(3) In accordance with Article 6 (2) of Regulation (EC) No 1085/2006 assistance for countries listed in Annex I to that Regulation shall be based on the Accession Partnerships and cover the priorities and overall strategy resulting from a regular analysis of the situation in the country and on which preparation for accession must concentrate.

(4) Croatia is listed in Annex I to Regulation (EC) No 1085/2006.

(5) The Council adopted on 12 February 2008 the Accession Partnership with Croatia³.

(6) This Decision is in accordance with the opinion of the IPA Committee set up under Article 14 of Regulation (EC) No 1085/2006,

¹ OJ L 210, 31.7.2006, p.82

² C(2007)2566 of 20/06/2007

³ Council Decision 2008/119/EC of 12 February 2008, on the principles, priorities and conditions contained in the Accession Partnership with Croatia (OJ L 42, 16.02.2008, p. 51-62).

HAS DECIDED AS FOLLOWS:

Sole article

The Multi-annual Indicative Planning Document (MIPD) for the years 2008-2010 for Croatia attached to the present Decision is hereby adopted.

Done at Brussels,

For the Commission

Member of the Commission

EN

Instrument for Pre-accession Assistance (IPA)
MULTI-ANNUAL INDICATIVE PLANNING DOCUMENT
(MIPD)
2008-2010
Republic of Croatia

Executive Summary

Croatia is advanced in its EU negotiations with one half of the negotiating chapters now opened. On 6th November 2007, the Commission published its Strategy Paper for all the Enlargement countries, the Croatia 2007 Progress Report on the progress achieved in the last year and the challenges which remain. The same day, it proposed a Council Decision on a revised Accession Partnership for Croatia that sets updated priorities focused on Croatia's specific needs and stage of preparation.

Based on these analyses and building on past and on-going financial assistance, IPA assistance to Croatia under the MIPD 2008-2010 will be implemented according to the **five IPA components** available to Candidate Countries and will focus on the following:

Under **IPA Component I** which core activity is Institution building, *political area* (first area of intervention under this MIPD) will be given more focus than under the previous MIPD with some possible support in the fields of public administration reform, judicial reform and fight against corruption, de-mining, promoting respect for and protection of minorities as well as related local community development. *Support to civil society* is being reinforced and will aim at assisting the Civil Society organisations in developing, implementing and monitoring public and acquis related policies as well as raising awareness on the challenges of EU accession through integration into local, regional, national and trans-national networks.

Possible areas of support under the *economic criteria* (second area of intervention under this MIPD) will be public finance, statistics, health care and social policy, improvement of incentive structures and flexibility in the labour market as well as improvement of the economic environment.

Concerning the *ability to assume the obligations of membership* (third area of intervention), IPA assistance will support the institutional capacity building for acquis transposition and implementation according to the priorities identified in the Accession Partnership, the screening reports and subsequent negotiations in the different chapters of the acquis.

Finally, institution building will also be provided through the *supporting programmes* (fourth area of intervention) for the management of IPA projects, the re-enforcement of institutional capacity for the management of EU funds as well as Croatia's participation in Community Programmes.

IPA component II which core activity is *Cross-border Cooperation* (fifth area of intervention) will aim at improving co-operation and good neighbourly relations of Croatian regions with the neighbouring border areas (Slovenia, Hungary and Italy, Bosnia and Herzegovina, Montenegro, and Serbia) and familiarising Croatia with the rules and procedures governing the European Territorial Cooperation Objective under Structural Funds.

Assistance under **IPA Components III** (*Regional Development*), **IV** (*Human Resources Development*) and **V** (*Agriculture and Rural Development*) which constitutes the sixth area of intervention of this MIPD aims at **preparing Croatia for participation in the Community's cohesion policy and rural development**:

- Components III and IV aim at supporting Croatia in policy development as well as preparation for the implementation and management of the *Community's cohesion policy*, in particular regarding the European Regional Development Fund, the Cohesion Fund and the European Social Fund. Assistance will be granted in the fields of *regional competitiveness, transport* (railway sector, inland waterway infrastructure as well as institutional capacity building), *environmental protection*

(treatment and disposal of solid waste, supply of drinking water, collection, treatment and discharge of waste water, as well as institutional capacity building), *and human resources development*.

- Component V aims at supporting Croatia in policy development as well as preparation for the implementation and management of the *Community's agriculture and rural development policy* by targeting the sustainable adaptation of the agricultural sector and the related implementation of the *acquis communautaire*; preparatory actions for agri-environmental measures and LEADER; development of rural economy.

Coherence and **concentration** of assistance will be necessary for the effectiveness of IPA assistance under all components. Where appropriate, effective **coordination** and **complementarity** with other IPA components will be assured.

This **MIPD 2008-2010 for Croatia** is based⁴ on an indicative financial envelope of **€451.4 million**.

⁴ See breakdown per component under section 2.3.

Section 1

Assessment of past and on going assistance

1.1 INTRODUCTION

Since 2001 Croatia has successively been benefiting from financial assistance from the European Union under *CARDS*, then *Phare*, *Phare CBC* as well as *ISPA* and *SAPARD* and since 2007, under the *five components of IPA*.

A wide range of activities have been supported and aimed at helping Croatia to meet the accession criteria, effectively contributing to establishing closer links with the border countries enhancing economic and social cohesion in the fields of regional development, transport, environmental protection, human resources development and agriculture and rural development and prepare Croatia for the management of structural funds.

Since 2006 the management of the EU assistance has been decentralised thus increasing Croatia's ownership on the assistance deployed and preparing itself for the management of the structural funds.

In this context, the challenges for the Croatian authorities are to meet the existing DIS requirements, to obtain conferrals of decentralised management powers under IPA for all components and to demonstrate a significant improvement across the board in the implementing of the on going EU assistance in order to prepare themselves for a gradual lifting of the ex ante requirements under DIS on Phare and ISPA assistances.

As regards the IPA accreditation, although the Croatian authorities and the EC have signed on 27 August 2007 a framework agreement laying down the principles for the deployment of IPA assistance and while the Croatian authorities can await till 30 June 2008 for being accredited for components I and II⁵, the implementation under the other components (III, IV & V) can only start once the Commission has conferred decentralised management powers to the respective Croatian operational structures, pursuant to conclusive audits conducted by the Commission after that accreditation of the structures by the Croatian authorities.

1.2 OVERVIEW OF PAST AND ON-GOING ASSISTANCE (EU AND OTHER ASSISTANCE) INCLUDING LESSONS LEARNED

1.2.1 Overview of EU past and on going assistance

IPA 2007 assistance will build on assistance provided to Croatia under the national programmes under *CARDS* (2001-2004) *Phare*, *ISPA* (2005-2006) and *SAPARD* (2006), the Phare-funded multi-country and horizontal programmes such as TAIEX, the Small and Medium-sized Enterprises Financing Facility, and the Nuclear Safety Programme as well as the *CARDS* Regional Programme in 2005 and 2006.

- *As regards the political criteria*, *CARDS* assistance to Croatia contributed to strengthening the judiciary capacities and structures, public administration and civil service reform, the return of refugees and displaced persons, de-mining as well as civil society development. *Phare* assistance to Croatia provides further support to the modernisation of justice system, public administration reform, the protection of

⁵ The accreditation granted under Phare and Phare-CBC is extendable to IPA- components I and II till 30 June 2008 (ref. art 76 of the IPA implementing rules);

minorities, in particular the Roma, and civil society development. **IPA 2007** assistance to Croatia under component I will provide further support in the fields of fight against corruption.

- **As regards the economic criteria, CARDS** assistance to Croatia contributed to improving the business environment with particular emphasis on land cadastre, property registration and regulatory framework for business investments reforms, competition policy, public procurement and intellectual property rights. CARDS assistance also facilitated the reform of the public finance system. **Phare** assistance to Croatia provides further support in the field of modernisation of the land administration and the reform of public finances by improving the budget process for effective financial management. **IPA 2007** assistance to Croatia will also contribute to improving the business environment through the project "Development of Regulatory Impact Assessment".
- **As regards the ability to assume the obligations of membership, CARDS** assistance to Croatia contributed to an improvement of trade, with actions supporting the introduction of EU industrial standards, the development of accreditation systems, food safety, veterinary and phyto-sanitary standards, consumer protection and statistics. Assistance to cooperation in justice and home affairs provided important improvements to integrated border management as well as policing and the fight against organised crime. CARDS assistance in the field of environment has resulted in further legislative alignment in the waste and water management area, environmental impact assessment and monitoring, advocacy, awareness raising and the promotion of renewable energy sources as well as investment preparations. **Phare** assistance to Croatia addresses the areas of trade, customs and taxation, agriculture and fisheries, transport, social cohesion, statistics, environment and natural resources, policing and the fight against corruption and organised crime as well as border management. CARDS and Phare also supported the modernisation and reform of the higher education system through the Tempus programme **IPA 2007** assistance to Croatia will also contribute to the reinforcement of the administrative capacity building for acquis transposition and implementation in the fields of Competition Policy; Information Society and Media; Agriculture; Energy; Social Policy and Employment; Justice, Freedom and Security; Environment; Customs Union, and, under chapter 23 of the acquis, personal data protection.
- **As regards the Supporting programme, as with CARDS and Phare, IPA 2007** assistance under *component I* will continue to provide Croatia with some flexible technical assistance facilities aimed at addressing specific needs identified in the course of the negotiations process and preparing projects pipeline for further funding, also with a view to reinforce the institutional capacity for the management of IPA funds. Besides as with **Phare, IPA 2007** assistance under *component I* will continue to assist Croatia in participating in Community Programmes and Agencies.
- **As regards Cross Border Cooperation, Phare CBC** programmes took over **CARDS regional programmes** enabling to create some more favourable socio-economic conditions and establish closer links between the border regions with projects in the fields of promotion of entrepreneurship as well as improving accessibility of community based services. **IPA 2007** assistance will continue this cooperation with bordering Member States (Hungary, Italy and Slovenia) and support new programmes with bordering IPA beneficiary countries (cross-border cooperation with Bosnia and Herzegovina, Montenegro and Serbia) as well as participation of

Croatia in the ERDF European Territorial Co-operation trans-national programmes "South-East Europe" and "Mediterranean".

- ***As regards the preparation for participation in the Community's cohesion policy and rural development, CARDS*** assistance provided grant schemes for business related infrastructure, SMEs as well as promoting active labour market measures. ***Phare*** assistance has contributed to enhancing regional competitiveness, with a major emphasis on strengthening the institutional framework and building administrative capacity in the area of economic and social development. The ***ISPA*** and ***SAPARD*** programmes added to the efforts undertaken in this areas; ISPA focused on environmental and transport related infrastructures investments whereas SAPARD focused on investments in agricultural holdings, improvement of processing of agricultural and fishery products and investment in rural infrastructure.

Since 2007 the above mentioned achievements are continued by **IPA components III (Regional Development**, in the framework of the 2007-2009 Operational Programmes on Regional competitiveness, Transport and Environmental protection), **IV (Human Resources Development**, in the framework of the 2007-2009 operational programme on Human Resources Development), and **V (Agriculture and Rural Development**, in the framework of the IPARD 2007-2013 Agriculture and Rural Development Plan), with objectives and choices for assistance as detailed in section 2.3.

The table appended in annex 2 indicates the amount of resources allocated over the period 2001-2007 per sectors of activities. The table appended in annex 3 indicates the contracting and disbursement rates over the same period.

1.2.2 Overview of relevant IFI, multilateral and bilateral past and ongoing assistance

The Commission is working with the World Bank and other international financial institutions, in particular the EBRD and EIB, to ensure proper ***co-ordination*** of external assistance programmes and, in some cases, co-financing of projects. A ***Commission-EU Member States co-ordination mechanism on assistance*** has been in place locally since 2001. The co-ordination mechanism has improved the impact and coherence of the EC assistance and member states' bilateral aid. The EU Accession process has increasingly shaped the agenda for other donors' interventions in Croatia.

In March 2006, the ***International Monetary Fund*** extended its precautionary Stand-by Agreement with Croatia until November 2006 for a total of € 99.39 million. This Agreement was successfully finalized by November 15, 2006.

In December 2004 the ***World Bank*** and the Government of the Republic of Croatia have adopted the Country Assistance Strategy (CAS) for Croatia for 2005-2008. The four-year program focuses on the reforms required for Croatia's EU accession in the sectors of public administration reform, judiciary reform, agriculture, transport, public budget management, private sector development, education, health care and social security, wastewater and water supply infrastructure and improved energy efficiency. The World Bank, in cooperation with the Government of Croatia, carried out a mid-term review of the CAS to take into account the developments since December 2004, in particular the start of the negotiations for EU membership, and to assess the progress in achieving the CAS outcomes. The findings have been presented in the CAS Progress Report that was finalized in May 2007. This Report envisages the lending program for Croatia in the amount of € 668.62 million for the period 2007-2008 (under highest lending scenario) to support reforms in public administration, justice and health sector, as well as in infrastructure and environment sector. Since 1993 the World Bank has provided financing for 38 projects (including four grants financed by the

Global Environment Fund) in total amount of € 1.73 billion. The World Bank also made or administered 49 grants to Croatia in total amount of € 40.63 million.

The *European Investment Bank* finances projects that support the rapid integration of Croatia into the EU. The Bank has been active in Croatia since 2001 through financing 20 projects, by providing loans in total amount of € 1.30 billion. From 20 projects 15 projects are in the public sector (financed through 3 public loans and 12 sovereign guarantees) and 5 projects are in the private sector. Most lending has focused on the construction and rehabilitation of transport infrastructure, municipal infrastructure and on investments in the gas pipeline system. To date, the EIB has also provided 5 global loans in Croatia, aimed at the financing of SMEs and municipalities. The transport infrastructure sector will remain a priority. The EIB also envisages more loans in both the environmental and the health sector.

The *European Bank for Reconstruction and Development* and the Government of the Republic of Croatia have adopted in the first half of 2007 the *EBRD Strategy for Croatia for 2007-2009*. For the first time, the EBRD Strategy for Croatia focuses on the main goals of cooperation in private sector development, support to SMEs and financing of the local and regional governments. Since 1993 EBRD has signed 82 projects in Croatia in total amount of € 1.82 billion. From 82 projects, 17 of them are in the public sector (financed through 3 public loans and 14 sovereign guarantees) and 65 projects are in the private sector. Projects for 2007 and beyond include a number of infrastructure operations currently under preparation, which are co-financed by EU pre-accession instruments. There are no plans to issue new sovereign guarantees for loans provided for public projects financing in 2008 and beyond. In addition, the EBRD has carried out over 300 projects supporting the competitiveness of Croatian SMEs through its TurnAround Management (TAM) and Business Advisory Services (BAS) programmes. The programmes have utilised € 3.75 million of funding from numerous donors (UK, Ireland, Finland, Sweden, The Netherlands, Switzerland, Austria, Germany, Luxembourg, the Central European Initiative (CEI) and the BRSF Balkan Region Special Fund).

In addition to support from the IFIs, *EU Member States* (Austria, Belgium, Denmark, France, Germany, Italy, Netherlands, Spain, Sweden and UK) and other donors are actively supporting Croatia's accession process.

1.2.3 Lessons learned

Building on the experience gained from programming and implementing EU funds (CARDS, Phare, Phare CBC, ISPA and SAPARD) in Croatia the following lessons have been learned:

As regards the implementation of on going EU assistance

- Croatia is facing considerable challenges during the implementation of assistance as regards **absorption capacity** as well as **timeliness** and **quality of the submitted tendering and contracting documents**.
- Croatia still needs **to establish sound management and control systems** in order to implement efficiently the EU assistance: the follow-up audit on DIS conducted by ELARG in 2006 revealed deficiencies in the management and control systems put into place by the national authorities that unless they are remedied, could derail the conferral of management powers under decentralisation.
- **Increased ownership** of EU assistance to the country is requisite for the effective programme implementation. **Political will and coherent decision-making on behalf of the beneficiary** is essential in rectifying shortcomings and in ensuring sustainability in the implementation of pre-accession assistance.

In order to tackle the aforementioned shortcomings, the Commission expects that Croatia demonstrates a significant improvement across the board in the implementing of the on going EU assistance by adhering to the deadlines for submission of tender and contract documents; increasing the quality of tender and contract documents submitted to the Delegation for *ex ante* control; deepening the involvement of the CFCU and other concerned institutions in the process of monitoring of contract implementation; reinforcing the staffing of the CFCU in particular as regards its Quality Assurance Division and ensuring a swift transition from the CFCU to the CFCA⁶; reporting more thoroughly on identified cases of fraud and irregularity; intensifying the conducting on its own of audits on CARDS and PHARE; addressing all outstanding findings as identified in the follow up audit conducted by ELARG in 2006 as well as in the annex to the Commission Decision of 07 February 2006 on conferral of management of CARDS and Phare programmes.

As regards the programming of EU assistance

- **Absorption capacity** must be taken into account when programming assistance. This generally concerns the preparation and adoption of investment strategies, sector analyses, and preparation of tender documents at a faster pace that we have experienced so far. Thus the **degree of maturity of projects** will become a crucial criterion when deciding on funding them. Before any financing agreement is signed the National IPA Coordinator should satisfy the Commission that draft twinning fiches, terms of reference and technical specifications have been prepared to allow each project to be launched immediately.
- **Donor coordination** is of great importance to avoid any overlap of assistance and should be strengthened. Although a Government Coordination Group and a Technical Working Group are facilitating the coordination of overall assistance received by the Republic of Croatia and the EC Delegation and the World Bank are active to coordinate activities in the countries, more could be done for ensuring a continuous exchange of information between donors in order that the principles of *coherence, concentration* and *complementarity* between all multilateral and bilateral assistances are sought. This is the reason why, at local level, the consultation mechanism during the different phases of the assistance cycle was reinforced in 2007. It provides for an early consultation on the draft IPA planning (MIPDs) and programming documents with Member States embassies, local offices of IFIs and non-EU donors. At central level, coordination meetings with IFIs as well as with EU and non-EU donors are organised on a regular basis. They focus primarily on strategic orientations and regional dimension of IPA planning and programming. Additionally, coordination between the Commission and Member States takes place on a regular basis in the context of the IPA Committee.
- Besides since the dialogue with the **civil society organisations** as well as their development are of great importance to ensure the sustainability of measures taken as well as the broadest possible support for them, this MIPD will put more emphasis on the activities that might be envisaged in these fields.

⁶ On 23 August 2007, the Government of the Republic of Croatia adopted a Regulation on the establishment of a Central Finance and Contracting Agency that shall take over the responsibilities of the CFCU once the Commission satisfies itself that all conditions are met for an effective transfer of all commitments, rights, obligations and responsibilities entrusted to the CFCU.

Section 2

Pre-accession assistance strategy for the period 2008-2010

2.1 INTRODUCTION

The MIPD for Croatia for the years 2008-2010 has been established against the background of the *granting of status of candidate country to Croatia* by the European Council of June 2004; the entering into force in February 2005 of the *Stabilisation and Association agreement*; the opening of *EU accession negotiations* on 3 October 2005 including the **screening process**; the publication by the Commission on 6 November 2007 of its *Strategic Paper* for the region and the *Croatia 2007 Progress Report*; the Commission's adoption on that same day of a proposal for a Council Decision on a revised *Accession Partnership for Croatia* that sets some updated priorities that are adapted to Croatia's specific needs and stage of preparation and that Croatia will need to complete over the next few years.

The MIPD for Croatia for the years 2008-2010 establishes the strategic objectives and choices for assistance against the 6 aforementioned areas of intervention that are detailed below in sections 2.2 and 2.3. In particular the MIPD has a reinforced emphasis on the political criteria priorities, especially the support to Civil Society, reflecting the increased importance given to these issues in the Strategy Paper.

Coherence of the objectives and choices for assistance with Croatia's own needs and priorities (as established in the *National Plan for the Integration in the European Union, the Coherent Strategic Framework for the years 2006-2013* as well as line ministries' or institutions' sectoral strategies) has been ensured through consultations with the national authorities who agreed on the content of this MIPD.

Concentration and complementary of the IPA assistance throughout its 5 components as well as with other donors' assistance will be systematically sought. The Commission through its Delegation in Zagreb will consult extensively the Member States Embassies as well as the multilateral donors on all programming documents, as this was done in the year 2007 on the MIPD 2007-2009 as well as the component-related programmes.

2.2 STRATEGIC OBJECTIVES AND CHOICES FOR IPA ASSISTANCE OVER THE PERIOD 2008-2010

2.2.1 Strategic objectives for IPA assistance over the period 2008-2010

It is clear from the aforementioned documents and the needs assessment that Croatia has continued to make progress in terms of the political, economic and *acquis* criteria and implementation of its Stabilisation and Association Agreement. The main challenge for the period 2008-2010 will be to build on the progress made, and to accelerate the pace of reforms, notably in the key areas of judicial and public administration reform, the fight against corruption, economic reform and in relation to the accession negotiations.

Croatia has improved its *ability to take on the obligations of membership*. In most areas, there has been progress, mainly in terms of legislative alignment. Implementing capacity has also been improved. However, in many cases enforcement is weak and administrative capacity remains uneven. Progress has varied considerably between different policy areas. Considerable efforts will be needed in a number of chapters such as free movement of capital, competition policy, public procurement, agriculture, justice freedom and security, judiciary and fundamental rights and environment.

Initially the screening process, through its identification of gaps between Croatian legislation and the *acquis communautaire*, and subsequently the negotiation of specific chapters, will help the programming of pre-accession assistance. The focus will be on politically and legislative complex sectors with weaknesses in implementation capacity and costly investments.

Croatia needs to promote employment and raise living standards while strengthening macroeconomic stability and furthering structural and other necessary reforms. EU assistance will focus on investments and collective services which are required to increase long-term competitiveness, job creation and sustainable development, namely *acquis*-related investments in environmental protection (waste water, drinking water and waste management) and sustainable transport (railways and inland waterways). Along with these efforts directed at basic infrastructure, further assistance will be aimed at modernising and restructuring the productive capacity of disadvantaged regions in particular by providing services to enterprises, particularly small and medium sized enterprises (SMEs). Finally, investments will be made available for education, social cohesion and human capital formation to address among others low employment rates and high unemployment, increase the share of high skilled workers, and better target social benefits to reach the most vulnerable groups.

Agriculture still plays an important role in the overall economy of Croatia. Family farms possess the majority of arable land and livestock. The productivity is still low and characterised by small-scale production, outdated production methods and equipment. The divergence of living standards between rural and urban areas is significant in terms of income, education, physical, social and cultural infrastructure and unemployment with a high number of (semi) subsistence agriculture, insufficient diversification of income generating activities and ageing population in rural areas. EU assistance in this sector aims at preparing the Croatian agriculture and agri-food sectors to meet EU requirements through targeted investments and improving the respect of Community standard for food safety, veterinary, phyto-sanitary, environmental and other standards as well as helping Croatia to get ready for the implementation of EU rural development programmes.

Against the aforementioned background, the strategic objectives for IPA assistance for the period 2008-2010 will be as follows:

Strategic objectives under IPA Component I

Four strategic objectives corresponding to four areas of intervention are envisaged under the **IPA component I**.

- **First strategic objective** that will be given more focus than under the previous MIPD: to further improve Croatia's alignment with the ***political criteria***, including a reinforced support to the ***civil society***.
- **Second strategic objective**: to further improve Croatia's alignment with the ***economic criteria***.
- **Third strategic objective**: to further enhance Croatia's ***ability to assume the obligations of membership*** by supporting the institutional capacity building for *acquis* transposition and implementation according to the priorities identified in the Accession Partnership, the screening reports and subsequent negotiations in the different chapters of the *acquis*.
- **Fourth strategic objective**: to re-enforce Croatia's institutional capacity via the supporting programmes for the management of EU funds and projects preparation, to support Croatia's participation in Community Programmes.

Strategic objectives under IPA Component II (fifth area of intervention, Cross-border Cooperation):

- To improve co-operation and good neighbourly relations of Croatian regions with the neighbouring border areas and familiarising Croatia with the rules and procedures governing the European Territorial Cooperation Objective under Structural Funds.

Strategic objectives under IPA Component III, IV and V (sixth area of intervention, preparing Croatia for participation in the Community's cohesion policy and rural development):

- To support Croatia in policy development as well as preparation for the implementation and management of the *Community's cohesion policy*, in particular regarding the European Regional Development Fund, the Cohesion Fund and the European Social Fund, in the fields of *regional competitiveness*, *transport* (railway sector, inland waterway infrastructure as well as institutional capacity building), *environmental protection* (treatment and disposal of solid waste, supply of drinking water, collection, treatment and discharge of waste water, as well as institutional capacity building), *human resources development*.
- To support Croatia in policy development as well as preparation for the implementation and management of the *Community's agriculture and rural development policy*.

2.2.2 Strategic choices for IPA assistance over the period 2008-2010

In translating the above mentioned objectives into strategic choices for assistance to Croatia, a number of elements will need to be taken into consideration. These include, among other things, sequencing between the different EU assistance programmes available for implementation in Croatia, programme maturity, absorption capacity of Croatian beneficiary institutions, availability of funds and alternative sources of financing, as well as the balance between Partnership Accession priorities. Furthermore, cross cutting issues such as *support to the civil society throughout all IPA components*, *equal opportunities and non discrimination*, adherence to the principles of *good governance*, assessment of *environmental impact* in case of investments as well as *cross border impact* of projects where appropriate will have to be reflected in the activities programmed under IPA (see annex IV).

The actions to be undertaken under the five IPA components (in the framework of the 6 areas of intervention) will be closely coordinated and will be complementary to the maximum degree possible, including with IPA Multi-Beneficiary Programmes⁷. Institution building measures under Component I can in this regard be made available to support the implementation and results to be achieved under the four other components.

Close coordination and complementarity with other donors will also be sought.

In the area of the political criteria

Possible areas of support over the period 2008-2010 are on assisting the Croatian authorities in implementing a **fully comprehensive public administration reform** covering among other measures the streamlining of administrative procedures and improvement of human resources management while interfacing these areas with aspects of good governance such as

⁷ Such as Tempus, Erasmus Mundus Western Balkan Window and Youth in Action Western Balkan Window covered by multi-beneficiary programmes due to economies of scale. Component I of the MIPD for Croatia will finance its Tempus activities programmed under the Multi-Beneficiary MIPD 2008-2010.

legitimacy, transparency, effectiveness, plurality and accountability; in the **judicial system**, reducing the case backlog in courts and ensure an acceptable length of judicial proceedings including the enforcement of court decisions, as well as rationalising and modernising the courts and enhancing the independence, accountability and professionalism in the judiciary; in the **fight against corruption**, setting appropriate legislative and administrative measures in the relevant law enforcement agencies for combating corruption and raising public awareness on the various modalities for recognising corruption practices and corruption as a criminal offence; in the **field of human rights**, focusing among other on taking measures to protect persons belonging to minorities including the Roma⁸, improving access to justice and prison conditions, enhancing freedom of expression, guaranteeing the protection of women's and children's rights, adopting and implementing a comprehensive anti discrimination strategy, as well as fostering related local community development also with a view to facilitate refugee return, and the reconciliation among communities. **De mining measures** may also be supported with a view to enhance the economic development as well as the overall security environment. In the field of **support to civil society**, IPA assistance will further support Civil Society organisations in participating and contributing in developing, implementing and monitoring public and acquis-related policies as well as raising awareness on the challenges of EU accession under the political criteria, the economic criteria as well as in the implementation of the acquis where applicable, through intra-sectoral and cross-sectoral cooperation, partnership and networking on local, regional, national and trans-national level, the later being carried out on a bilateral and/or multilateral basis. It will also aim at further supporting their efforts in order to promote legitimacy, transparency, effectiveness, plurality and accountability of the public administration.

In the area of the economic criteria

Possible areas of support over the period 2008-2010 in the fields of **public finance** and **statistics** will be on assisting the Croatian authorities to enhance fiscal transparency, to improve the public debt management and complete the change of budget reporting and continue to implement prudent fiscal, monetary and financial sector policies and continuing developing statistics; in the fields of **health care reform** and **social security**, EU assistance may be used to complement actions funded by other IFIs; assistance on the **labour market** may focus on improving incentive structures and flexibility; assistance in the field of **economic environment** may encompass measures including the institutional framework for privatisation and continue with the restructuring of loss-making state-owned enterprises and of the railway system, to continue to facilitate business entry and improve bankruptcy procedures to speed up market exit.

In the area of the ability to assume the obligations of membership

For those chapters of the acquis where the Accession Partnership identifies some priorities⁹, the latter will be translated under IPA component I where appropriate in measures aimed at adopting or completing the **transposition of the acquis, adopting comprehensive strategies and / or action plans** so as to ensure the viability of and respect for EU rules, **reinforcing and coordinating the administrative structures** including the setting up of the management and control systems for the EU structural funds. Against this background the IPA assistance

⁸ The term “minorities” is to be understood in the wider extent encompassing national minorities, gender minorities, ethnic minorities, religious minorities, race minorities, and persons with developmental difficulties, sexual minorities and others who are in the same time vulnerable, marginalized and discriminated.

⁹ See section 2.3 as regards component I

that will be deployed in this area during the years 2008-2010 will be directed towards specific projects which objective, purpose and sequencing will be focused, measurable and time-bound.

In the area of supporting programmes

Some flexible technical assistance will continue to be provided under IPA component I to the Croatian authorities for assisting them in acquis implementation, project preparation and implementation, as well as reinforcing their institutional capacity for the management of IPA funds; Croatia's participation in Community Programmes¹⁰ will also continue to receive financial support under IPA.

Given the limited amount of money under component I, the number of projects that may be covered as well as their complexity, some of them may only be implemented towards the end of the implementing period of this MIPD. The degree of maturity of projects ("implementation readiness") as well as the absorption capacity of the related Croatian beneficiary institutions will be important factors when deciding on giving priority to and sequencing the projects.

In the area of Cross-Border Co-operation (IPA component II)

The strategic priorities as identified in the MIPD 2007-2009 will be maintained in the MIPD 2008-2010, i.e. enhancing co-operation among local/regional authorities, associations, NGOs and enterprises from neighbouring regions to enhance economic and social development of eligible border regions; developing small infrastructure to improve potential for tourism or local/ regional transport and communication, including environmental aspects; fostering people-to-people actions to intensify contacts at local level among citizens from either side of the borders; providing technical assistance and information diffusion to help with programme implementation and contribute to timely delivery of results; boosting cooperation between authorities covering strategies and actions to address risks and threats to border security and organised crime. The MIPD covers CBC programmes with Slovenia, Hungary, the Adriatic area, Bosnia and Herzegovina, Montenegro, and Serbia, as well as Croatia's participation in ERDF trans-national programmes "South-East Europe" and "Mediterranean".

In the area of preparation for participation in the Community's cohesion policy and rural development (IPA components III, IV and V)

The strategic priorities as identified in the MIPD 2007-2009 will be maintained in the MIPD 2008-2010, i.e.:

- In the field of ***regional competitiveness*** (IPA component III), to improve the development potential of less developed regions; to enhance the competitiveness of the Croatian economy and in particular to enhance growth of SMEs; to develop the administrative and management capacity of those institutions implementing the operational programme by providing them with technical assistance support;
- In the field of ***transport*** (IPA component III), to gradually improve the standard of Croatian railways, in particular the line along TEN Corridor X within Croatia, so that they increasingly meet EU requirements as well as rehabilitating the Sava river

¹⁰ Contributions will be granted as it has been the case since Phare 2005 to meet a part of the costs for the participation in the Community programmes and Agencies in accordance with the agreements reached between the Commission services and the Republic of Croatia for such participations. From 2005 funds were available each year as a part of the Phare national programme so as to co-finance the financial contribution for the participation in the programmes in the following years.

waterway to category IV navigational status, including its alignment with the EU River Information System (RIS); to develop the administrative and management capacity of those institutions implementing the operational programme by providing them with technical assistance support;

- In the field of *environmental protection* (IPA component III), to establish an integrated waste management system by the development of waste management infrastructure by concentrating on the construction of waste management centres at county/regional level as well as the remediation of sites highly polluted by waste; to construct waste water treatment plants in areas with existing sewerage networks; to extend and repair existing sewerage networks and to upgrade and extend drinking water treatment plants and distributions systems in population centres; to develop the administrative and management capacity of those institutions implementing the operational programme by providing them with technical assistance support;
- In the field of *human resources development* (IPA component IV), to tackle unemployment through targeted actions which assist the unemployed to find sustainable jobs; to focus on the threat of unemployment through targeted actions for those most exposed to job losses; to promote social inclusion for disadvantaged groups; to reduce the barriers to employment; to facilitate the delivery of new, high-quality VET curricula; to strengthen the institutional framework for the development of occupational standards, qualifications and curricula including support for local VET establishments in the implementation of 'bottom-up' strategies and in testing the strategic benefits of particular VET reforms; to develop the administrative and management capacity of those institutions implementing the operational programme by providing them with technical assistance support;
- In the field of *agriculture and rural development* (IPA component V), to restructure and upgrade the agricultural production sector to Community standards so as to increase its competitiveness; to restructure and upgrade the processing sector for agricultural and fishery products in the light of EU accession; to implement actions aimed at protecting the environment and maintaining the country side as well as to assist the rural communities in conceiving and implementing local and integrated rural development strategies through local private-public partnerships; to improve and develop the rural infrastructure as well as diversify the economic activities in rural areas; to develop the administrative and management capacity of those institutions implementing the IPARD programme by providing them with technical assistance support.

2.3 MULTI-ANNUAL PLANNING BY COMPONENT

The present **MIPD 2008-2010** is based on a financial envelope of **€451.4 million** which is broken down as follows:

Component	2008	2009	2010	Total
I – Transition Assistance and Institution Building	45.4	45.6	39.5	130.5
II – Cross-border cooperation	14.7	15.9	16.2	46.8
III – Regional Development	47.6	49.7	56.8	154.1
IV – Human Resources Development	12.7	14.2	15.7	42.6
V – Rural Development	25.6	25.8	26.0	77.4
Total	146.0	151.2	154.2	451.4

Component I

Transition Assistance and Institution Building

1. OBJECTIVES AND CHOICES FOR ASSISTANCE

The strategic objectives and choices for assistance under IPA component I that will be deployed during the period 2008-2010 have already been mentioned under sections 2.2.1 and 2.2.2 of this MIPD. This assistance will be provided in the light of the efforts to be pursued as identified in the 2007 Progress Report and the priorities as established in the proposed Accession Partnership, the screening reports and subsequent negotiations in the different chapters of the acquis.

Against this background, possible areas of support are:

1st area of intervention -Political criteria

- To implement a comprehensive public administration reform covering among other measures the streamlining of administrative procedures, the efficiency of administrative disputes proceedings as well as the improvement of human resources management, with a broad approach that is not limited only to reform of central government but also includes reform of regional, local government and public enterprises, also giving a voice to citizens to demand better public services and responding to pressures from a competitive private sector. Public administration reform shall be conceived as of a whole-of-government approach to capacity building including public expenditure management, revenue policy and administration, the fight against corruption, decentralisation, legal and judicial reform, sectoral institution building and public enterprise reform.
- To implement an efficient judicial reform including among others the reduction of the case backlog in courts; to ensure an acceptable length of judicial proceedings and the enforcement of court decisions; to rationalise and modernise the courts and to enhance the independence, accountability and professionalism in the judiciary; to improve the access to court and transparency towards the public and civil society;
- To assist in the systematic, efficient and coordinated fight against corruption;
- To promote respect for and protection of minorities through more efficient and comprehensive use of the legislation and sustained contribution of specialised civil society organisations and related local community development also with a view to facilitate the reconciliation among communities.
- To support activities in the field of de mining with a view to enhance the economic development as well as the overall security environment.
- In the field of **support to civil society** which is of particular importance in this area of intervention, to further support Civil Society organisations in participating and contributing in developing, implementing and monitoring public and acquis-related policies, as well as raising awareness on the challenges of EU accession, through intra-sectoral and cross-sectoral cooperation, partnership and networking on local, regional, national and trans-national levels (on a bilateral or multilateral basis); to further support the efforts of the Civil Society organisations through their monitoring in order to promote legitimacy, transparency, effectiveness, plurality and

accountability of the public administration with particular attention to fight against corruption.

2nd area of intervention - Economic criteria

- To assist the Croatian authorities in their public finance policy;
- To assist the Croatian authorities in the field of statistics;
- To assist in structural economic reforms, e.g. concerning inter alia, health and / or social security reforms;
- To assist in the labour market with a focus on improving incentive structures and flexibility;
- To assist in the field of economic environment with a focus on continuing with the restructuring of loss-making state-owned enterprises and of the railway system and sets of measures to facilitate business entry and improve bankruptcy;

3rd area of intervention - Ability to assume the obligations of membership

The proposed Accession Partnership identifies priorities in the fields of Free movement of goods; Freedom of movement of workers; Right of establishment and freedom to provide services; Free movement of capital; Public procurement; Company law; Intellectual property law; Competition; Financial services; Information society and media; Agriculture and rural development; Food safety, veterinary and phyto-sanitary policy; Fisheries; Transport policy; Energy; Taxation; Economic and Monetary Union; Statistics; Social policy and employment; Enterprise and industrial policy; Trans-European Networks; Regional policy and coordination of structural instruments; Judiciary and fundamental rights; Justice, freedom and security; Science and research; Education and culture; Environment; Consumer and health protection; Customs union; Financial control; Financial and budgetary provisions.

For these chapters of the acquis where the proposed Accession Partnership identifies some priorities, assistance will focus on:

- To support the Croatian authorities by measures aimed at adopting or completing the transposition of the acquis;
- To adopt comprehensive strategies and / or action plans so as to ensure the viability of and respect for EU rules;
- To reinforce and coordinate the administrative structures including the setting up of the management and control systems for the EU structural funds

Not necessarily all these sectors would need EU financial support, this will focus on those areas most important for the accession negotiations in the light as well of the screening reports and subsequent negotiations in the different chapters of the acquis.

4th area of intervention - Supporting programmes

To assist the Croatian authorities with some flexible technical assistance aimed at providing support for acquis implementation, project preparation and implementation as well as reinforcing their institutional capacity for the management of IPA funds; to assist Croatia's participation in Community Programmes and Agencies.

2. EXPECTED RESULTS BY THE END OF THE COVERED PERIOD AND MEASURABLE INDICATORS

In the area of the political criteria:

That administrative procedures are streamlined and human resources management is improved within the framework of *public administration reform*: that *judiciary* functions more effectively and proper access to justice is ensured; that an integrated set of measures for *fighting corruption* and for *protecting minorities* including measures aimed at fostering local community development also with a view to facilitate reconciliation among communities is in place and progressively implemented; that areas where the presence of *mines* and unexploded ordnances threatens the economic development and the overall security environment are progressively de mined. In the field of **support to civil society**: that the regulatory framework and institutional capacities at national, regional and local levels for effective consultation with the civil society are enhanced; that the capacity of Croatian CSOs in participating, developing, implementing and monitoring public or accession related strategies and programs including through local, regional, national and trans-national networking is enhanced.

In the area of the economic criteria:

That significant progress is made in structural reforms in *public finance* notably as regards fiscal transparency, public debt management and budget reporting; that progress is made in statistics notably as regards development of agricultural, macroeconomic and business statistics; that reforms in the *Labour market* are put in place and progressively implemented; that reforms in *health care* are in place and progressively implemented; that in the field of *Economic environment* an institutional framework approach for continuing with the restructuring of loss-making state-owned enterprises and of the railway system and sets of measures to facilitate business entry and improve bankruptcy procedures to speed up market exit are in place and progressively implemented;

In the area of the ability to assume the obligations of membership:

- That the *Croatian legal framework is aligned on the acquis* in the areas most important for the negotiations;
- That *comprehensive strategies and / or actions plans are set* in order to ensure the viability of and respect for EU rules in areas most important for the negotiations;
- That the *administrative capacity of the Croatian ministries and institutions is reinforced* in accordance with the priorities established in the proposed Accession Partnership.

In the area of supporting programmes:

That the capacity of the Croatian authorities to develop pipelines of projects for IPA support and for managing the IPA funds is substantially increased; that Croatia's participation in Community Programmes and Agencies is further expended.

The principle means for assessing the achievement of expected results are the annual progress reports¹¹. Besides measurable indicators will be identified during the annual programming phases. However one can already stressed that achievement of the expected results as above indicated will be measured against some *output indicators* such as for instance:

¹¹ Monitoring arrangements are further detailed in the IPA Implementing Regulation.

- As regards the **reinforcement of the administrative capacity** of the beneficiary ministries and institutions: *staff's capacity* will have been strengthened by means of successfully completed training programmes, workshops, study visits and exchange of practice with practitioners in the Member States; *technical capacity* will have been updated by means of purchase of relevant, tested and installed technical equipment as well as management information system; *working methods* of the ministries and institutions will have been enhanced according to best practices in the Member States' counterparts; *partnerships* with their Member States 'counterparts will have been developed;
- As regards the **setting-up of strategies and / or action plans**, gaps and needs analysis will have been conducted resulting in the adoption of the former along with associated manuals, guidelines and training maps, resulting in some effective measures progressively implemented;
- As regards the **alignment with the acquis**, legal gap analysis will have been conducted and adoption, implementation and enforcement successfully completed;
- As regards the **capacity building for the management of ongoing and future EU assistance**, the backlog under on going assistance will have substantially been reduced; administration and control systems for the management of on going assistance will have been reinforced; administration and control systems for EU Structural funds will have been progressively built in;
- As regards the conducting of **structural reforms**, comprehensive strategies involving all stakeholders (institutional, private sectors, civil society) will have been set up with where appropriate fully prepared and carried out public awareness campaigns;
- As regards the extent of participation and the reinforcement of the capacity building of the **Civil Society Organisations**, this will be measured against number of good practice examples of CSOs contributions in the wide spectrum of the challenges of EU accession, the number of successfully implemented projects as well as the number of established partnerships and networks, and the strength and sustainability of cooperation between Croatian and EU CSOs, in a broad goal of deepening civil society dialogue and exchanging experiences and best practices between civil society sector in Croatia and the EU member states and other candidate countries.
- Besides and where appropriate statistics in each field of intervention will reflect the progress that will have been reached (for instance in the field of fight against corruption, number of persons reported for corruption and organised crime will show an increase in accordance with a target that will have been set from scratch, etc ...).

3. FINANCIAL ALLOCATIONS

Political criteria	25 - 35 %
<i>Of which Support to civil society dialogue and development</i>	5 - 10 %
Economic criteria	5 - 15 %
Ability to assume the obligations of membership	40 - 60 %
Supporting programmes	10 - 20 %

Component II

Cross Border Co-operation

1. OBJECTIVES AND CHOICES FOR ASSISTANCE

The cross-border and trans-national programmes aim at improving the co-operation, fostering good neighbourly relations of Croatian regions with the neighbouring border areas, as well as increasing sustainable economic and social development in border areas and across the border regions.

The strategic choices supported under this Component will indicatively include:

- Co-operation among local/ regional authorities, associations, NGOs and enterprises from neighbouring regions in order to enhance their capacity to develop cross-border projects and networks and henceforth the economic and social development of eligible border regions;
- Small infrastructure to improve potential for tourism or local/ regional transport and communication, including environmental aspects;
- People-to-people actions to intensify contacts, including cultural exchanges, at local level among citizens from either side of the borders;
- Technical Assistance and information diffusion to help with programme implementation and contribute to timely delivery of results;
- Cooperation between authorities covering strategies and actions to address risks and threats to border security and organised crime.

As in 2007, IPA Component II will provide assistance over the period 2008-2010 for implementing cross-border co-operation programmes at the borders of Croatia with EU Member States and potential candidate countries as well as for Croatia's participation in ERDF trans-national programmes "South-East Europe" and "Mediterranean".

1.1 CBC with EU Member States

IPA Component II will provide assistance over the period 2008-2010 for CBC with Member States that will include Croatia's participation in the IPA CBC "Adriatic" programme – which will include the coastal areas of Italy, Slovenia and Greece and those of Candidate/potential Candidate countries along the Adriatic – and in IPA CBC programmes at land borders with Slovenia and with Hungary. At borders with the EU, IPA CBC should operate on both sides of the border on the basis of *one* set of rules, under a single management structure, for the purpose of financing genuinely joint projects for the common benefit of the two parties. Eligible regions along the borders are as follows:

Table 3: Eligible Croatian regions at NUTS III level for CBC with EU Member States

CBC programme	Eligible Croatian regions
Croatia – Slovenia	Primorje-Gorski Kotar; Karlovac; Zagreb County; Krapina-Zagorje; Međimurje; Istria; Varaždinska County
Croatia – Hungary	Međimurje; Koprivnica-Križevci; Virovitica-Podravina; Osijek-Baranja
IPA Adriatic– CBC	Istria, ; Primorje-Gorski Kotar; Lika-Senj; Zadar; Šibenik-Knin; Split Dalmatia; Dubrovnik-Neretva; Karlovačka County

Regions adjacent to these regions may participate in the relevant programme and may receive up to 20% of the programme funding, as appropriate. Such adjacent regions must be agreed by all participating countries and by the Commission.

1.2 CBC with potential candidate countries

While CBC with EU Member States is well advanced, full-fledge co-operation programmes with potential candidate countries with *Bosnia and Herzegovina*, *Montenegro*, and *Serbia*, has only started recently with some IPA funding in 2007.

IPA Component II will provide assistance over the period 2008-2010 for CBC with adjacent potential candidate countries will include Croatia's participating in programmes with Bosnia and Herzegovina, Montenegro, and Serbia¹².

Table 4: Eligible Croatian regions corresponding to NUTS III classification according to Article 88 of IPA Implementing Regulation

CBC programme	Eligible Croatian regions
Croatia-Montenegro	The eligible area consists of 1 county: Dubrovnik-Neretva County
Croatia-Bosnia and Herzegovina	The eligible area consist of 9 Counties : Vukovarsko-Srijemska County, Brodsko-Posavska County, Sisačko-Moslavačka County, Karlovačka County, Ličko-Senjska County, Zadarska County, Šibensko-Kninska County, Splitsko-Dalmatinska County, Dubrovačko-Neretvanska.
Croatia-Serbia	The eligible area consists of 2 counties: Osijek-Baranja County, Vukovar-Srijem County

Regions adjacent to these regions may participate in the relevant programme and may receive up to 20% of the programme funding, as appropriate. In Croatia, adjacent areas according to Article 97 of the IPA Implementing Regulation are referred to in the relevant 2007-2013 cross border programmes.

1.3 Participation in ERDF trans-national programmes

In addition, and as above mentioned building on the experience gained in the context of the CADSES programme, IPA Component II funds for the period 2008-2010 are available to support Croatia's participation in ERDF trans-national programmes "South-East Europe" and "Mediterranean" that was for the first time provided financial support under IPA 2007.

2. EXPECTED RESULTS BY THE END OF THE COVERED PERIOD AND MEASURABLE INDICATORS

The expected results to be obtained are laid in details down in the respective multi annual programmes. In more general terms, the *expected results* of pre-accession assistance provided under Component II is an improvement in the co-operation and good neighbourly relations of Croatian regions with the neighbouring border areas and an increased sustainable economic and social development in border areas and across the border regions.

Achievement of the measure will be measured on the basis of the following indicators:

¹² over the period 2004-2006 only the grant scheme 'Cross-Border Regions Co-operation with Serbia, Montenegro, Bosnia and Herzegovina' funded from the Croatian CARDS 2004 provided for funding for small cross border measures at the borders of these countries

Output indicators: for instance the number of organisations that will establish cross-border cooperation agreements aimed at carrying-out joint operations, and/or developing common systems; the number of projects (in the fields of economic and social development – including education and vocational training in the eligible border regions; small infrastructure to improve potential for tourism or local/ regional transport and communication, environmental protection,...) which will be jointly implemented.

Result indicators: for instance increased cross-border cooperation through joint initiatives/projects; accessibility rate of social services for local population; number of people successfully completing educational *cursus* or vocational training; accessibility of transport and tourists infrastructures; increased level of business innovation; decrease in financial and environmental damage caused by pollution emissions; increased public awareness of cross-border initiatives. The achievement of expected results will be provided for in the annual progress reports¹³.

3. FINANCIAL ALLOCATIONS

Within the IPA component II funds, the following indicative amounts are earmarked for CBC with EU Member States, for CBC programmes between Croatia and the adjacent potential candidate countries and for the possible participation of Croatia in the relevant ERDF trans-national programmes:

Table 5: Financial indications – Component II (million €, current prices)

CBC programme	IPA funds 2008	IPA funds 2009	IPA funds 2010	Total IPA 2008-2010	%
Croatia – Slovenia	2.94	3.21	3.27	9.42	20.1%
Croatia – Hungary	2.40	2.62	2.67	7.69	16.4%
IPA Adriatic CBC	6.68	7.31	7.46	21.45	45.8%
Sub-total cross border programmes with Member States	12.02	13.14	13.40	38.56	82.3%
Croatia-Montenegro	0.40	0.40	0.40	1.20	2.6%
Croatia-Bosnia and Herzegovina	1.0	1.0	1.0	3.00	6.4%
Croatia-Serbia	0.8	0.8	0.8	2.40	5.1%
Sub-total cross border programmes with IPA countries	2.20	2.20	2.20	6.60	14.1%
Croatia's participation in ERDF trans-national programmes "South-East Europe" and "Mediterranean"	0.51	0.56	0.62	1.69	3.6%
Total	14.73	15.9	16.22	46.85	100%

¹³ Monitoring arrangements are further detailed in the IPA Implementing Regulation.

Component III

Regional Development

1. OBJECTIVES AND CHOICES FOR ASSISTANCE

1.1 Major areas of intervention

1.1.1 Environment

According to the *Accession Partnership* the main areas of intervention for Croatia in the environmental area are the following sectors:

- **waste water**
- **drinking water**
- **waste management**

Particular emphasis is to be given to the management of *solid waste*. In this respect the implementation of the national waste management plan is to be a priority. The plan provides a strategic and structured approach to the problems of waste management at both the national and regional levels. The measures to be taken will complement measures already started using ISPA.

Projects in the area of *water and waste water* will be carried out in the order of their expected environmental impact, readiness for implementation and availability of finance, starting with projects in the largest conurbations.

In general and wherever possible, the measures are to be complementary to previous measures carried out under different EU programmes, or by IFIs, in order to create a larger impact as well as provide a consistent approach.

1.1.2 Transport

The main priority outlined in the Accession Partnership for the transport sector is the continuation of the implementation of the Memorandum of Understanding on the Development of the South East Europe Core Regional Transport Network. In the case of Croatia this means the implementation of measures on the four Pan European corridors that run through the country i.e. corridors X, VII, Vb and Vc, These four corridors are given particular priority in the MoU. Recent efforts by Croatia have concentrated on improving and extending the motorway network along these corridors and, as a result, the railway network and inland waterway transport have become increasingly less competitive. To redress this situation the main priority for the transport sector will be the *upgrading and improvement of the railway sector* and *the upgrading of the inland waterway infrastructure*. Due to the limited funds available it will be essential to concentrate efforts at specific areas in order to ensure maximum impact from the available resources. Since *corridor X* is the most important transport corridor in Croatia, and measures to upgrade the inland waterway infrastructure along *corridor VII* can be realised with relatively low individual budgets, the available finance will be used to implement measures primarily along these routes. Wherever possible, River Information Services should be provided when making improvements to inland waterways. . Furthermore, due to the limited amount of funds the mobilisation of additional sources of finance such as EIB, IFIs or Public Private Partnerships should be attempted wherever possible.

1.1.3 Regional competitiveness

Economic competitiveness

As recognized by the Lisbon and Gothenburg strategies, policies aimed at establishing and supporting new enterprises (especially SMEs), nurturing an information society, and development based on innovation and new technologies have a positive effect on **economic competitiveness** and sustainable and cohesive development. One element underpinning successful intervention is the need to increase productivity by means of increased investment, notably by SMEs, into RTD, innovation and new technologies, including through an enhanced cooperation between the private sector and scientific bodies. The other is one of pursuing international standards, specialization, and focus on **high value added products** and **services** through more and better entrepreneurship training, assistance and business infrastructure, as well as networking and clusters. These kinds of policy improvements contribute to the overall priority which the **Accession Partnership** for Croatia identifies in the short-term, namely the need to further **improve** the **business environment** by improving conditions for the development of private enterprises and direct investment and by simplifying rules of market entry and exit.

Territorial concentration

In order for the limited IPA resources to be effective in strengthening the country's internal cohesion, it is required that assistance focuses, in priority, on reducing the **socio-economic disparities** between **disadvantaged areas** and the rest of the country. Among others, these areas include mainly the war-affected areas. In principle, disadvantaged **border areas** would qualify but only to the extent that the assisted activities would not qualify for assistance under **Component II**. From this point of view, IPA assistance is consistent with the approach adopted by the national **Programme for Development of Disadvantaged Areas (PDDA)** which constitutes one of the instruments of the **Draft National Strategy for Regional Development**.

1.1.4 Capacity building

As part of further developing and implementing a comprehensive and coherent strategy of regional development, there is a significant need for **strengthening administrative capacity** and the institutional base of the bodies dealing with IPA funds. This is a pre-condition for drawing pre-accession and future structural funds, as well as for efficiently directing and disposing of these funds within Croatia itself. However, addressing this overall need satisfactorily within the framework of the Regional Competitiveness, Environmental Protection and Transportation intervention areas goes beyond the scope and capacity of these individual areas. In principle, capacity building activities at different levels will be limited to those activities where they concern a better and proactive delivery of services and products. Capacity building activities aimed at strengthening the wider institutional framework for a sustainable regional development policy would then qualify for IPA assistance under Component I.

1.2 Main priorities and objectives

1.2.1 Environment

The priorities identified in the environment sector for the 2007-2009 period will be maintained for the 2008-2010 period. Environmental projects to be financed under IPA need to be closely linked to the implementation of environmental plans in the relevant sectors (water, waste water, and waste management) with **waste management** projects being the subject of particular attention. Investments for the promotion of energy efficiency and the use

of renewable energy sources may also be supported under this priority. Projects will be selected with the aim of achieving maximum impact where the national financing capacity is insufficient and absorption capacity is assured and in a way that compliments or enhances other measures already taken in the sector.

The prioritisation of projects to be financed under IPA constitutes a key issue. In this context the *prioritisation criteria* must be considered very carefully. Based on previous experience the following main criteria are suggested:

- a link to the implementation of environmental plans and sectoral strategies for the environmental *acquis*;
- an integrated approach;
- having a major impact on the population;
- the financing capacity, taking also account of co-financing capability;
- respect for the general principles of environmental policies/conventions;
- the institutional capacity;
- respect of the polluter pays principle;
- the financial sustainability;
- adequate balance with other financial sources.

Water sector

Investments relating to *waste water collection* and *treatment*, and *drinking water supply* are to be the priorities in the water sector. In order to most efficiently distribute the available resources consideration should be given to the following factors:

- the construction of wastewater treatment plants in settlements where sewerage networks are already well developed;
- increasing the sewerage network connection rates and constructing wastewater treatment plants in areas with already well developed water supply systems;
- repairing existing sewerage networks suffering from significant permeability, which threatens drinking water sources;
- increasing the quality of water supplies;
- the reduction of water network losses to ensure greater efficiency of the existing water distribution systems;
- increasing the efficiency and reliability of public sewerage and wastewater treatment systems;
- the compatibility, operating and efficiency implications of constructing secondary and tertiary sewage treatment facilities in independent stages.

Waste management

Waste management measures in Croatia are to be undertaken within the framework of the National Waste Management Plan and corresponding Regional Waste Management Plans which are mandatory according to Art. 7 of the Waste Framework Directive (2006/12/EC). Due to the limited amount of funds available, measures should be concentrated in infrastructure investments, by constructing new waste management centres at county and/or regional levels, reducing the amount of waste to be sent for landfill by improvement of

separate waste collection, recycling and waste treatment systems and remediation and/or closing selected existing local landfills.

Projects must be of *sufficient scale* to have a significant impact in the field of environmental protection and the creation of *new waste management facilities* should take precedence over the remediation/closure of locally existing landfills, which should be implemented as soon as possible following the completion of the new waste management facility.

A systematic approach needs to be taken in each county/region by concentrating initially on measures that provide the maximum environmental improvement for the limited available funds. In this respect maximum opportunity should be given to the involvement of the private sector in particular with relation to waste segregation, recycling and waste treatment activities.

1.2.2 Transport

The priorities identified in the transportation sector for the 2007-2009 period will be maintained for the 2008-2010 period. In order to improve inter-modal and inter-operability possibilities in accordance with EC Directives, measures in the transport sector are to be aimed at modernising and improving the *railway network* and *inland waterways network* to European standards primarily along Pan European corridors X and VII, which forms part of the South East Europe Core Regional Network. The measures to be undertaken must be selected and implemented in a coordinated and structured way, taking into account the work carried out in the South East Europe Transport Observatory (SEETO), to ensure an immediate benefit following completion. Wherever possible, River Information Services should be provided when making improvements to inland waterways. .. Maximum involvement of the EIB and IFIs should be sought in order to maximise the impact of the measures to be funded by IPA, as well as due to the capital-intensive nature of the sector.

1.2.3 Regional competitiveness

The priorities under this area of intervention can be grouped under two distinct objectives:

The *first objective* is to achieve higher competitiveness and balanced regional development by supporting SME competitiveness and by improving economic conditions in Croatia's disadvantaged areas.

Assistance under this objective will thus focus on providing quality business related infrastructure in Croatia's disadvantaged areas, improving positive business and investment climate and effective public business support at all levels and building up technology transfer and commercialization capacities of education and research institutions.

The *second objective* aims at empowering and increasing the **capacity** for action, effective governance and flexible cooperation of the public administrations at national, county and local level, as appropriate, with respect to the support measures enumerated under the first objective. The priorities under this objective will encompass support to the improvement of administrative efficiency regarding the delivery to SMEs of quality advice, e-business, entrepreneurial support services, and the stimulation of systems of cooperation, networking, partnerships, workshops and clusters of excellence between business and other institutions. Assistance under Component I may in this regard be used to support improvements in the overall business environment in Croatia.

2. PROGRAMMES TO BE IMPLEMENTED IN PURSUIT OF THESE AREAS OF INTERVENTION

IPA funds under Component III will be implemented through three multi-annual Operational Programmes: Environmental Operational Programme, Transport Operational Programme and Regional Competitiveness Operational Programme.

Investments implemented through the environmental and transport operational programmes must comply with sustainable development principles and meet relevant environmental norms, in particular directives on EIA (85/337/EEC, as amended), as well as Habitats and Birds (92/43/EC and 79/409/EEC) in order to avoid negative impacts on potential Natura 2000 sites, and the relevant environmental acquis.

In addition to the above the investments funded under component III should be selected and implemented with the involvement of the relevant representatives of civil society to ensure programme transparency and the broadest possible public support.

2.1 Environment OP

The overall objective of the EPOP is to invest in those projects that will contribute the greatest impact with the limited resources available in the waste and water sub-sectors, whilst assisting Croatia meet its obligations for implementing the EU environmental *acquis* governing the treatment and disposal of waste, the supply of drinking water, collection, treatment and discharge of waste water, and also developing the administrative and management capacity of those institutions implementing the EPOP. Consequently, the EPOP will improve access to and delivery of environmental services and facilities in the waste and water sub-sectors and also will produce other indirect development benefits out of IPA assistance, such as raising the quality of life of residents, attracting new productive investment and the creation of new jobs.

The Environmental Protection Operational Programme will address the following priorities/measures:

Priority 1 - Development of Waste Management Infrastructure for Establishing an Integrated Waste Management System in Croatia

This priority axis aims to establish an integrated waste management system by the development of waste management infrastructure. This priority will concentrate on the construction of waste management centres at county/regional level as well as the remediation of sites highly polluted by waste. The actions will contribute to the protection of the environment and human health.

Priority 2 - Protection of Croatia's Water Resources through Improved Water Supply and Waste Water Integrated Management Systems

This priority aims to develop modern water management systems in relation to both drinking and waste water and by doing so, to protect Croatia's water resources and comply with EU standards.

Priority 3 - Technical Assistance

This priority axis aims to ensure the sound and efficient management and implementation of the programme, by improving the administrative capacity of the institutions concerned and supporting implementation, monitoring, evaluation, control and communication activities, as well as to prepare projects for subsequent programmes.

2.2 Transport OP

The main objective of the TOP is to invest in projects which will have the greatest impact on the modernisation of the railways and, in parallel, to continue preparing projects for future investments in upgrading and improving the inland waterway sector, since, at this time, there is a lack of suitably mature projects that could be implemented during this Operational Programme period. In addition the aim is to develop the administrative and management capacity of those institutions implementing the TOP. Implementing the TOP measures will produce direct development benefits such as a reduction in the time taken to shift freight, increasing the safety of journeys, and making inland waterways more competitive and less expensive in relation to other transport modes.

The Transportation Operational Programme will address the following priorities/measures:

Priority 1 - Upgrading Croatia's rail transport system

The priority axis aims to gradually improve the standard of Croatian railways, in particular the line along TEN Corridor X within Croatia, so that they increasingly meet EU requirements.

Priority 2 - Upgrading Croatia's inland waterway system

This priority axis aims to rehabilitate the Sava river waterway to category IV navigational status, including its alignment with the EU River Information System (RIS).

Priority 3 - Technical Assistance

This priority axis aims to ensure the sound and efficient management and implementation of the programme, by improving the administrative capacity of the institutions concerned in all the relevant areas. It will also be used to prepare projects for subsequent programmes.

2.3 Regional Competitiveness OP

The overall objective of the "Regional Competitiveness" programme is to achieve higher competitiveness and a balanced regional development by supporting small and medium enterprises' competitiveness, alongside with improving economic conditions in Croatia's lagging areas. IPA funds will therefore support soft services to SMEs, strategic cooperation between companies, strengthening of entrepreneurial skills in the academia, promoting business and investment climate, developing business-related infrastructure.

The thematic and geographical concentration of the assistance on limited number of strategic priorities and on disadvantaged areas will assure maximising the development impact of the IPA intervention. The geographical concentration will be achieved through focusing on the ten counties that have more than 50% of their surface area categorised as an area of special state concern (mainly war affected areas). All ten of these counties are within the two NUTS II regions whose GDP is below the national average (Panonian Croatia, Adriatic Croatia).

The Regional Competitiveness Operational Programme will address the following priorities/measures:

Priority axis 1 - Improving the development potential of lagging behind regions

This priority targets the so called lagging areas and focuses on ten counties experiencing the most significant disadvantage. The *measure 1.1 Business Related Infrastructure* will support the creation and growth of small and medium enterprises by providing in these areas quality business related infrastructure and business support.

Priority axis 2 - Enhancing the competitiveness of the Croatian economy

This priority aims to enhance the competitiveness of the Croatian overall economy and in particular to enhance growth of SMEs. Under the *measure 2.1 Improvement of business climate* assistance will focus on making quality business advisory services more accessible to SMEs, improving business and investment climate, encouraging cooperation between businesses through development of clusters, developing effective business support capacities relative to e-business and on improvement of administrative efficiency in SME policy. *Measure 2.2 Technology transfer and support services for knowledge-based start-ups* will support cooperation of business and education and research sectors and developing capacities for technology transfer.

Priority axis 3 - Technical Assistance

This priority aims to ensure the sound and efficient management and implementation of the programme, by improving the administrative capacity of the institutions concerned and supporting implementation, monitoring, evaluation, control and communication activities, as well as to prepare sectoral studies and future operational programmes.

3. EXPECTED RESULTS BY THE END OF THE COVERED PERIOD AND MEASURABLE INDICATORS

In addition to the specific results expected from *investments* in the *environment* and *transport* sector, on the one hand, and from *support measures to SMEs*, on the other, a core objective of Components III and IV is to support Croatia in the areas of *policy development* and *project and programme implementation and management*, with a view to its successful *participation* in the *Community's Cohesion policy* and *other financial instruments upon accession*. Accordingly, key expected results of IPA support under the Regional Development Component are:

- Acquisition of experience in investment planning, implementation and management capacity, through technical assistance interventions and through a process of "*learning by doing*";
- Improvement of the *capacity* to prepare, implement and manage *large-scale infrastructure projects* in the environment and transport sectors, as well as a *programme* comprising various areas activities concerning *SME development*, following a Structural Funds and Cohesion Fund approach, in particular at the level of the beneficiary.

3.1 Environment

The *expected results* of the priorities supported in the environmental domain are:

- a reduction of the pollution of recipient water bodies;
- an increase in the quality and availability of drinking water;
- further development of an integrated waste management system;
- the construction of waste management centres compliant with EU requirements and the remediation and/or closure of selected existing landfills;
- an improvement in the capacity to prepare, implement and manage large-scale infrastructure projects in the environmental sector, in particular at beneficiary level;
- environmental protection will be improved;
- efficiency and sustainability will be improved;

- use of conventional energy will be reduced;
- new jobs will be created;
- consumer friendly output will be furnished.

3.2 Transport

The *expected results* of the priorities supported in the transport domain are:

- inter-modal competition will be restored;
- links with the European Union will be improved;
- the level of safety will be considerably increased;
- traffic bottlenecks will be reduced;
- waiting times at borders will be reduced;
- efficiency and sustainability will be improved;
- travel times for freight and passenger traffic will be reduced;
- bulk freight traffic will be diverted off the highway network.

3.3 Regional competitiveness

The *expected results* of the priorities supported in the Regional Competitiveness domain are:

- innovation and technology content of products of and processes in SMEs will be enhanced and international industrial standards be introduced;
- new businesses will be created in the manufacturing and services sectors and existing businesses will be reinforced;
- cooperation and networking between SMEs as well as between SMEs and other stakeholders, universities and R&D institutions will be strengthened;
- turnover and export performance of SMEs will be increased;
- new jobs will be created and the quality of existing jobs will be improved;
- e-communication and ICT content of enterprises will be enhanced;
- business and investment climate will be improved;
- income and quality of living in the disadvantaged areas will be improved.

4. FINANCIAL INDICATIONS

Table 8: Financial indications – Component III

Environment programme	35 – 40 %
Transport programme	35 – 40 %
Regional Competitiveness programme	20 – 30 %

Component IV

Human Resources Development

1. OBJECTIVES AND CHOICES FOR ASSISTANCE

1.1 Major areas of intervention

In identifying the *major areas of intervention and goals* set out hereunder in respect of assistance under component IV, appropriate reference has been made to the Accession Partnership as well as to the Community Strategic Guidelines 2007-2013 [COM (2005) 0299] and the integrated Employment Guidelines (Council Decision 2005/600/EC of 12 July 2005). These include, in particular, the goals of:

- Attracting and retaining more people in employment and modernising social protection systems;
- Improving adaptability of enterprises and workers including labour market flexibility;
- Increasing human capital investment through better education, and skills;
- Strengthening administrative capacity in the employment, education/training, and social fields.

1.2 Main priorities and objectives

While recognising the need to ensure a high degree of concentration in line with relatively limited availability of assistance over the 2007-2010 period, the *main priorities* identified within each of the major areas of intervention are designed to provide a policy platform such that the priorities and measures assisted under component IV will act as a pre-cursor or catalyst to the on-going and further development of programming priorities as set out under Article 3 of the ESF Regulation (2007-2013).

Moreover, where component IV assistance is channelled towards the development of *systems* and/or *qualification frameworks*, the on-going objective will be to ensure that the expected 'value-added' and 'multiplier' effects are built on and consolidated under future ESF programming and priority setting.

In a wider policy context, appropriate account has also been taken of the analysis presented under the *JAP* and *JIM* joint cooperation processes. Together with the proposed Accession Partnership, this framework will serve as a key platform in which to develop a more strategic approach towards effective implementation of identified priorities and challenges.

Also within the framework of the proposed Accession Partnership, the on-going drive to improve efficiency as part of public administration reform in the employment, education and social inclusion fields will, together with the capacity to effectively manage and implement future ESF funding at central, regional and local level, remain a key focus of the assistance provided under component IV.

The *main priorities and objectives* corresponding to each of the major areas of intervention are set out as follows:

1.2.1 Attracting and retaining more people in employment:

Increase participation in employment and strengthen both active and preventive labour market measures. Promote occupational and geographical mobility and develop more effective '*matching*' of labour supply and demand (*incl.* development of '*synergies*' with the '*competitiveness*' elements of component III). Address regional disparities in employment. Reinforce social inclusion at local and regional level through better targeting of vulnerable groups including enhanced access to employment and labour market re-integration of job-seekers and the inactive.

1.2.2 Improving adaptability of enterprises and workers:

Develop a more anticipatory approach to work and economic change and increase investment in competencies and qualifications of both workers and enterprises. Encourage active ageing and longer working lives. Promote a culture of entrepreneurship and develop more innovative and productive forms of work organisation. Promote a more flexible labour market in conjunction with more efficient social security measures. Further strengthen social dialogue bipartite mechanisms and promote a more active role on the part of the social partners.

1.2.3 Increasing human capital investment:

As part of developing a coherent HRD policy and national qualifications framework, increase the overall efficiency and quality of the education and training systems to promote greater employability. Strengthen human capital investment through better education and skills and the promotion of knowledge, research and innovation. Improve the labour market relevance of initial and continuing vocational education and training. Develop the overall offer, access and quality of adult provision as part of a life-long learning strategy.

1.2.4 Strengthening administrative capacity:

Develop institutional capacity and efficiency of public administration in the employment, education, and social fields. Strengthen the effectiveness of labour market institutions, in particular the employment services.

As an integral part of the MIPD strategy of promoting a series of ***cross-cutting*** themes across the IPA instrument as a whole, all operations carried out in respect of the above-mentioned priorities should fulfil the requirement of promoting equality between men and women (including the integration of the gender perspective) as well as the promotion of sustainable development and environmental protection at all stages of implementation.

2. PROGRAMME TO BE IMPLEMENTED IN PURSUIT OF THESE PRIORITIES

IPA assistance under component IV will be implemented through a **single multi-annual Operational Programme**, namely, the Human Resources Development Operational Programme (HRD OP).

The overall strategic objective of this programme is to contribute to the creation of more and better jobs through priority goals designed to attract and retain more people in employment, reinforce social inclusion and promote adaptability of enterprises and workers.

While the HRD OP will implement the following three operational priority axes over the 2007-2009 programming period (including a technical assistance priority axis), an increasing policy focus will be put on improving the adaptability of enterprises and workers in 2010. In the meantime, in preparation for a 'roll out' towards this objective, the current programming focus is being specifically directed towards strengthening operational and delivery capacity within the relevant institutions and partners:

Priority Axis 1 - Enhancing access to employment and sustainable inclusion in the labour market

This priority axis aims at reducing unemployment through active and preventive labour market actions which assist the unemployed to find sustainable jobs. At the same time, it focuses on the threat of unemployment through targeted actions for those most exposed to job losses.

Priority Axis 2 - Reinforcing social inclusion and integration of people at a disadvantage

This priority axis centres on the objective of promoting social inclusion for disadvantaged groups through greater access to education and integration into the labour market. It also aims to reduce the barriers to employment by strengthening the role of communities and care services as well as supporting effective social inclusion 'pathways' for the most vulnerable and marginalised groups.

Priority Axis 3 - Enhancing human capital and employability

The aim under this priority axis is to facilitate the delivery of new, high-quality VET curricula which matches the demands of the labour market. The axis also aims at strengthening the institutional framework for the development of occupational standards, qualifications and curricula including support for local VET establishments in the implementation of 'bottom-up' strategies and in testing the strategic benefits of particular VET reforms. The development of an integrated and systematic approach to quality assurance in VET represents a core objective spanning the axis as a whole.

Priority axis 4 - Technical Assistance

This priority aims to ensure a sound and efficient management and implementation of the programme, in particular by improving the administrative capacity of the institutions concerned as well as in supporting the implementation, monitoring, evaluation, control and communication activities, including the preparation of a 'project pipeline' to implement the programme.

3. EXPECTED RESULTS BY THE END OF THE COVERED PERIOD AND MEASURABLE INDICATORS

Under Component IV, the time-frame for assessing the ***expected results*** will continue to focus on the on-going programme execution and, in particular, on strengthening the public employment and education/training systems as well as on building the required structures and capacity to effectively manage and implement future ESF assistance.

Moreover, insofar as the beneficiaries targeted under the Component IV interventions are concerned, results will continue to focus on measuring progress in terms of their levels of enhanced access to employment and sustainable inclusion in the labour market as well as reinforcing social inclusion for the most disadvantaged.

In a wider policy context, the objectives of assistance provided under the ***single HRD OP*** will remain consistent with the HRD-related 'strategic priorities' set out in the SCF. Moreover, they will remain closely aligned with the key employment and HRD 'challenges' established under the JAP and JIM joint processes as well as with the relevant provisions of the Community Strategic Guidelines (2007-2013) , in particular the revised Lisbon Integrated (Employment) Guidelines.

From a ***structural funds*** perspective, the expected results will continue to focus on the extent to which Component IV assistance effectively acts as a '*pre-cursor*' towards establishing the

capacity to deliver future ESF policy and operational requirements , in particular in the fields of employment, education and training and social inclusion.

In the longer-term, the *time-frame* envisaged for the expected results as they relate to ESF preparations remains the date of accession.

4. FINANCIAL INDICATIONS

In respect of the *major areas of intervention* set out under section 1, and taking appropriate account of the nature and scope of the *main priorities* outlined under section 2, the following indicative financial weightings (% ranges) have been revised as follows:

Table 9: Financial indications – Component IV

Attracting and retaining more people in employment	30 – 40 %
Improving adaptability of enterprises and workers	10 – 20 %
Increasing human capital investment	35 – 40 %
Strengthening administrative capacity	15 – 20 %

Component V

Rural Development

1. OBJECTIVES AND CHOICES FOR ASSISTANCE

Major areas of intervention

Assistance under the IPA Rural Development Programme (IPARD) will target the following three main priorities:

Priority axis 1: Interventions under this priority have to contribute to the sustainable adaptation of the agricultural sector and the implementation of Community standards concerning the common agricultural policy and policy areas like food safety, veterinary, phyto-sanitary and environmental matters.

Priority axis 2: Interventions under this priority have in particular to take the form of preparatory actions for the implementation of agri-environmental measures and Leader.

Priority axis 3: Interventions under this priority have to contribute to the sustainable development of rural areas while supporting the development of the rural economy.

Main priorities and objectives

Under **priority axis 1** the potential key issues to be addressed in Croatia should therefore be:

- (a) The restructuring and the upgrading of the agricultural production sector to Community standards to increase the sector's competitiveness.
- (b) The restructuring and upgrading to Community standards of the processing sector for agricultural and fishery products in the light of EU accession.

Under **priority axis 2** the potential key issues to be addressed in Croatia should be:

- (a) The preparation for the implementation of actions designed to protect the environment and maintain the country side.
- (b) The preparation of rural communities to conceive and implement local and integrated rural development strategies through local private-public partnerships.

Under **priority axis 3** the potential key issues to be addressed in Croatia should be:

- (a) The improvement and development of rural infrastructure
- (b) The development and diversification of economic activities in rural areas.

To priority axis 1

According to the Croatian Accession Partnership the importance should be laid on the upgrading of agro-food establishments in order to meet Community standards as well as to establish a system for the treatment of animal by products. Moreover, Croatia should strengthen the necessary implementing structures including the control and inspection services.

The modernisation and restructuring of the farm and agricultural processing sectors should first and foremost be achieved through the upgrading to the Community standards on environmental protection, public health, animal and plant health, animal welfare and occupational safety. Support granted towards the achievement of these objectives should mainly be concentrated on sectors where the related *acquis communautaire* to implement is

particularly comprehensive and demanding like in the dairy, meat, fish processing sectors as well as in the rendering sector and where an in-depth analysis involving independent expertise has been carried out.

For the agricultural production sector such interventions should help to develop the sector in particular in regard to the respect of relevant Community standards which will help the sector to further develop the capability to deliver agricultural produce in the quantity and quality satisfactory for the agro-food industry. A specific focus will also be laid achieving the respect of Community standards in regard to manure handling and storage as well as the production of raw milk. Bigger production entities will be limited to investments in manure handling, except the egg sector where the support of specific heavy investments required by the acquis will be covered. Integrated systems (production/processing entities) will be excluded from IPARD support.

Interventions in the agricultural food processing sector will in particular focus on the first processing sequence of agricultural and fishery products as well as the treatment of animal by products (by-products plants). Support for investments in the processing sector will be linked to the national plan for upgrading of establishments and targeted on small and medium sized enterprises with the emphasis on investments in establishments to upgrade to relevant Community standards. Establishments already approved for the EU market will be excluded from support under this Component.

Due to limited funds under Component V Croatia decided to support the establishment of producer groups in the fruit and vegetable sector which was identified as a weakness in the sector from the national budget. The measure should be developed along the requirements of the EU Common Market Organisation for fruit and vegetables.

To priority axis 2

The preparation for the implementation of actions designed to protect the environment and maintain the countryside should help Croatia in particular to prepare for the implementation of the agri-environment measure, which will become obligatory under the Rural Development Programme for EU Member States. As proposed in the IPARD programme, pilot measures will apply a two-tier approach: horizontal information transfer and education programme as well as three specific pilot measures in designated areas. The training programme will be addressed to key stakeholders. The site specific measures are designed to address two major problems of Croatian agriculture: decline of biodiversity on grassland and environmental degradation caused by inappropriate agriculture practices on arable land. Consequently, Croatian authorities shall set up a system which allows the implementation of those measures.

The application of Leader will become obligatory under the Rural Development Programme for EU Member states as well. The Leader approach, including establishment of Local Action Groups (LAGs), has not been implemented in Croatia before. The preparation of rural communities to conceive and implement rural development strategies through local private-public partnerships will help the Croatian rural population and the national administration to build up a Leader structure and learn how to implement the Leader approach. This aim will be realised by focusing the limited resources on trainings, workshops sessions, and information and promotion activities. The Leader method will, until this measure is accredited, be financed through the Technical Assistance measure.

To priority axis 3

The 'Development of Rural Infrastructure' should focus on municipalities and cities below 10,000 inhabitants, which form part of or cover specific territories (e.g. agricultural zones, fire risk zones I and II, counties with Regional Operation Programmes in place). The beneficiary

will receive support to implement projects addressing specific needs of the rural population, such as the construction of local public roads connecting farms located in agricultural production zones identified in the spatial plan of the municipality. Support will also be provided for the construction of sewage systems and wastewater treatment plants, fire-prevention roads and heating plants to use bio-waste from agriculture and forestry. This approach should ensure that specific weaknesses of rural areas (infrastructure) are addressed as well as strengths (natural resources) utilized and that the limited funds available under IPARD is used in a most effective and efficient way.

The diversification and development of economic activities should especially help the rural population, in particular the big number of small Croatian farmers, to build up economic activities (on and off farm), for example in the area of rural tourism, but also through on-farm activities such as processing of primary products and handicrafts, creating additional income sources and employment opportunities in rural areas.

The SWOT analysis in the IPARD Programme identifies the national vocational training programme as a weakness. The inclusion of such a support measure under the Rural Development Programme of 2007-2013 was also recommended by the ex-ante evaluation of the Croatian SAPARD programme, the forerunner programme of IPARD.

Training activities for the urban but also the rural population will be covered under Component IV whereas specific training needs in regard to IPARD should be covered by Component V. Due to limited funds under Component V, Croatia has decided to develop a national training programme funded by the national budget with the objective to cover any training needed specific to the implementation of the IPARD programme.

In general terms, measures under the IPARD programme should be complementary to the national support scheme supported or any other support scheme available in Croatia.

Horizontal issues

The implementation of the IPARD Programme requires well functioning inspection services in the field of environmental protection, public health, animal and plant health, animal welfare and occupational safety. Such services must be able to issue supporting documents required for the application of support and to carry out ex-ante and ex-post controls as regards the respect of Community standards of projects supported under this Component. As stipulated in the Accession Partnership the administrative capacity has to be strengthened (sufficient employees, training of staff, necessary equipment). Moreover, the services have to be functional to the extent necessary when the implementation of the IPARD Programme starts.

Equally important for the successful implementation of the IPARD programme is related to an area-wide acting and high quality extension/advisory service. The responsible national authorities should ensure that such a service is sufficiently supported, trained and prepared to provide the necessary information and advice to potential beneficiary to enable them to apply for support under the IPARD programme.

Croatia should adopt a rural development strategy identifying the priorities and objectives of a development policy of rural areas in Croatia as soon as possible.

Croatia should continue preparations to establish effective and financially sound paying bodies for the management and control of agricultural funds, in line with EU requirements and international auditing standards.

Assistance to the above-mentioned horizontal issues may be provided under Component, I if necessary.

2. PROGRAMME TO BE IMPLEMENTED IN PURSUIT OF THESE PRIORITIES

IPA funds under Component V will be implemented through a **single multi-annual Rural Development Programme covering the entire period of 2007-2013**. Following the Commission's strategy guidance provided by the MIPD, the IPARD Programme will address the following measures under:

Priority axis 1 with two measures

- Investments in agricultural holdings to restructure and to upgrade to Community standards (milk, meat (cattle, pigs, poultry), eggs, fruit and vegetables, grain and oil crops);
- Investments in the processing and marketing of agriculture and fishery products to restructure those activities and to upgrade them to Community standards (milk, meat including by-products plants, fish, fruit and vegetables, wine, olive oil).

Since the implementation of measure 'Setting up of producer groups' will not be covered by the IPARD programme it will have to be prepared and implemented under national responsibility. The implementation of this measure is made a precondition for the fruit and vegetable processing sector to received support under IPARD.

Priority axis 2 with two measures

- Actions to improve the environment and the country side, with training programme and three specific site projects;
- Preparation and implementation of local rural development strategies, with three sub-measures: Acquisition of skills, animating the inhabitants of LAG territories, Implementation of local development strategies and Cooperation projects.

These two measures are going to be implemented as of 2009 of which the current text of the Programme only holds an outline to be further detailed subsequent to a capacity-building process during 2007-2008.

Priority axis 3 with two measures

- Under measure 'Improvement and development of rural infrastructure' municipalities and cities up to 10,000 inhabitants will receive support for investments into local unclassified roads as well as fire-prevention roads, sewerage systems and wastewater treatment plants and heating plants;
- Diversification and development of rural economic activities are supported if they are conducted by farmers and micro businesses in the fields of rural tourism, direct marketing, traditional crafts, on farm activities (on farm processing, mushrooms production), freshwater aquaculture, rural services and renewable energy.

As the measure 'Improvement of training' will not be covered by the IPARD programme any training requirements in regard to the IPARD programme will have to be addressed by a national training programme which should be established and implemented in time and under national responsibility.

Projects supported under the IPA Components I-IV or any other national or international programmes in Croatia will be excluded from support under Component V requiring the country to set up respective monitoring and control structures as well as procedures.

It is expected that a large number of applications will be generated under the Rural Development Component of the IPA which will require sound management of a substantial number of projects. As under all agricultural and rural development programmes, such

projects are generally relatively small because of the size of the beneficiaries. Consequently, the IPARD Programme will be implemented by the Beneficiary Country in the framework of a system which is fully decentralised subsequent to an ex-ante audit performed by the Commission prior to the conferral of management of aid and with ex-post control by the Commission in the following. Financial assistance under Component V will be consistent with the principles applied to rural development programmes for EU Member states.

Assistance will be granted in the form of support for private investments undertaken by natural or legal persons like farmers, food processing enterprises, except for measure 'Rural infrastructure' where municipalities or cities up to 10,000 inhabitants can be beneficiaries.

3. EXPECTED RESULTS BY THE END OF THE COVERED PERIOD AND MEASURABLE INDICATORS

Taking account of the limited amount of funding available for Component V of the IPA, the assistance provided under the three priority axes under Component V to be implemented through a multi-annual programme covering the entire period 2007-2013 should contribute to the results specified in the programme and measured by the following indicators by the time Croatia joins the European Union as a Member state:

Priority axis 1:

- Improved gross farm income of the beneficiary farmers;
- Improved production conditions in terms of compliance with EU standards;
- Increased added value of agricultural and fishery products through improved and rationalised processing and marketing of products;
- Increased number of agro-food establishments respecting relevant Community standards.

Priority axis 2: (due to planned implementation as of 2009, the below indicators will only become relevant after 2009)

- Better protection of natural resources in the beneficiary areas;
- Development of practical experience with regard to the implementation of agricultural production methods designed to protect the environment and maintain the country side;
- Improved participation of local actors in the development and implementation of rural development strategies.

Priority axis 3:

- Improved quality of life of the beneficiary rural population;
- Improved competitiveness of beneficiary rural areas;
- Increased income of the beneficiary rural population through the development and diversification of on-farm and/or off-farm activities;
- Creation of new employment opportunities through the development and diversification of on-farm and/or off-farm activities.

A larger number of indicators to measure the output, results and impact achieved under Component V has been developed as part of the IPARD programming exercise and the related ex-ante evaluation of the multi-annual IPARD Programme for each measure/sub-measure and will be used for the monitoring and evaluation process during the implementation of the

Programme. The monitoring carried out by the sectoral IPARD Monitoring Committee as well as the evaluation exercise will check progress against the detailed indicators identified at the measure/sub-measure levels in the IPARD programme.

4. FINANCIAL ALLOCATIONS

Priority axis 1 - Adaptation of the agricultural sector and implementing Community standards

A minimum of 60 % of the overall allocation for Croatia under the rural development component should be allocated to the sustainable adaptation of the agricultural sector and the related implementation of the acquis communautaire.

Priority axis 2 - Preparatory actions for agri-environmental measures and LEADER

A maximum of 5 % of the overall allocation for Croatia under the rural development component should be allocated to prepare for the implementation of the agri-environmental measures and Leader.

Priority axis 3 - Development of rural economy

A minimum of 20 % of the overall allocation for Croatia under the rural development component should be allocated to the sustainable development of rural areas.

Table 10: Financial indications – Component V

Priority 1	> 60 %
Priority 2	< 5 %
Priority 3	> 20 %

Annex 1

Indicative allocations to main areas of intervention for the period 2008-2010

INDICATIVE ALLOCATIONS TO MAIN AREAS OF INTERVENTION FOR THE PERIOD 2008-2010	
<i>Republic of Croatia</i>	
Component I (Transition Assistance and Institution Building)	
Political criteria	25 % - 35 %
<i>Of which Support to civil society dialogue and development</i>	<i>05 % - 10 %</i>
Economic criteria	05 % - 15 %
Ability to assume the obligations of membership	40 % - 60 %
Supporting Programmes	10 % - 20 %
Component II (Cross-Border Co-operation)	
Croatia – Slovenia	20.1 %
Croatia – Hungary	16.4 %
IPA Adriatic CBC	45.8 %
Croatia – Bosnia-Herzegovina	6.4 %
Croatia – Montenegro	2.6 %
Croatia – Serbia	5.1 %
Participation of Croatia in the ERDF European Territorial Co-operation transnational programmes "South-East Europe" and "Mediterranean"	3.6 %
Component III (Regional Development)	
Environment programme	35 % - 40 %
Transport programme	35 % - 40 %
Regional competitiveness programme	20 % - 30 %
Component IV (Human Resources Development)	
Attracting and retaining more people in employment	30 % - 40 %
Improving adaptability of enterprises and workers	10 % - 20 %
Increasing human capital investment	35 % - 40 %
Strengthening administrative capacity	15 % - 20 %
Component V (Rural Development)	
Priority 1: Adaptation of the agricultural sector and implementing Community standards	> 60 %
Priority 2: Preparatory actions for agri-environmental measures and LE	< 5 %
Priority 3: Development of rural economy	> 20 %

Annex 2

Overview of EU Assistance to Croatia over the period 2001-2007

EU assistance to Croatia over the period 2001 -2007 (amounts in €million)							
	2001 – 2006 CARDS Phare Phare CBC ISPA SAPARD	IPA 2007 Comp I	IPA 2007 Comp II	IPA 2007 Comp III	IPA 2007 Comp IV	IPA 2007 Comp V	TOTAL 2001-2007
1. Political criteria	101.80	9.64	0.00	0.00	0.00	0.00	111.44
Public administration (1)	18.34	4.00					22.34
Anti-corruption and fight against organised crime	6.40	3.74					10.14
Democracy and human rights	4.69	1.90					6.59
Minority rights	6.18						6.18
Return of refugees	66.20						66.20
2. Economic criteria	28.64	1.78	0.00	0.00	0.00	0.00	30.41
Macroeconomic stability	4.57						4.57
Capacity to cope with competitive pressure and market forces within the Union	4.10						4.10
Investment climate	3.30	1.78					5.08
Cadastre and land registry	16.67						16.67
3. Ability to assume obligations of membership	359.20	29.40	9.69	45.05	11.38	25.50	480.22
Free movement of goods	7.76						7.76
Public procurement	1.60						1.60
Intellectual property law	4.87						4.87
Competition policy	5.59	2.00					7.59
Information society and media	2.76	3.33					6.09
Agriculture (2)	30.35	6.13				25.50	61.97
Food safety, veterinary and phyto-sanitary policy	10.05						10.05
Fisheries	5.50						5.50
Transport policy	11.36						11.36
Energy	4.19	1.07					5.26
Taxation	8.95						8.95
Statistics	9.36						9.36
Employment and social policy	14.45				11.38		25.83
Enterprise and industrial policy	3.16						3.16
Trans-European Networks (3)	28.80			17.00			45.80
Regional policy and co-ordination of structural instruments (4)	33.76		9.69	11.05			54.50

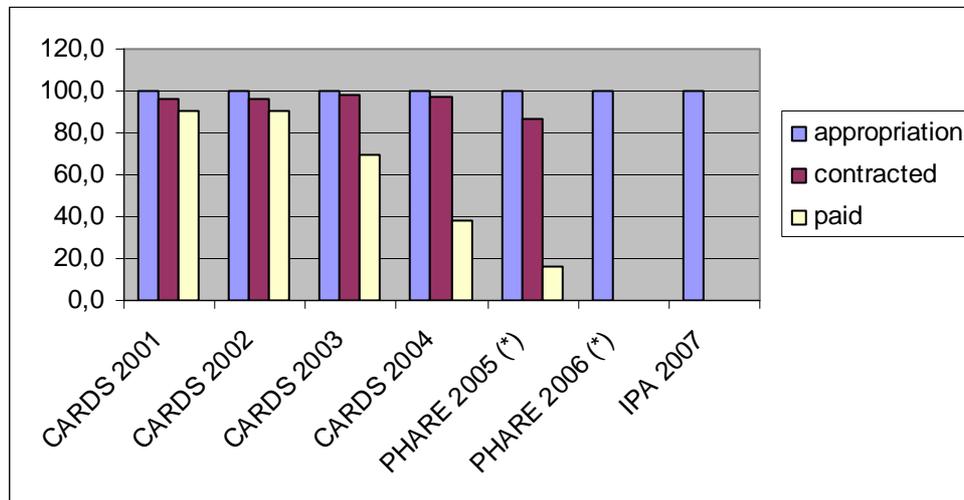
Judiciary and fundamental rights	21.76						21.76
Justice, freedom and security	38.34	6.30					44.64
Science and research	5.00						5.00
Education and culture	33.04						33.04
Environment (5)	52.80	1.75		17.00			71.55
Consumer and health protection	2.50	2.25					4.75
Customs union	18.26	5.73					23.99
Financial control	5.00						5.00
supporting programmes in 2007- participation to community programmes and agencies (6)		5.46					5.46
TOTAL EU assistance to Croatia 2001-2007	489.64	45.41	9.69	45.05	11.38	25.50	626.68

- (1) *Including flexible technical facilities under the area of intervention supporting programmes*
- (2) *Including SAPARD (2006)*
- (3) *Including ISPA transport (2005 & 2006)*
- (4) *Including CBC*
- (5) *Including ISPA environment (2005 & 2006)*
- (6) *The project 2007 participation to community programmes (€ 4.60 million) is not split across the sectors as the list of programmes and agencies in which Croatia aims at participating is at this stage still indicative. In addition, € 0.86 million have been allocated under IPA 2007 preparatory measures for lifelong learning and youth in action programmes.*

Annex 3

Contracting and disbursement rates under ongoing programmes

(State of play as of 31 December 2007)



(*): Phare National Programme + Nuclear Safety + CBC programmes

Annex 4

Cross Cutting Issues

Support to the civil society - With the support of *CARDS, Phare, Phare CBC* assistances EU has been working with **Croatian civil society** - parliament, media, educational institutions, minorities, professional organisations and other NGOs - as a central aspect of the Stabilisation and Association process by backing activities aimed at *bringing civil society into the decision-making processes*, supporting NGOs in the fields of *democracy and human rights, environmental protection and sustainable development, social and health care*.

Furthermore civil society has also been reached out in the framework of the *participation of Croatia to the community programmes*, such as Culture and Europe for Citizens, and to *Tempus* and the *Western Balkan Windows of Erasmus Mundus and Youth in Action* programmes, as well as under the *CBC programmes* as they encourage partnerships between local and regional authorities across a wide variety of areas as well as people to people actions.

Besides the Delegation is currently running a *small projects programme on information around the EU* addressing schools, business and journalists; there is also in the pipeline a new *EIDHR* programme of around 1, 2 million € a year.

Given the scale and the diversity of the assistance to civil society that is already running in Croatia and that is furthermore supported under IPA – component II (CBC), III (Regional development as regards regional competitiveness) IV (HRD) and V (*Agriculture and Rural Development*), support to the civil society dialogue and development that has been extensively described in this document will be granted under IPA component I providing that it does not overlap with and is complementary to the extensive support granted in the aforementioned overall framework.

Concentration and complementarity of the assistance across the IPA components, with the **IPA multi-country programmes** as well as with **other donors' assistance** will be sought.

Equal opportunities and non-discrimination - Principles will be respected as regarding gender as well as minorities at the programming and implementation stage. Based on the fundamental principles of promoting equality and combating discrimination, participation in the project will be guaranteed on the basis of equal access regardless of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation.

Specifically in relation to the issue of equality between men and women, Croatia's population (2001 census) constitutes 51,87% women and 48,13% men, with those in active employment based on Labour Force Survey Statistics conducted in accordance with ILO methodology, for the second half of 2002 divided 45,31% women and 54,69% men. All contractors shall be requested to provide monitoring data recording the participation of men and women in terms of expert inputs (in days) and of trainees benefiting under the project (in days) as an integral component of all project progress reports.

Furthermore **minority and vulnerable groups' concerns** will be reflected in all activities programmed under IPA, in particular when it concerns public services, legislative matters and socio-economic development.

Environmental impact assessment is compulsory concerning financing proposals for investments. All investments shall be carried out in compliance with the relevant Community

environmental legislation. The procedures for environmental impact assessment as set down in the EIA-directive will fully apply to all investment projects under IPA, in accordance with the European Principles for the Environment. Besides if a project is likely to affect sites of nature conservation importance, an appropriate nature conservation assessment shall be made, equivalent to that provided for in Article 6 of the Habitats Directive must be documented.

Good governance - In terms of legitimacy, transparency, effectiveness, plurality and accountability of the public administration with particular attention to *fight against corruption*, will be promoted across all funded projects including through monitoring undertaken by civil society.

Where appropriate, **cross border impact of projects** will be clearly identified in the related projects documentation.