

COMMISSION DECISION

C(2007)2566 of 20/06/2007

on a Multi-annual Indicative Planning Document 2007 - 2009 for Croatia

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.
- (2) 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 preparations for accession must concentrate.
- (3) Croatia is listed in Annex I to Regulation (EC) No 1085/2006.
- (4) The Council adopted on 20 February 2006 the Accession Partnership with Croatia².
- (5) 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 Council Decision 2006/145/EC of 20 February 2006 on the principles, priorities and conditions contained in the Accession Partnership with Croatia and repealing Decision 2004/648/EC (OJ L55, 25.2.2006, p. 30).

HAS DECIDED AS FOLLOWS:

Sole article

The Multi-annual Indicative Planning Document (MIPD) for the years 2007-2009 for Croatia annexed to the present decision is hereby adopted.

Done at Brussels, [...]

For the Commission

[...]

Member of the Commission

ANNEX

Multi-annual Indicative Planning Document (MIPD)

Republic of Croatia

Preface

The main objective of the **Instrument for Pre-Accession Assistance (IPA)**¹ is to help the beneficiary country to implement the reforms needed to fulfil EU requirements and progress in the Stabilisation and Association Process and to lay the foundations for fulfilling the Copenhagen criteria for EU membership.

The IPA instrument consists of **five components**: (IPA-I) the Transition Assistance and Institution Building component²; (IPA-II) the Cross-Border Cooperation component which applies to border regions between beneficiaries from member states, candidate states and countries in pre-accession status; (IPA III, IV and V) the Regional³, Human Resources⁴ and Rural Development⁵ components which are planned for Candidate Countries.

The basic **policy documents** for setting down the priorities for programming of assistance under IPA are the Accession Partnership, the Strategy Paper, which presents the Commission's overall enlargement policy, as well as the annual Progress Reports. IPA will allow flexibility in order to respond to possible new priorities identified in annual Progress Reports of the Commission.

This **Multi-annual Indicative Planning Document (MIPD)** is the strategic document for IPA. It is established for a three-year rolling period, with annual reviews. It follows the **Multi-annual Indicative Financial Framework (MIFF)** which indicatively allocates funds per beneficiary and per component. It draws on the pre-established IPA components.

The priorities set out in the MIPD components will serve as a basis for the annual programming of EU funds in 2007, 2008 and 2009.

¹ Council Regulation (EC) No 1085/2006 of 17 July 2006, Official Journal L210, page 82.

² The Transition Assistance and Institution Building Component translates the priorities set out in the European Partnership in 3 sub-components: Political requirements where EC assistance will be used to support a stable, modern, democratic, multi-ethnic and open society based on the rule of law. Special impetus will be given to Public Administration and Judiciary Reform; Socio-economic requirements where EC assistance will be used in support of the development of the socio-economic environment; European standards where EC assistance will support and accompany the country in its European integration plan (legal approximation, administration needs and requirements for DIS).

³ The Regional development Component supports policy development as well as preparation for the implementation and management of the European Regional Development Fund and Cohesion Fund.

⁴ The Human Resources Development Component supports policy development and the preparation for the implementation and management of the European Social Fund.

⁵ The Rural Development Component supports policy development as well as the preparation for the implementation and management of the Community's common agricultural policy.

Executive Summary

The **objective** of the pre-accession assistance provided to Croatia under IPA is to assist in meeting the **accession criteria**, i.e. the *political* and *economic* criteria, as well as the adoption, implementation and enforcement of the *acquis communautaire*. In addition, IPA assistance aims to support policy development as well as preparation for the implementation of the Community's *common agricultural policy* and the *cohesion policy* with a view to **EU membership**.

Pre-accession assistance for Croatia under IPA will be implemented according to the **five IPA components** available to Candidate Countries.

Under **Component I**, pre-accession assistance to Croatia will inter alia support public administration reform, judicial reform, and anti-corruption policy. Assistance will also focus on structural reforms in public finance, economic restructuring, business environment, statistics, land reform and labour market reform.

In addition, pre-accession assistance will support *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, capacity building can also be provided for the management of IPA projects and to re-enforce institutional capacity for the management of EU structural funds. Croatia's participation in **Community Programmes** will also continue to receive financial support under Component I.

Assistance to **Cross-border Cooperation** (CBC) provided under **Component II** aims at improving 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. The MIPD foresees continuing CBC with Slovenia, Hungary and Italy and developing bilateral CBC programmes with Bosnia and Herzegovina, Serbia and Montenegro.

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. In terms of pre-accession assistance under Components III and IV, priorities comprise *acquis*-related investment in environmental protection and the development of a European transport network together with support to the productive sector, in particular to SMEs; **Component IV** priorities comprise investment in employment, education, social inclusion and human capital formation.

Component V aims at supporting Croatia in policy development as well as preparation for the implementation and management of the **Community's common agricultural policy**. Assistance under Component V will target three main priority axes. The first will provide assistance to the adaptation of the agricultural sector and the implementation of the *acquis communautaire* concerning the common agricultural policy.. The second aims at preparing Croatia for the implementation of agri-environmental measures and the third at sustainable development of rural areas.

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.

The present MIPD is based on an indicative financial envelope of **€438.4 million** for the period 2007-2009.

Section 1 Assessment of strategic priorities and objectives

1.1 Introduction

Following a positive assessment on 3 October 2005 from the International Criminal Tribunal for the former Yugoslavia (ICTY) Chief Prosecutor that full cooperation with the ICTY had been achieved, the European Council concluded on the same day that Croatia had met the outstanding condition for the start of ***accession negotiations*** and an Intergovernmental Conference (IGC) opening the negotiations was held.

The Commission started the ***screening*** process on 20 October 2005, through which the EU *acquis* is explained and the legal and administrative implications in Croatia are examined. Croatian legislation is compared in detail with EU legislation. The screening enables the EU to decide upon the opening of individual chapters for EU membership negotiations.

In February 2006, the Council adopted a revised Accession Partnership for Croatia. It covers in detail the priorities for accession preparations, including implementation of the *acquis*.

The European Commission assesses Croatia's progress in complying with the Copenhagen criteria and in addressing the priorities of the Accession Partnership through its annual progress reports. On 08 November 2006, the Commission published its ***Croatia 2006 Progress Report***. The report takes into consideration progress achieved since the last Progress Report published on 06 November 2005 and covers the period to 30 September 2006.

Coherence of the present document with the beneficiary Country's own needs and priorities has been ensured through consultations with the national authorities, who agree on the priorities outlined in this MIPD.

1.2 Objectives of pre-accession assistance

The overall objective of pre-accession assistance is to help Croatia meet the ***accession criteria***, i.e. the political and economic criteria as well as the adoption, implementation and enforcement of the *acquis communautaire*. In addition, IPA assistance aims to support policy development as well as preparation for the implementation of the Community's common agricultural policy and cohesion policy with a view to EU membership.

In order to define strategies that effectively contribute to the achievement of the overall objective, the MIPD is based on the assessment of needs and challenges as well as ***priorities*** identified in the Progress Report and Accession Partnership, taking into account past and ongoing EU assistance as well as the *National Programme for the Integration of the Republic of Croatia into the European Union*. It is clear from these 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 2007 - 2009 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, phytosanitary, environmental and other standards as well as helping Croatia to get ready for the implementation of EU rural development programmes.

To summarize, pre-accession assistance shall help Croatia to meet the EU accession criteria. Against this background, pre-accession assistance shall help to overcome the deficiencies that have been identified. Assistance to Croatia will focus on:

- implementing sectoral reforms, in particular through support to public administration reform, the judicial reform and fight against corruption;
- supporting structural reforms and economic development, particular in public finance, economic restructuring, and improving the business environment, especially as regards the SME sector;
- transposing and implementing the *acquis* according to the priorities identified in the Accession partnership, the screening reports and subsequent negotiations in different chapters;

- preparing Croatia for the implementation of the Community's cohesion policy, in particular by focusing in the field of transport, environment and regional competitiveness as well as education, employment, social inclusion and human capital formation;
- preparing Croatia for the implementation of the Community's rural development policy, in particular by focusing on investments in agricultural production to restructure and upgrade the sector to Community standards and on investments to develop and diversify economic activities in rural areas.

In addition to the above objectives of pre-accession assistance, certain cross cutting issues, which are outlined in annex A, will have to be reflected in all activities programmed under IPA.

1.3 Overview of past and on-going pre-accession assistance

1.3.1 Past and On-going Assistance

IPA assistance will build on assistance provided to Croatia under the **CARDS** programme (2001-2004) and the pre-accession instruments **Phare**, **ISPA** (2005-2006) and **Sapard** (2006). Croatia also participates in and benefits from Phare-funded multi-country and horizontal programmes such as TAIEX, the Small and Medium-sized Enterprises Financing Facility, and the Nuclear Safety Programme. Croatia also remained a beneficiary of the CARDS Regional Programme in 2005 and 2006.

Community assistance to Croatia during the period 1991 – 1999 developed from humanitarian assistance to reconstruction and reconciliation efforts and support for refugee return. The EU consolidated its assistance in 2000 under **CARDS**, in line with the recently launched **Stabilisation and Association Process**. Due to the development of the relations between the Republic of Croatia and the EU since 2000, CARDS assistance increasingly focussed on institution and administrative capacity building and legislative alignment with the *acquis communautaire*. Since becoming a **candidate country** in 2004, Croatia has stood to benefit from all three pre-accession financial instruments: **Phare** for institution-building and economic and social cohesion, **ISPA** for environment and transport infrastructures and **Sapard** for agricultural and rural development. Assistance under IPA will make use of the institutions and the sectoral strategies that have been developed and supported under the preceding programmes.

The Tempus programme has provided considerable support to the modernisation and the reform of the higher education system in Croatia. Since 2000, Tempus has funded over 50 cooperation projects with EU higher education institutions in the areas of curriculum development, university management and structural reform.

In the framework of the **CARDS** National Programmes, the total financial allocation for the period **2001** to **2004** amounted to **€260 million** for the following five main priorities:

Table 1: CARDS allocations 2001 – 2004 in the Republic of Croatia in million €

Sector	2001	2002	2003	2004	Total
Democratic Stabilisation	24.2	16	16	17.5	73.7
Economic & social development	15.6	18	16.9	17.75	68.25
Justice and home affairs	14.1	10	10.9	26.85	61.85
Administrative Capacity Building	2.1	12	11.65	15.1	40.85
Environment and natural resources	2	3	6.55	3.8	15.35
Total allocation	58	59	62	81	260

The *pre-accession financial instruments* Phare, Phare CBC, ISPA and Sapard replaced the CARDS instrument for the period **2005** and **2006** with a total financial allocation of **€229.6 million**. Phare essentially continued the *institution building* efforts begun under CARDS with the additional element of Phare *Economic and Social Cohesion* allowing for limited investments. *Cross-border cooperation* had previously been financed under the regional CARDS budget, with Phare CBC taking over and continuing to finance Croatian participation in neighbourhood programmes. Both ISPA, with its focus on *transport* and *environmental infrastructure* and Sapard for *rural development* introduced new elements of pre-accession assistance to Croatia by financing actions and investments that could previously not be addressed under CARDS.

Table 2: Phare, ISPA and Sapard allocations 2005 – 2006 in the Republic of Croatia in million €

Sector	2005	2006	Total
Phare	71.5	61.1	132.6
Phare CBC	6	6	12
ISPA	25	35	60
Sapard	~	25	25
Total allocation	102.5	127.1	229.6

The following table provides an overview of the combined CARDS and Phare resources provided to Croatia in the period **2001 to 2006**.

Table 3: Total CARDS and Phare allocations 2001 – 2006 in the Republic of Croatia in million €

Sector	CARDS	Phare	Total
Political Criteria	44.4	15.6	59.95
Economic Criteria	34.3	8.24	42.49
Ability to Assume the Obligations of Membership	107	77.47	184.47
Supporting Programmes	8.2	24.26	32.46
Economic and Social Cohesion	66.2	7	73.2
Total allocation	262	132.6	392.6

Under the sector ***political criteria***, CARDS assistance contributed to strengthening the judiciary capacities and structures through projects focused on training systems development, courts system operations and functioning. Public administration and civil service reform were addressed leading to a new Civil Service law. Concerning human rights, protection of minorities and civil society dialogue, CARDS assistance facilitated the return of refugees and displaced persons with particular emphasis on sustainable regional development in return areas, the reconstruction of houses, public and social infrastructure, demining⁶ as well as civil society development. Phare projects continue to provide important assistance for the modernisation of justice system, public administration reform, the protection of minorities, in particular the Roma, and civil society development.

In the sector ***economic criteria***, CARDS assistance for capacity building in key institutions has helped the investment climate to improve with particular emphasis on assistance with land cadastre and property registration reform, the reform of the regulatory framework for business investments, competition policy, public procurement and intellectual property rights. Good results were also reached in the reform of the public finance system, focusing on internal audit and financial control, external budget oversight, public debt management capacity, customs systems and procedures and public finance statistics. Phare provides further assistance to the improvement of the investment climate with a project for the modernisation of the land administration and the reform of public finances by improving the budget process for effective financial management.

Assistance under the sector ***ability to assume the obligation of membership*** absorbed the largest part of the available budget allocation for Croatia, reflecting the candidate status for EU membership of the country. CARDS assistance 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

⁶ Besides CARDS assistance, support in the field of demining has been provided also through the horizontal budget line 'Action against Anti-Personnel Landmines'.

protection and statistics. Social cohesion was supported through assistance to vocational training, labour market and higher education reform efforts. Assistance to cooperation in justice and home affairs provided important improvements to integrated border management focussing on customs and border policing, inter-agency cooperation and asylum policy and migration as well as policing and the fight against organised crime including trafficking in Firearms, Ammunitions and Explosives. 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. Projects under Phare continue to address 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.

The ISPA programme contributed to environmental and transport *acquis* related infrastructure investments.

The Sapard programme started in 2006. The programme, as well as the Sapard agency constitute the basis for the development of the IPARD programme and agency.

Under the sector ***supporting programmes***, Phare provides assistance to national, regional and local development capacity building, the participation of Croatia in community programmes including TEMPUS and also includes a project preparation and institution building reserve, a continuation of the administrative capacity building facilities introduced under CARDS.

Finally, ***economic and social cohesion*** continues to support the sustainable regional development in return areas begun under the CARDS programme by providing grant schemes for business related infrastructure, SMEs as well as promoting active labour market measures for those threatened with social exclusion. Over time, EU assistance to the refugee return process changed successfully from housing reconstruction to social-economic development of return areas. Assistance has thus 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 key ***lessons learned*** from the implementation of CARDS and pre-accession instruments assistance projects in Croatia are (a) that weak administrative absorption capacity in Croatia's public administration bodies is reducing the effectiveness of EC assistance and (b) that greater political support is needed. The Croatian administration needs to keep up its efforts to meet agreed project conditionalities, such as policy decisions; the establishment and strengthening of institutions and the allocation of resources. Proper staffing of the units charged with implementing projects and support from the top management and political level in ministries is necessary for successful project results. The Commission continues to support Institution building in bodies involved in managing EU funds and it also supports general public administration reform.

The Croatian government has undertaken a series of activities to improve the implementation record of EU assistance with good results. The screening process has also raised the awareness of the political level of the importance of EU assistance projects. Many reforms already undertaken to comply with the EU *acquis* are a direct result of CARDS assistance. A government Coordination Group and a Technical Working Group are facilitating the coordination of EC assistance received by Croatia.

1.3.2 Relevant IFI and Bilateral Assistance

The Commission is working with the World Bank and other international financing 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 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 million.

The *World Bank* adopted a Country Assistance Strategy for Croatia for 2005 - 2008 in December 2004. 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. Since 1993, the World Bank has approved 48 grants with a total value over €40 million and provided credits for 31 projects with a total value of €1.3 billion.

The *European Investment Bank* finances projects that support the rapid integration of Croatia into the EU. It has been active in Croatia since 2001. Most lending has focused on the construction and rehabilitation of transport infrastructure (€545 million). To date the EIB has also provided four Global Loans (€76 million) in the country, aimed at the financings 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* has signed 57 investments in Croatia totalling almost €1.3 billion as of 31 December 2005. Projects for 2006 and beyond include a number of infrastructure operations currently under preparation, which are co-financed by EU pre-accession instruments.

In addition to support from the IFIs, *EU Member States* and other donors are actively supporting Croatia's accession process.

Section 2 Pre-Accession assistance strategy for the period 2007-2009

2.1 Strategic Choices

In view of the accession process with Croatia, the objective of pre-accession assistance is to support the country's efforts to comply with the accession criteria, i.e. **the political and economic criteria**, as well as the adoption, implementation and enforcement of the **acquis communautaire**. In addition, IPA assistance aims to support policy development as well as preparation for the implementation of the Community's *common agricultural policy* and the *cohesion policy* with a view to **EU membership**.

Based on the assessment of strategic needs and priorities set out in the Accession Partnership and the Progress Reports for Croatia, the pre-accession assistance strategy for the period 2007-2009 is concentrated on three areas of activity:

- 1. Institutional Capacity Building**
- 2. Cross-border cooperation**

3. Preparation for participation in the Community's cohesion policy and rural development instruments

In translating the objectives set out in Section 1.2. into specific priorities for assistance to Croatia, a number of elements needs to be taken into consideration. These include, among other things, sequencing between the different EU assistance programmes available for implementation in Croatia, programme maturity, the absorption capacity of Croatian beneficiary institutions, the availability of funds and alternative sources of financing, and the synergies that may be developed with the activities of other donors. For example, in the area of transport, and based on the Croatian maritime safety strategy, two Phare programmes are under implementation to improve maritime safety and vessels monitoring. A follow-up project may be programmed under IPA taking into account the implementation period of the previous projects, the capacity of the Ministry of Transport to manage the projects, the involvement of the World Bank in the sector and the activities to be financed in the transport sector under Component III. In many cases, these issues can only be assessed at the annual programming stage. Nevertheless, some general strategic choices can already be identified in this document. The assistance provided in the areas of intervention identified below will respond to reforms being undertaken by Croatia as a Candidate Country negotiating accession to the EU.

Croatia is a beneficiary of IPA multi-country programmes and, where this is justified by economies of scale, interventions will be planned under the corresponding multi-country MIPD.

Based on the above, and on the lessons learned from previous and on-going assistance, pre-accession assistance for Croatia under the five IPA components will concentrate on the following strategic orientations:

The Transition Assistance and Institution Building Component will be the main vehicle for **institutional capacity building** in Croatia. In the planning period 2007-2009 IPA assistance under this component will focus on two broad areas of intervention: (i) implementation of sectoral reforms and (ii) *acquis* transposition and implementation.

(i) Assistance will be provided to consolidate **sectoral reforms** that have adopted such as public administration reform, judicial reform, and anti-corruption policy and to ensure their effective implementation. Assistance will also focus on structural reforms in public finance, economic restructuring, business environment with a particular focus on SME's, agricultural and economic statistics and labour market reform. Priority will be given to supporting the institutions that are directly concerned by the reforms.

(ii) Pre-accession assistance will support 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*. Assistance in the 2007 – 2009 period will give priority to sectors: (1) where basic political issues still need to be addressed; (2) where the legislation to be harmonised is particularly difficult; (3) where the implementation capacity is particularly weak; (4) where a track record of implementation will be required prior to accession; and (5) where harmonisation requires costly investment over several years.

Finally, capacity building can also be provided for the management of IPA projects and to re-enforce institutional capacity for the management of EU structural funds. Croatia's

participation in Community Programmes will also continue to receive financial support under Component I.

Cross-Border Cooperation, managed through Component II, will support Croatia in cross-border, and trans-national and interregional cooperation with EU and non-EU Member States. It will concentrate on improving the potentials for tourism, creating closer links between border regions and supporting joint environmental protection activities. Furthermore, through participation in the ERDF cross-border, transnational and interregional programmes, pre-accession assistance is aimed at familiarising Croatian participants with the rules and procedures governing the European Territorial Cooperation Objective under Structural Funds.

Pre-accession assistance will help prepare Croatia for *participation in the Community's cohesion policy and rural development instruments* on accession through IPA components III, IV and V.

The Regional Development and Human Resources Development Components will support Croatia in policy development and 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. Priorities comprise acquis-related investment in environmental protection and European transport networks together with support to the productive sector, in particular to SMEs in disadvantaged regions, employment, education, social inclusion and to human capital formation.

The Rural Development Component will support Croatia in policy development and preparation for the implementation and management of the Community's Common Agricultural Policy. Assistance under Component V will provide assistance to the adaptation of the agricultural sector and the implementation of the *acquis communautaire* concerning the common agricultural policy and related policy areas like food safety, veterinary, phytosanitary and environmental matters as well as sustainable development of rural areas.

The actions to be undertaken under the five components will be closely coordinated and will be complementary to the degree possible. 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 will also be sought with other donors. Coherence and concentration of assistance will be necessary for the effectiveness of IPA assistance under all components. Where appropriate, effective coordination and complementarity between the IPA components (as well as with IFI interventions) will be assured.

2.2 Multi-annual planning by component

As outlined in the MIFF, the nominal allocations for each component of the pre-accession assistance strategy for Croatia 2007 – 2009 in current prices are as follows:

Table 4: Republic of Croatia: Multi-Annual Indicative Financial Framework in million €

Component	2007	2008	2009	Total
I – Transition Assistance and Institution Building	49.6	45.4	45.6	140.6
II – Cross-border cooperation	9.7	14.7	15.9	40.3
III – Regional Development	45.1	47.6	49.7	142.4
IV – Human Resources Development	11.4	12.7	14.2	38.3
V – Rural Development	25.5	25.6	25.8	76.9
Total	141.2	146	151.2	438.4

The strategic programming for each component is presented in the following sections.

Component I – Transition Assistance and Institution Building

1. Current situation

The Progress Report 2006 for Croatia highlighted that with regard to the **political criteria**, Croatia continues to face no major difficulties. Croatia has made progress overall but further sustained efforts are required in a number of important areas.

As regards the **economic criteria** for membership, Croatia can be regarded as a functioning market economy and it should be able to cope with the competitive pressure and market force within the Union in the medium term, provided that it continues implementing its reform programme to remove the remaining weaknesses.

As regards Croatia's **ability to assume the obligations of membership**, Croatia has made some progress, mainly in terms of legislative alignment with the *acquis*. Progress has varied considerably between chapters. As regards implementing capacity, in many cases enforcement is weak and administrative capacity remains uneven. Croatia will need to adopt a more strategic approach to *acquis* alignment and to develop, where appropriate, comprehensive strategies, which should include all reforms necessary in terms of legislative alignment and institutional capacity-building in order to implement and comply with the relevant *acquis*.

2. Major areas of intervention

In view of the accession process with Croatia, the objective of pre-accession assistance is to support the country's efforts to comply with the accession criteria. Component I's major task is to provide for the Institution Building needed to meet this objective. Against this background, the main areas of intervention for Component I in the period 2007 – 2009 are:

- **Political criteria**
- **Economic criteria**
- **Ability to assume the obligations of membership**
- **Supporting programmes**

3. Main priorities

EU financial assistance will support Croatia's efforts to address the priorities identified in the Accession Partnership, the screening reports and subsequent negotiations in the different chapters of the *acquis*. Building on past and ongoing pre-accession assistance, the main objectives of IPA assistance under Component I in the major areas of intervention can be specified as follows:

Political criteria

Assistance in this area will indicatively focus on support to public administration reform, the judiciary, and in the fight against corruption. It will also support minorities and civil society. Significant improvements in these areas are indispensable as a solid basis for full implementation of the *acquis*.

Support will focus on the implementation of a comprehensive strategic framework for *public administration reform* with a focus on simplifying the existing legal administrative system and improving the efficiency and professionalism of the public administration. The

Government adopted a policy paper in September 2006 committing it to drafting a revised General Administrative Procedure Act by July 2007. Support will also continue for the implementation of the new civil service law that entered into force in January 2006.

Support to the implementation of the *judicial reform* strategy will continue with particular emphasis on reducing the length of court proceedings, improving case management, rationalising the court network and ensuring proper enforcement of judgements. Support will also be provided to improve the procedures for the training of judicial officials. The areas of prosecution of war crimes and witness protection are also priorities for EU assistance.

A new *anti-corruption* programme was adopted in March 2006. Support to strengthen the Office for the Prevention of Corruption and Organised Crime (USKOK) and other bodies involved in the implementation of the anti-corruption programme will continue to be provided with particular emphasis on improving the coordination among them.

In the area of *human rights and the protection of minorities* an appropriate legal framework is in place. Support will be provided to accelerate the implementation of legislation, to combat intolerance and to encourage reconciliation. Support can also be made available for the implementation of the Constitutional Law on National Minorities and for developing and implementing a comprehensive strategy and action plan on all forms of discrimination as well as assisting in the implementation of plans for improving women's and children's rights. A main vehicle for support in the above mentioned areas will be civil society development and dialogue.

EU assistance will also continue to assist Croatia in creating the economic and social conditions necessary for the sustainability of refugee return.

Economic Criteria

While Croatia can be regarded as a functioning market economy and should be able to cope with competitive pressures and market forces within the Union in the medium term, weaknesses remain, mainly with regards to the strengthening of the development of the private sector. EU assistance in this area will aim to improve competitiveness and the business environment, as well as the functioning of market entry and exit procedures and the enforcement of property and creditor rights. Further focus of assistance will indicatively include the areas of structural reforms in public finance, economic restructuring, statistics, land reform and labour market reform.

Ability to assume the obligations of membership

Croatia has improved its ability to take on the obligations of membership. In most areas there has been some progress, mainly in terms of legislative alignment. Progress has varied considerably between chapters. As regards the overall level of alignment and administrative capacity, much remains to be done. The focus of assistance in this area will be on institutional and administrative capacity building for *acquis* transposition and implementation according to the priorities identified in the Accession Partnership, the screening process and subsequent

negotiations in the different chapters of the *acquis*.⁷ Assistance will also be provided for the implementation of agreements in the transport and energy sectors.

Supporting programmes

Supporting programmes under IPA Component I will continue to provide for administrative capacity building for strategy development, project preparation and implementation, institution building support and SAA and *acquis* implementation. Capacity building may also be provided for the management of IPA projects and to reinforce institutional capacity for the management of EU structural funds. Croatia's participation in Community Programmes⁸ will also continue to receive financial support under IPA.

4. Expected results

The expected results to be obtained will be laid down in detail in the respective annual programmes. In more general terms, the ***expected results*** of pre-accession assistance provided under Component I are:

- Significant progress to have been made in public administration reform, judicial reform, anti-corruption policy, human rights, protection of minorities and civil society development and dialogue;
- Significant progress to have been made in structural reforms in public finance, economic restructuring, investment promotion, agricultural and economic statistics and labour market reform;
- Improvement of business environment and implementation of European Charter for Small Enterprises;
- Institutional capacity building for *acquis* transposition to have been strengthened;
- Priorities identified in the Accession Partnership, the screening reports and subsequent negotiations in the different chapters of the *acquis* to have been addressed;
- Legislation on aviation and the internal energy market to have been aligned to the EU *acquis*, and the ECAA and Energy Community agreements to have been implemented as appropriate;
- International agreements to have been implemented;
- Sufficient administrative capacity for strategy development, project preparation and implementation to have been built up;
- The management of IPA projects and institutional capacity for the management of EU structural funds to have been strengthened.

The principle means for assessing the achievement of expected results are the annual progress reports.⁹

⁷ Support to nuclear safety and radio-active waste management will be foreseen within this MIPD. However, due to the need to develop harmonised approaches it will be programmed under the Multi Beneficiary IPA programme where it will be described in more detail.

⁸ Contributions are foreseen within this programme for the participation in the Tempus and Erasmus Mundus Programmes, when relevant. Due to economies of scale it will be programmed under the Multi Beneficiary IPA programme where it will be described in more detail.

⁹ Monitoring arrangements are further detailed in the IPA Implementing Regulation.

5. Forms of assistance to be provided

EU pre-accession assistance under Component I will be provided in form of ***annual programmes***. Each year, the Commission will prepare a Financing Proposal based on project proposals submitted by the Croatian authorities leading to a Commission Decision and the signature of an annual Financing Agreement with Croatia.

Financial support will continue to be provided in principle through services, in particular through technical assistance, either via service contracts, grant agreements, Twinning or a small-scale framework facility, as applicable. Where appropriate, this will be supplemented by supplies, works or other action necessary for the provision of equipped operational facilities.

6. Financial indications

Table 5: Financial indications – Component I

Political criteria	10 – 20 %
Economic criteria	05 - 15 %
Ability to assume the obligations of membership	50 – 70 %
Supporting programmes	10 – 20 %

Component II – Cross Border Co-operation

1. Current situation

Croatia currently participates in cross-border co-operation programmes with the EU Member States *Italy*, *Slovenia* and *Hungary* as well as in the transnational CADSES programme. Funds for cross-border co-operation activities and capacity building for participation in CBC programmes have been made available both from the national and regional CARDS programmes and under the Phare 2005 and 2006 programmes. While CBC with EU Member States is well advanced, co-operation programmes with potential candidate countries still need to be developed. Assistance for the necessary programming, planning and institution building for CBC with *Bosnia and Herzegovina*, *Serbia* and *Montenegro* is currently being provided from CARDS national and regional funds.

2. Major areas of intervention

IPA Component II will provide assistance 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 and interregional programmes.

CBC with EU Member States

CBC with Member States 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 6: Eligible Croatian regions at NUTS III level for CBC with EU Member States

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

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

CBC with potential candidate countries

CBC with adjacent potential candidate countries will include Croatia's participating in programmes with Bosnia and Herzegovina, Serbia and Montenegro. The list of eligible areas, selected according to the IPA eligibility rules (at NUTS III level or, in the absence of NUTS classification, equivalent areas), will be established in the relevant IPA CBC programmes.

Participation in ERDF trans-national and interregional programmes

In addition, building on the experience gained in the context of the CADSES programme, IPA Component II funds are available to support, as appropriate, the participation in the relevant Structural Funds trans-national programmes (and, as appropriate, interregional programmes) where Croatia is eligible.

3. Main priorities

The main priorities supported under this Component will indicatively include:

- Co-operation among local/ regional authorities, associations, NGOs and enterprises from neighbouring regions to enhance 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 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.

4. Expected results

The expected results to be obtained will be laid down in detail 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.

The principle means for assessing the achievement of expected results are the annual progress reports¹⁰.

5. Forms of assistance to be provided

EU pre-accession assistance under Component II will be provided in form of ***multi-annual programmes***. In principle, ***joint programming documents*** covering a period of three years will be adopted for each CBC programme through a Commission decision and annual or multi-annual Financing Agreement will be concluded between the Commission and the Croatian authorities to implement the joint programming documents.

The identification of suitable joint projects should primarily take place through competitive joint call for proposals agreed between participating countries. Pre-identification of projects with a genuine cross-border value by the CBC Joint Monitoring Committee are also possible. In the case of ERDF trans-national and interregional programmes, the participation of the country will follow the implementing rules of those programmes.

¹⁰ Monitoring arrangements are further detailed in the IPA Implementing Regulation.

6. Financial indications

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 transnational and interregional programmes:

Table 7: Financial indications – Component II

CBC programme	IPA funds 2007	IPA funds 2008	IPA funds 2009	Total	%
Croatia – Slovenia	1.721	2.940	3.207	7.868	19.5%
Croatia – Hungary	1.405	2.400	2.618	6.423	15.9%
IPA Adriatic CBC	3.922	6.698	7.306	17.926	44.4%
Croatia – potential Candidate Countries and ERDF transnational and interregional programmes	2.653	2.706	2.760	8.119	20.1%
Total	9.701	14.744	15.891	40.336	100%

(million €, current prices)

Components III and IV – Coherence and Concentration

1. Introduction

As the *pre-cursor* to the next-generation of Structural and Cohesion Funds, the strategic dimension and thematic focus of pre-accession assistance under components III and IV will essentially be governed by the cohesion policy priorities established under the ***Community Strategic Guidelines 2007-2013***. In effect, these guidelines identify those areas where cohesion policy can most effectively contribute to the realisation of Community priorities, in particular insofar as they relate to the renewed Lisbon strategy as defined under the *Integrated Guidelines for Growth and Jobs*.

Moreover, under the Convergence objective, which addresses cohesion policy priorities in the least-favoured areas of the Union, the priorities encompass the provision of basic *infrastructure*, the promotion of *productive investments* as well as investment in *human capital*.

In the context of the overall planning and policy framework governing components III and IV, the strategic priorities should be consistent with ***EU-accession-driven*** objectives and priorities as identified under the Accession Partnership.

Within this perspective, the ***key policy objectives*** of Components III and IV will be to stimulate growth potential through efforts directed towards investment and collective services as well as in support of job creation and sustainable development. At the same time, the strengthening of institutional capacity and efficiency will be a key related objective, in particular as Component IV is concerned. In accordance with the principle of learning by doing, implementing both components will also familiarise Croatia with the rules and procedures governing the future Structural and Cohesion Funds.

In order to provide a strategic frame of reference within which the respective Component III and IV interventions will be delivered, a ***Strategic Coherence Framework*** (SCF) will be prepared and elaborated by the relevant Croatian authorities.

Within the SCF framework, the supporting analysis and subsequent strategy setting will cover the 2007-2013 period and will identify the key objectives and priorities to be implemented through the mechanism of multi-annual ***Operational Programmes*** with a strong strategic focus. In duly justified cases, these programmes may be subsequently updated in the light of possible amendments to national and/or EU priorities or in the case of a substantial revision of the available financial resources provided under the *MIFF*.

Within a wider SCF future-setting context, the identification of investment-related challenges covering a range of ***sectoral, thematic and geographical priorities*** across components III and IV will provide an important platform to delivering a coherent strategy in preparation for the subsequent roll-out of Structural and Cohesion Funds post accession.

2. Coherence and concentration of assistance

As fundamental principles of cohesion policy, both ***coherence*** and ***concentration*** of assistance are considered necessary pre-requisites to optimising the effectiveness of the supported interventions under components III and IV.

At the same time, **complementarity** and **consistency** across the interventions under both components, including the thematic and geographical concentration of the assistance on a limited number of strategic priorities, will be geared towards maximising the development impact of the IPA intervention as a whole. In this respect, considerations of value-added will assume a strong focus as will the multiplier effect of the operations undertaken.

At the same time, effective coordination and complementarity with other IPA components (as well as with IFI interventions) will be assured.

Given the relative limitations on the volumes of assistance available in respect of components III and IV, the focus will build on a twin-track approach. In particular, the investment strategy will, on the one hand, provide a platform towards further development and roll-out under the future Structural and Cohesion Funds post accession, while on the other hand strengthening institutional and administrative capacity, where appropriate.

3. Guiding principles of cohesion policy (2007-2013) in programming components III and IV

In meeting the Article 158 Treaty objective of promoting economic and social cohesion by reducing disparities between the levels of development of the various regions as well as the backwardness of the least favoured regions, actions supported within the limited resources available under components III and IV will be concentrated on **promoting sustainable growth, competitiveness and employment** as set out in the renewed Lisbon strategy.

While macroeconomic stability and structural reforms represent necessary pre-conditions for the success of cohesion policy, a further set of conditions must also be addressed if a favourable investment climate is to be created in Croatia. In particular, **administrative reform** and **good governance** are deemed crucial as well as the creation of a business-friendly climate and the availability of a highly-skilled workforce.

Under the Community Strategic Guidelines 2007-2013, the creation of a new framework represents an important new element whereby the **strategic dimension** of cohesion policy has been strengthened in order to ensure that Community priorities are better integrated into national, regional and local development programmes.

Regarding the priorities under the **Convergence objective** in particular, basic infrastructures and services will need to be created, upgraded and expanded in order to open up regional and local economies, set up an effective business support framework and exploit the opportunities afforded by the Single Market. Moreover, efforts are also required to expand investment in human capital, increase access to employment, strengthen social inclusion and accelerate reform in both education and training systems.

In terms of pre-accession assistance under components III and IV, these **priorities** comprise *acquis*-related investment in environmental protection and European transport networks together with support to the productive sector, in particular to SMEs in disadvantaged regions, and to human capital formation.

At the same time, the renewed focus on achieving a **greater ownership** of cohesion policy on the ground is reflected in the provisions for a more open and an on-going dialogue across the partnerships developed both within the national and regional context as well as with the relevant Commission services.

Insofar as components III and IV are concerned, the Community Strategic Guidelines will accordingly be instrumental in informing the preparation and elaboration of the national **SCF** which identifies Croatia's own development needs and strategic priorities as the basis for assistance under the Operational Programmes referred to above. Where possible, co-financing from IFIs will also be sought.

In the context of Component IV in particular, the **Joint Assessment Paper** (JAP) and the **Joint Inclusion Memorandum** (JIM) provide a strategic policy reference framework in which to develop a coherent and consistent identification of the key employment and HRD-related challenges which need to be addressed.

To this end, the background analysis incorporated under the **current situation** in relation to Component IV draws heavily from the analysis already jointly established under the respective JAP and JIM processes.

At the same time, the process of identifying the key challenges in the employment, human resource development and social domains has been instrumental in shaping the make-up of both the major areas of intervention and the main priorities established hereunder in respect of Component IV.

Component III – Regional Development

1. Current situation

The overall aims of Croatian economic policy are to promote employment and raise living standards while strengthening macroeconomic stability and furthering structural and other necessary reforms. In this context, *regional development* is a high priority, the goals of which are to:

- (i) strengthen the country's *infrastructural* base;
- (ii) reduce the development *imbalances*, in particular promoting the prospects for sustainable development of regions lagging behind and of border areas;
- (iii) *decentralise*, reorganise *territorially* and strengthen local authorities.

Taking account of the limited availability of IPA resources, three areas of interventions compatible with the key objectives of providing basic infrastructure and stimulating the growth potential of regions qualifying for the Convergence objective of the Structural Funds have been retained. The first two areas focus on *investments* and *collective services* that are required to increase long-term competitiveness, job creation and sustainable development, namely *acquis-related investments* in *environmental protection* and *sustainable transport*. Along with these efforts directed at basic infrastructure, the third area aims at modernising and restructuring the *productive capacity of disadvantaged regions* in particular by providing services to enterprises, particularly *small and medium sized enterprises (SMEs)*, by improving access to finance, promoting Research and Technology Development (RTD) and innovation, disseminating Information and Communications Technology (ICT), etc. For all three areas, support for *strengthening institutional capacities* and the institutional order may form part of the interventions.

The selected areas belong to national policy priorities as defined by the country's Strategic Development Framework. In compliance with the *acquis* in the field of environment, Croatian policy is for *environmental protection* and the sustainable use of natural resources to underpin all economic activities. To this end, a National Environmental Action Plan (NEAP) has been developed. Similarly, economic activities are to be stimulated by the provision of adequate and sustainable *transport infrastructure* with a particular attention to the restructuring and upgrading of the *railway* system. Croatia has equally put an emphasis, on the one hand, on promoting the growth of *SMEs* to help meet its goal of fostering sustainable development within the framework of a market-oriented, stable and predictable business environment and, on the other hand, on a balanced regional development.

1.2 Environment

1.2.1 Water

The average national water supply connection rate level from public sources in Croatia is approximately 76%. Average water losses are high (46% national average) and with 127 municipally-owned water companies in a country of 4.5 million people, the sector is very fragmented. The level of water supply reliability in Croatia is generally satisfactory, except in tourist areas (especially islands) during the summer period.

1.2.2 Waste Water

Currently approximately 40% of the population is connected to the public sewerage system with less than 20% of all municipal wastewater undergoing any kind of treatment. Only half of this amount meets national standards with just 4.4% of collected sewage being subjected to biological treatment. Furthermore about 50% of the total amount of industrial effluent is discharged into the public sewerage network after just preliminary treatment, which does not always meet minimum standards for such waste. A further 30% of industrial effluent is discharged into the water courses without any treatment. Most of the 74 existing wastewater treatment plants need to be upgraded to meet EU standards.

1.2.3 Waste management

80% of Croatian households are covered by organised municipal waste collection systems. The country has 252 registered waste landfills, which are used by public utility companies or waste disposal concessionaires. It is estimated that a further 3.000 uncontrolled dump sites exist in Croatia. The country has no official landfill for the disposal of hazardous waste.

The small number of organised official, and the great number of uncontrolled dump sites have a detrimental effect on the environment, the quality of life and the development of tourism.

1.2.4 Air quality

Most Croatian indicators show a reduction in the emissions of major air pollutants (from 15 to 50 %) since 1990. Presently Croatia fulfils the peak emissions targets set down by the Protocol to the Convention on Long-range Trans-boundary Air Pollution, relating to a further reduction of sulphur emissions by 60 % in comparison to the 1990 value.

The major sources of pollution are combustion processes, mainly large stationary sources (five thermal power plants and three refineries) and traffic. The high share of traffic in air pollution indicates that in the future the greatest pressure may be expected from this sector.

1.3 Transport

Croatia lies on a number of important transportation links between Western Europe and the Balkans, as well as between Central Europe and the Adriatic and Mediterranean seas. Five Trans European Network corridors and their branches cross the Republic of Croatia:

- **X** Salzburg - Villach - Ljubljana - Zagreb - Belgrade - Skopje - Thessaloniki
- **Xa** Graz - Maribor - Zagreb
- **Vb** Rijeka - Zagreb - Budapest
- **Vc** Ploče - Sarajevo - Osijek - Budapest
- **VII** the Danube river

Croatia has a very comprehensive and well-developed transport sector. The country's transport infrastructure has considerable significance for Croatia's national development.

1.3.1 Roads

The basic road network of the Republic of Croatia has a total length of 29.016 km and includes:

- 1065 km of *motorways* and *expressways*;
- 6,812 km of *national* roads;
- 10,604 km of *county* roads;
- 10,535 km of *local* roads;

The density of the road network is 50km/100km² with motorways amounting to 1.83km/100km². Croatian roads account for 56% of all passengers transported in the country. In 2005, 64.8 million passengers and 58.9 million tonnes of goods were transported on Croatia's roads.

1.3.2 Railways

Croatia has a total of 2.720 km of railways out of which 543 km are dual track with 2,465 km of single track. 977.4 km of track is electrified, i.e. 36 % of the total length. The following portions of the railway network forms part of Trans European Networks and their branches:

- **X** Savski Marof - Zagreb - Vinkovci - Tovarnik
- **V_b** Rijeka - Zagreb - Botovo
- **V_c** Ploče - Metković and Beli Manastir - Osijek - Vrpolje - Šamac

The Croatian railway network suffered significant war damage and the amount of railway traffic has still not returned to its pre-war figures. Croatian railways also suffered from a lack of investment due to the main focus on the construction of a national motorway network.

1.3.3 Inland waterways & ports

Croatia has a total of 787.1 km of navigable inland waterways which include:

- a 137.5 km length section of the river *Danube*,
- a 446 km section of the *Sava* river,
- a 198.6 km section of the *Drava* river,
- a 5 km section of the *Kupa* river,

Croatia has five inland waterway ports located at Osijek, Sisak, Slavonski Brod and Vukovar. The infrastructure of the inland water ports is in poor condition.

Only 0.8 % of the overall transport of cargo was by river in 2002. The amount of international traffic operating on the Danube river is growing and the ports of Vukovar and Osijek, despite the lack of substantial investment in and maintenance of port infrastructure, have noted an upward trend in the transportation of goods, most of which can be attributed to international transport.

1.3.4 Maritime ports

Croatia has seven maritime ports: Pula, Rijeka, Senj, Zadar, Šibenik, Split, Ploče and Dubrovnik. Among these ports, the following have been defined as the most significant ports according to their function:

- *cargo ports: Rijeka and Ploče.*

- **passenger ports: Zadar, Split and Dubrovnik**, The infrastructure in Croatian maritime ports lags behind the infrastructure created by the competition, despite substantial investments made over the past five years.

1.3.5 Airports

Seven airports are situated within the Republic of Croatia: **Zagreb, Dubrovnik, Split, Zadar, Pula, Rijeka** and **Osijek** and two airfields (at Mali Lošinj and Brač) where public air services are operated for domestic and international travellers. The airports of Zagreb, Split and Dubrovnik account for about 90% of all air passenger transport.

Croatian airports lag behind the airports in other European countries, particularly regarding passenger, plane and cargo handling techniques on arrival and departure.

1.4 Regional competitiveness

1.4.1 Regional disparities

Whereas at national level GDP per capita amounts to 45.6% of the average of EU 25, Croatia has to contend with well-marked **regional disparities**. The three most developed counties have a two to three times higher GDP per capita than the three least developed counties. Compared to average GDP per capita of EU25, the difference ranges from 77% in the city of Zagreb to 26% in Vukovar-Sirmium county.

In terms of **employment possibilities**, there are also significant variations within the country: The extremes lie between the Istria county with the lowest unemployment rate (5.7%) on the one side and Vukovar-Sirmium county (31.2%), on the other.

Croatia decided in 2004 to address the factors creating and widening disparities between the regions by putting a **balanced regional development** among its **national priorities**. It started to work together with regional and local self-governments, social partners and civil society on defining its regional development policy and establishing efficient management of regional development, with the aim of allowing sustainable development of all Croatian regions, with special attention given to the disadvantaged areas. This resulted in the elaboration of a **Draft National Strategy for Regional Development (NSRD)** which, through the **Programme for the Development of Disadvantaged Areas (PDDA)** foresees:

- to create an integrated national policy framework with an exclusive focus on the eradication of disadvantage and disparities and to prepare and implement an integrated Government plan for development of disadvantaged areas, and
- to build capacity nationally, within counties and within the disadvantaged areas to work together in purposeful manner to tackle disadvantage.

1.4.2 SME sector

The **SME sector** of Croatia accounts for 99% of the number of companies and employs 60% of the labour employed by these enterprises. Its share in GDP stands at 45-50% and in exports at 45-55%. The vast majority of the sector (92.2%) is constituted by crafts (2/3) and micro enterprises (1/3) which employ over half the sectors labour force. As employment by SMEs grows at a faster pace than the employment in other segments of the economy, SMEs have

the potential to contribute significantly to economic growth, increased competitiveness and employment over the coming years.

On the other hand, the *problems* the sector suffers often include insufficient entrepreneurship activity, low levels of education of entrepreneurs and lack of profitability. The level of cooperation of the business sector with research institutes and technology centres remains inadequate, as is the level of RTD expenditure. SMEs face administrative barriers, regulatory weaknesses, inconsistency in the implementation of education/training for entrepreneurs, lack of tailored incentives and financial instruments adapted to them, and insufficient institutional support on the regional level for entrepreneurship development.

2. Major areas of intervention

2.1 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 adoption and implementation of a national waste management plan is to be a priority. The adoption of the plan will enable the development and adoption of regional waste management plans and provide a strategic and structured approach to the problems of waste management on both the national and regional levels. Since waste management was identified also in the ISPA Environmental Strategy for Croatia as a priority area the measures to be taken will complement measures already started using ISPA.

Projects in the area of *water and wastewater* 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.

2.2 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, the implementation of River Information Services along the Danube should be addressed in cooperation with Serbian authorities. 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.

2.3 Regional competitiveness

2.3.1 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.

2.3.2 SMEs as a key factor for development

The scarcity of resources available and the need to avoid ineffective fragmented activities are elements, which justify that interventions, are concentrated on a *restricted number of sectoral priorities*. Accordingly, IPA assistance will focus on promoting a competitive economy conducive to entrepreneurship and investment in innovation, including Information and Communications Technologies (ICT), as well as unlocking the business potential, exclusively as SMEs are concerned, supported by a skilled and adaptive labour force capable of adding value in a modern knowledge based economy. In this context, the *Regional Competitiveness* intervention area will mainly *support SME activities* related to the *economic and productive sphere*, whereas the *Human Resources Development* Component will complement these activities with activities in the *human capital* sphere. Overall, it is envisaged that the activities will be flanked by a wider policy framework from the Croatian government aimed at adapting and/or downsizing the various development and assistance programmes currently on offer from various bodies and ministries and which often provide little incentive for a shift towards greater competitiveness of enterprises and better quality of services to enterprises.

2.3.3 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 the war-affected areas and, where justified, urban areas suffering high unemployment. 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**.

2.3.4 Capacity building

As part of further developing and implementing a comprehensive and coherent strategy of regional development, there is need for **strengthening administrative capacity** and the institutional base. This is a precondition for drawing pre-accession and future structural funds, as well as effectively directing these funds into measures enhancing the national convergence towards the EU socio-economic average and a similar socio-economic convergence within Croatia itself. However, addressing this overall need satisfactorily within the framework of the Regional Competitiveness intervention area goes beyond the scope and capacity of this area. 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, at large, to the SMEs situated in priority in the disadvantaged areas as defined under point 2.3.3. 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.

3. Main priorities

3.1 Environment

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, waste management) with **waste management** projects being the subject of particular attention. In addition, investments for promotion of energy efficiency and the use of renewable energy sources may be supported under this priority. In general, the projects should be selected in a way that compliments or enhances other measures in the sector already taken in order to increase the impact of the EU assistance. Projects will be selected with the aim of achieving maximum impact where the national financing capacity is insufficient and absorption capacity is assured.

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.

The projects proposed will have to comply with the relevant environmental *acquis*, in particular the Environmental Impact Assessment Directive (85/337/EEC as amended) and the Habitats and Birds Directives (92/43/EC and 79/409/EEC), as well as with the relevant sectoral directives.

3.1.1 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 affects drinking water sources;
- 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;

3.1.2 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 currently being devised and 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 investment in infrastructure, through 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.

3.2 Transport

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 corridor 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, the implementation of River Information Services along the Danube should be addressed in cooperation with Serbian authorities. 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.

The projects proposed will have to comply with the relevant environmental *acquis*, in particular the Environmental Impact Assessment Directive (85/337/EEC as amended) and the Habitats and Birds Directives (92/43/EC and 79/409/EEC), as well as with the relevant sectoral directives.

3.3 Regional competitiveness

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

The **first objective** is to enhance regional competitiveness and the productive environment, and encourage the creation and safeguarding of sustainable employment. Assistance under this objective will thus focus on supporting productive **investments** and strengthening the competitive position of new and existing small and medium sized enterprises, including micro enterprises, situated, in priority, in the disadvantaged areas as defined under point 2.3.3. Investment aid to SMEs will be complemented by assisting business and technology services for enterprises, such as in the fields of management, market research, industrial standards and development networking and the access to and the use of ICT, as well by provision of business infrastructure, and by promoting technological development, research and innovation, including through cooperation with tertiary education and research institutions and with research and technology centres, and business networks and clusters.

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 and relating, in priority, to the disadvantaged areas as defined under point 2.3.3. The priorities under this objective will encompass support to the improvement of administrative efficiency regarding the delivery to SMEs of quality advice, e-business, ICT and innovation, and entrepreneurial support services at large, including business coaching, 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.

4. Expected results

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 **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.

4.1 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 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.

4.2 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;
- level of safety 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.

4.3 Regional competitiveness

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

- productive investments by SMEs will be facilitated;
- 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 and administrations will be enhanced;
- principles of 'good governance' will be applied by the relevant administrations;
- business climate will be improved;
- income and quality of living in the disadvantaged areas will be improved.

5. Forms of assistance to be provided

The following programmes will be implemented under Component III:

- One **Environment** programme with focus on the **water** and **solid waste sectors**, where the impact on the population is the widest and the self-financing capability the least;
- One **Transport** programme covering, in principle, the whole territory, but focusing on the development of the **railway system** and **the inland waterway network**.

Large capital investment projects with an investment cost of more than **€10 million** will be predominant in these two operational programmes.

- One **Regional Competitiveness** programme to stimulate growth and competitiveness in priority in designated disadvantaged areas through productive and service support to enterprises, in particular SMEs, and good governance of the support measures concerned.

Complementarity and **synergy** between the measures undertaken under this programme and those undertaken, in particular, under the **Human Resources Development** Component will be ensured. Where appropriate, the measures of this programme will also be coordinated with those of the **Institution Building**, **Cross-Border Cooperation** and **Rural Development** Components.

6. 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. Current situation

In setting out the current situation as it relates to Component IV, the development of the analytical background to the formulation of the **JAP** and **JIM** policy instruments has been a key factor. At the same time, the 'socio-economic' analysis governing the strategic direction of the **SCF** assumed an important focus in the process of establishing coherence with Croatia's *own needs* insofar as they relate to components III and IV.

In relation to the **Accession Partnership** and, in particular its perspective of accelerating preparations for future assistance under the **ESF**, both the '*short*' and '*medium-term*' priorities identified therein have informed the analysis presented hereunder in particular as it relates to the field of *social policy and employment*.

At the same time, parallel developments under the revised **Lisbon** process, as well as the formulation of the **Community Strategic Guidelines 2007-2013**, have also been taken into consideration in identifying the '*major areas of intervention*' as well as the corresponding '*main priorities*' outlined under sections 2 and 3.

Taking these background developments as a whole, the current situation is presented hereunder on the basis of the following '*broad*' policy categories -

Employment

In terms of its *demographic profile*, Croatia's share of older population continues to grow at the expense of its younger generations, which are in decline. As a result (and in the absence of significant changes to the flow of net immigration), the ageing of the population is projected to continue.

More particularly, with '*baby-boom*' generations reaching retirement (pensionable) age from 2005 onwards, it is anticipated that the *replacement* of the working-age population will no longer be sustainable in the absence of '*equilibrium-restoring*' immigration flows (current estimates show some 336.500 people in the 45-49 cohort in 2005 with corresponding figures of 295.600 and 275.500 in the 30-34 and 15-19 age groups).

With declining numbers of young persons entering the labour force, its overall character has assumed an *older profile*. As a consequence, an on-going requirement remains to increase the employment rate and efficiency in expenditure in order to '*shoulder*' the growing relative burden of social security transfers and healthcare needs associated with an ageing population.

In accordance with *Eurostat* data, the *employment rate* for the working age population (15-64) stood at 54.8% in 2005 representing as much as 9 percentage points below the EU-25 weighted average. At 31.5%, the 2005 employment rate for the 55-64 age cohort was some 11 percentage points below the adjusted EU-25 average.

While the contributory factors giving rise to low levels of employment across all groups will remain present to varying degrees (*inter alia* labour market rigidities, war consequences on economic capacities, restructuring under privatization, short-term economic and seasonal fluctuations, foreign competition coupled with excessive wage growth in certain sectors), the

policy prescription of accelerating overall employment growth needs in the longer term to be driven by increased productivity allied to stronger demand.

In this context, fostering a stronger culture of **entrepreneurship**, as well as reducing the impact of the informal economy, will be key factors in addressing the relatively modest job-creation performance outside the small and micro enterprise sector.

Registered employment increased by 5.9% over the 2000-2005 period while the **unemployment rate** fell from 16.1% in 2000 to 12.7% in 2005 (i.e. 3.9 percentage points higher than the EU-25 average). Registered unemployment decreased by 13.7% over the same period. Underlying factors in this downward trend included institutional changes in war-veteran benefits, earning limits on unemployment benefit recipients as well as more stringent job-search requirements for the unemployed.

Nevertheless, economic fluctuations continued to play an important part in determining the flows from registered unemployment to registered employment. Particularly pronounced was the problem of **youth unemployment** with a 12.3% 'share' for the 15-24 age group in 2005 as against an EU-25 average of 8.4%. At the same time, **long-term unemployment** (particularly across all women cohorts) remains persistently high and a continuing focus of concern in the development of more effective policy responses.

In terms of Croatia's **regional labour market** profile, wide **differences** persist with *Istria* County recording just a 5.7% registered unemployment rate in 2005 as against 31.2% in *Vukovar* where the consequences of the war have been particularly severe.

An additional factor giving rise to these differences was the widely-varying characteristics of the industrial and sectoral structure of the counties such that those with low labour demand were closely linked to low quantity and quality of both physical capital and natural resources. At the same time, higher regional unemployment rates were closely related to lower average wages demonstrating insufficient flexibility as a further source of regional differences.

In contrast to the EU-25, the **sectoral** structure of the economy reveals a considerably higher share of employment in the Agricultural sector as well as a somewhat larger share of those employed in industry (1.7% higher than EU average). However, growing flexibility and responsiveness to change is projected through the country's emerging economic profile as evidenced by the continuing growth in the service sector.

On the other hand, progress to-date has been slow insofar as the privatisation and restructuring process is concerned with continuing high levels of state aid by EU comparison.

Although tripartite **social dialogue** is relatively well developed in Croatia, there remains scope (as identified under the Accession Partnership) to further strengthen social partners' capacity-building efforts notably through autonomous bipartite social dialogue.

Education and training

By EU-25 comparison, Croatia has a considerably lower share of **highly-skilled workers** within its total number of employed. While the share of highly-skilled non-manual workers was 38.6% in the EU-25 2005, the corresponding figure in Croatia was 10.2 percentage points lower.

Comparing the share of *tertiary education graduates* (ISCED 5 and 6), Croatia also lags behind the EU-25 average – Eurostat 2002 data shows 24.3% of EU-25 population in 30-34 age bracket with a tertiary-level qualification while the corresponding figure for Croatia was only 16.3%. However, while the need to strengthen the labour market relevance of higher education remains an important policy consideration in boosting economic development and productivity, the actual number of tertiary-level graduates has been steadily increasing since 2000 with women taking an increasing share (60% in 2005).

Although characterised by a low share of highly skilled workers as well as by a low share of the highly educated, Croatia also possesses a *wide coverage* of secondary education especially amongst the younger generation. In 2005, the share of the population aged 20-24 with at least secondary level of education (ISCED 3-4) was 93.9% compared to an EU-25 average of 76.9%. However, as in the case of the tertiary sector, the quality and responsiveness of the secondary education system to labour market requirements (in particular the content, profile and range of competencies under the VET system) needs to be further strengthened and developed.

As in the case of most EU countries, the highest unemployment rates were found amongst the lowest educational attainment groups with some 40% of the Croatian working-age population possessing only *basic school education* (8 years compulsory education) or less. As a result, unemployment rates as high as 13.3% persist across the 25-29 age cohort with primary level education as compared to only 5.8% for those with tertiary-level qualifications.

In accordance with OECD 2004 EU-15 data for the 25-64 age cohort, the employment rate was approximately 9.5 percentage points higher for those with tertiary as opposed to secondary-level qualifications (in the case of women in the same age bracket, the difference was more pronounced at 13.5 percentage points). While these trends were also *mirrored* in Croatia, the corresponding differences were as high as 13 percentage points for the 25-49 age cohort and 17.8 percentage points for women in the same age bracket.

Beyond the comparatively low education attainment levels generally, the high incidence of 'drop-outs' at both secondary and tertiary level remains a focus for policy reform (e.g. the ratio of 2005 tertiary education graduates to 2001 enrolments was as low as 41.3%).

Though data on functional *literacy rates* are not available, Croatia's active participation in the OECD PISA test for 15-year-olds is envisaged in the course of 2006.

Although variances in the unemployment rates across different educational attainment levels partly reflect the mismatch between the skill structure of the labour supply and the requirements of the labour market, marked differences in the flows from registered unemployment remained across various professions and occupations notwithstanding similar levels of attainment.

More generally, policy recognition continues to take hold on the need to reduce the level of occupational skills mismatch through structural reform of the labour supply, in particular through reform of the content, profiles and outcomes within the education sector. Combined with greater wage flexibility, such a reduction would also contribute to a greater *equalization of opportunity* in terms of labour market access.

Also on the supply side, the lack of adequate provision in the *Adult Education Sector* remained a policy concern particularly when set in an EU-25 comparative context. According

to Eurostat 2005 data, participation of the 25-64 age cohort in formal education or training was as low as 2.3% in comparison with an EU average of 11%.

In terms of 'standards' of education and the application of 'evaluation criteria' (e.g. development of curriculum standards, in-service training and teaching methodologies), marked differences persist at county level while, at national level, efforts are underway to strengthen curricula and examination standards with the establishment of the *National Centre for External Evaluation*.

Social inclusion

In addition to tackling systematic weaknesses within the social welfare system and strengthening its overall structure and sustainability, the key policy objective remains one of ***better targeting*** in order to ensure that social benefits reach the more vulnerable groups and those most in need. Viewed from a current perspective, the targeting of social spending remains extremely low and is reflected in the low volume of funding spent on social benefits.

With the exception of those in employment, a range of categories remained particularly exposed to ***social exclusion*** and had a relative poverty risk above the average (*incl.* self-employed, unemployed, low skilled with educationally poor attainment levels, disabled, IDPs, pensioners and other economically inactive).

While the unemployed and economically inactive groups in general remained exposed to the highest ***at-risk-of-poverty*** rates (approximately 32% which is twice the national average), female-headed households as well as those with no or inadequate pension entitlements were deemed to be at specific risk

Moreover, the high share of the ***economically inactive*** population tended to mask the high incidence of long-term unemployed and discouraged workers as well as highlighting the declining and ageing population of rural areas including problems of the ***working poor*** as well as one-person rural households and those in ***subsistence agriculture***.

Amongst the ***Roma*** population, at-risk-of-poverty rates were significantly more widespread than in other groups with some 13% living close to ***absolute poverty levels***.

Although a high percentage of the population have only primary educational attainment levels or below (approximately 40% according to 2001 census), the strong correlation with relative poverty risks for this segment of the population served only to ***compound*** their overall level of disadvantage in access to education and the labour market.

In terms of population and welfare, ***significant regional disparities*** persisted between the most and least densely populated counties. More particularly, the 3 most-developed counties continued to show a GDP *per capita* which was over twice that of the 3 counties identified as being the least-developed.

With more reliable data on ***regional distribution of poverty*** being developed through the World Bank's 'Living Standards Assessment', the evidence emerging revealed that areas most affected by the war remain those with the highest level of permanent social assistance beneficiaries. At the same time, areas with a high concentration of Roma population were also identified with well-above-average levels of such assistance while rural areas in Central and Eastern Croatia continued to suffer from higher-than-average poverty rates.

Accounting for some 45% of all permanent social welfare beneficiaries, the unemployed in general continue to face exposure to poverty risks of varying degrees, in particular those encountering inadequate benefit protection arising from longer durations outside the labour market.

Beyond the wider policy objective of strengthening '*demand-led*' job maintenance and creation, the promotion of overall '***better-quality***' ***social services*** remains a key objective in bringing more people into employment, in particular by facilitating greater labour market access through the development of quality standards, training and work-related conditions, certification and accreditation.

As a key function of human capital development, the need to strengthen access to general healthcare provision should also form an integral element in the promotion of 'better quality' services.

In the context of ***pension reform***, the inheritance of a wide spectrum of 'special' pension entitlements regulated under existing legislation (*inter alia* war and veteran pensions) represents a particular challenge in bringing about a more inclusive pension and social benefit system. Combined with an unfavourable 'demographic profile' (i.e. an aging population with low fertility and high emigration rates), the wider policy challenge must be directed towards achieving greater fiscal sustainability allied to the need to streamline the management of the state budget.

2. 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.***

3. Main priorities

While recognising the need to ensure a high degree of concentration in line with relatively limited availability of assistance over the 2007-2009 period, the ***main priorities*** identified hereunder 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 precursor 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 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.

Though at varying stages of elaboration, appropriate account has also been taken of the draft analysis as well as the future needs and challenges presented under the **JAP** and **JIM** joint cooperation processes. This will allow for a more focused approach to identifying relevant target populations.

Accordingly, the **main priorities** corresponding to each of the major areas of intervention are set out as follows:

3.1 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.

3.2 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.

3.3 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.

3.4 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 during the various stages of implementation.

4. Expected results

Under Component IV, the time-frame for assessing the **expected results** will be the on-going programme execution which will focus 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 themselves targeted under the Component IV interventions are concerned, results will focus on measuring progress in terms of their levels of employability and social inclusion.

In a wider policy context, the objectives of the assistance under the **single HRD OP** should be consistent with the HRD-related 'strategic priorities' set out in the SCF in addition to being closely aligned with the key employment and HRD 'challenges' established under the JAP and JIM joint processes. At the same time, they should be coherent with the relevant provisions of the Community Strategic Guidelines (2007-2013) and, in particular, the revised Lisbon Integrated (Employment) Guidelines.

From a **structural funds** perspective, the expected results will be set in the context of measuring the extent to which Component IV serves as a '*pre-cursor*' to establishing future ESF needs and priorities, in particular in the fields of employment, education and training and social inclusion.

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

5. Forms of assistance to be provided

In principle, Component IV will be implemented through a **single** multi-annual HRD Operational Programme (OP). Financial support in Component IV may take different forms, in particular service contracts, grant schemes and technical assistance. Where appropriate, this will be supplemented by supply, works or other contracts for the equipping of related operational facilities.

The interventions supported in this area will be implemented in close coordination with the Tempus programme, which will form part of the Multi-Beneficiary MIPD 2007-2009. The dissemination and exchange of best practice in the targeted areas will also be further enhanced.

6. Financial indications

In respect of the *major areas of intervention* set out under section 2, and taking appropriate account of the nature and scope of the *main priorities* outlined under section 3, the following indicative financial weightings (% ranges) have been established:

Table 9: Financial indications – Component IV

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

Component V – Rural Development

1. Current situation

Agriculture plays still an important role in the overall economy of Croatia. Agricultural, forestry and fishery amounts up to 6.5% of GDP (EU-25: 1.6%). The share of agricultural labour in total labour was about 7.3% in 2003 (without forestry) (EU-25: 5%). About 10% of the population of working age earn their income from agriculture and the food industry.

Croatia can be divided into three natural and geographical areas:

- The **Pannonian** and **Peri-pannonian region**, a hilly region in the North-East of Croatia, embraces approx. 47% of the total country area and 64% of the total Croatian population. Agriculture is predominated by arable farming and cattle breeding.
- The **Mountainous Region** is located between the Pannonian region and the coastal area with 30% of Croatian population living there. Extensive agricultural production traditionally predominates which is carried out by small scale farms who are mainly engaged in cattle breeding. The region has a high potential for the development of organic farming and agro-tourism.
- The **Adriatic coastal region**, covering a narrow coastal belt which is separated from the hinterland by high mountains. The region covers more than 1,000 islands. Most of the regional GDP is derived from tourism. The mild climate enables the production of Mediterranean crops such as olives, figs etc. Agriculture on small scale farms prevail.

Agricultural land accounts for 2,695,000 ha, 41% of which is arable land and 54% permanent grassland, the remainder is fallow land (set aside). A substantial part of the agricultural land is still uncultivated, i.e. no longer farmed for economic, social or other reasons (e.g. slow privatisation of state owned land). Beside wooded areas which accounts for the biggest part (63,350 ha), some 45,000 ha of agricultural land (arable land, pastures etc) are still polluted with mines.

According to the 2003 Agricultural Census 449,896 **farms** operate in Croatia, 67% of which utilise less than 2 ha per farm. The **average farm size** is 2.4 ha. Family farms possess 78% of arable land and more than 81% of the total livestock.

Almost 60% of the total Gross Agricultural Output (GAO) is derived from **crop production**, 40% from **livestock products**. **Self-sufficiency** is given in wheat, sugar, wine, maize, poultry meat and eggs, almost reached in raw cow milk (94%), and much lower in pork production (78%), beef and veal (73%), and sheep and goat meat (70%).

Croatia's crop production is contributing significantly to marketable production in Western Balkan countries, especially as far as **cereals** (esp. maize, wheat) are concerned. **Fruit** and **vegetable** production with grapes and potatoes as the most important commodities accounts for 18% of the total GAO. The production of cereals and fruit and vegetable is still characterized by small-scale farms, the latter producing primarily for self-consumption and direct marketing (half of the production).

As regards livestock, pork production is the second-largest (after cereals) sub-sector in Croatian agriculture (13% of the total GAO) followed by cow milk (9%) and beef (7%). Poultry (5%) and eggs (4%) are less important. The sub-sectors are pre-dominated by small

production units especially for cattle, swine production, sheep, and goat keeping. Poultry and egg production on the other hand is characterised by **large-scale production unit**.

The productivity of the agricultural production, especially in the livestock sector, is still low and characterized by small scale production, outdated production methods and equipment. This creates a high pressure for modernization, in particular as regards the necessity to upgrading the sector to respect Community standards on environmental protection, public health, animal and plant health, animal welfare and occupational safety in the light of the EU accession of Croatia.

Croatia is a **net importer of agro-food products** and maintains a high negative trade balance with the EU. Only for basic agricultural products, the trade balance in favour of the Community was of around 367 million € in 2005 (where the EU exported to Croatia 580 million € and imported 213 million €). The EU is Croatia's main trading partner. The remaining trade is conducted with the Western Balkan countries in particular Bosnia-Herzegovina where exports have increased substantially in the last few years. Croatia is a member of the WTO since 2002 and has concluded several free trade agreements with European countries, a new CEFTA agreement recently, as well as the Stabilisation and Association Agreement (SAA) with the EU.

The share of the Croatian food processing industry has remained relatively constant at 3-4% of GDP over the last years. The structure of the **agro-food industry** has been changing gradually over the past ten years as larger scale agro-kombinats have become less important and smaller-scale, modern and more efficient processing firms have begun to emerge. The privatisation of the agro-processing industries is almost completed. Important sub-sectors for employment include: beverages (19%), meat and meat production (18%) and milk/dairy (9.7%). The branches with the largest revenues are the production and processing of tobacco, beer processing, processing of milk, tea and coffee and the production of soft drinks.

The milk processing sector is dominated by two big dairies (more than 100 mio l per year) and around 35 medium and small scale enterprises (below 50 mio l per year). Bigger dairies run partly their own programme to increase the quantity and quality of the raw milk supply by giving support in improving on farm operations. However approximately 60% of the raw milk delivered to dairies is still not respecting the Community quality standard. Croatia has traditionally a large number of slaughterhouses with substantially underutilized capacity. As regards the most important sub-sectors, there are 196 slaughterhouses for red meat, 74 for poultry, and 20 for rabbit and game meat. Only a limited number of establishments for processing produces of animal origin is currently approved for the export into the EU market.

The fruit and vegetables processing industry has, due to the favourable climatic and agro-ecological conditions, a significant potential to develop. This is underlined by the significant increase in the production of fruit juices in the years 2000-2004. However the overall production remains low and processing of fruit and vegetables is still one of the most under-developed sectors of the processing industry mainly due to the insufficient domestic fresh fruit and vegetable production in terms of quality and quantity.

According to OECD criteria, 92% of the total area of Croatia can be considered as rural areas with 2.11 million people (48% of the Croatian population) living there. In the period between the two Censuses in 1991 and 2001 the rural population (-75,000), but much more the urban population (-272,000), has decreased which was mainly due to destabilizing (external) factors, such as war. The divergence of living standards between rural and urban areas is still

significant in terms of income, education, physical, social and cultural infrastructure, unemployment. There is still a high number of (semi)-subsistence agriculture, insufficient diversification of agricultural and non-agricultural income generating activities, and aging of rural population in the Croatian rural areas.

Taking into account that Component V on the basis of the above description with regard to agriculture and rural development has the specific purpose of preparing the Croatian agricultural and agri-food sectors to meet EU requirements as well as helping the Beneficiary Country to get ready for the implementation of EU rural development programmes upon accession and thus assisting the Beneficiary Country with the building up of the administrative structures necessary to manage the future EU rural development funds, the main policy objectives under Component V are:

- to contribute to the sustainable modernisation of the agricultural sector (including processing) through targeted investments while at the same time encouraging the improvement of EU acquis related food safety, veterinary, phytosanitary, environmental or other standards as specified in the Enlargement Package,
- to contribute to the sustainable development of rural areas.

The rural development component priorities will be implemented through a related multi-annual Programme covering the entire period of 2007-2013 in the framework of a fully decentralised system from the very beginning, which will significantly contribute to the achievement of this key target of preparing for effective implementation of EU rural development programmes.

2. Major areas of intervention

Assistance under the Rural Development Component 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, phytosanitary and environmental matters.

Priority axis 2: Interventions under this priority have 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.

3. Main priorities

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 setting up of producer groups with a view to adapting their production to the market requirements and enabling them to jointly place goods on the market (national programme).
- c) 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.
- c) The improvement of training (national programme)

To priority axis 1

The Croatian Accession Partnership identifies a number of short (1-2 years) and medium term (3-4 years) priorities for the agricultural and rural development sector as well as for food safety.

It stipulates that Croatia should in the short and medium term emphasize the **modernisation of agro-food establishments** in order to meet Community standards and establish a system for **animal waste treatment** as well as significantly improve the **inspection structures** for food safety, veterinary and phytosanitary policies.

Under the Croatian Sapard programme adopted on 8 February 2006, 60% of the Community funds are allocated to **priority axis 1**, in particular to the **milk, meat, and the rendering sector** with the objective to support the upgrading of private entities to Community standards. Given Croatia's objective of being ready for EU membership in a few years, the approach followed under Sapard needs to be pursued and enforced under the IPARD Programme.

The **modernisation** and **restructuring** of the farm and agricultural processing sectors should first and foremost be achieved through the upgrading to the **Community's environmental, hygiene, food safety and animal welfare standards**. 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, rendering and fish sectors** 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 to be able to deliver agricultural produce in the quantities and quality satisfactory by the agro-food industry.

Interventions in the **agricultural food processing** sector should in particular focus on the **first processing sequence** of agricultural and fishery products as well as **the treatment of animal waste and risk material** (rendering). Support for investments in that sector should be linked to the national plan for upgrading of establishments. Moreover, investments should mainly target small and medium size enterprises and should focus exclusively on the weakest links in the production, processing and marketing chain of each sector chosen according to acquis relevance. **Establishments already certified for the EU market are not supposed to be beneficiary under this Component.**

The number of producer groups in the fruit and vegetable sector are described in the Sapard programme as being not sufficient. This should therefore be addressed in the Rural Development Programme. Due to the limited resources available under Component V Croatia will address the support of producer groups through the **national support scheme**. An exhaustive description of the national measure including reserved budgetary means, timetable for implementation, and monitoring activities to ensure an efficient and effective implementation should be provided in the IPARD programme.

To priority axis 2:

The preparation for the implementation of actions designed to protect the environment and maintain the countryside should help Croatia to prepare for the **agri-environment activities**, which will become obligatory under the Rural Development Programme for EU Member States.

The application of LEADER will become obligatory under the Rural Development Programme for EU Member states. The preparation of rural communities to conceive and implement **rural development strategies** through local private-public partnerships will help Croatian rural population and the national administration to build up a LEADER structure and learn how to implement the LEADER approach.

To priority axis 3

The interventions under **rural infrastructure** are intended to follow the concept chosen under Sapard: Municipalities below a certain number of inhabitants, which form part of/or cover specific territories/regions/areas will be supported to implement projects addressing specific needs of the rural population. This could for example be the support of the construction of local public roads connecting farms located in agricultural production zones identified in the spatial plan of the municipality (as provided for under Sapard). This approach should ensure that the limited funds available under IPARD will be used in an effective and efficient way at the same time addressing specific needs of the rural areas.

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), in particular rural tourism, creating additional income sources and employment opportunities in rural areas.

The SWOT analysis in the Sapard Programme identified the vocational training sector as a weakness. The inclusion of such a support measure under the Rural Development Programme of 2007-2013 was recommended by the Sapard ex-ante evaluation. **Training** activities for the urban but also the rural population will be covered under **Component IV**. Specific training needs of the farming population would be targeted under Component V or under the national support scheme if appropriate.

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.

The Accession Partnership also defines that a **rural development strategy** as well as a policy instrument for the design, implementation, management, monitoring, control and evaluation of rural development programmes should be developed in the short term.

The Rural Development Strategy will identify the priorities and objectives of the policy for the development of rural areas in Croatia. It will in addition provide the strategic framework for support under the IPARD Programme co-financed by the EU. Croatia is therefore recommended to adopt the strategy as soon as possible.

Croatia should also establish a fully-operational Paying and Implementing agency to run IPARD.

The IPARD Programme and the Rural Development Programme post-accession will be negotiated based on **agricultural** and **rural development data** provided by the Croatian authorities. Therefore, the collection and processing of agricultural statistics in line with EU standards and methodology should as soon as possible be reinforced (see also the Accession Partnership).

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

4. Expected results

Component V has the **main goal** to facilitate the preparation of the beneficiary country for the participation in the Common Agricultural Policy (CAP) while at the same time assisting the beneficiary country with getting ready to effectively implement EU rural development programmes upon accession.

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 should contribute to the following results by the time Croatia joins the European Union as a Member state:

Priority axis 1:

- Improved income of the beneficiary farmers;
- A better use of production factors on agricultural holdings;
- 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 added value and competitiveness of agricultural and fishery products;
- Upgrading of agrifood establishments to EU food safety standards through targeted investments;
- Improved competitiveness of the food processing industry in the selected sectors in the single market;

Priority axis 2:

- 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 competitiveness of beneficiary rural areas;
- Improved quality of life of the beneficiary rural population;
- 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;
- Better access to training in rural areas

Indicators to measure the results achieved under Component V during the monitoring and evaluation process will be developed as part of the ex-ante evaluation of the multi-annual IPA Rural Development Component Programme.

5. Forms of assistance to be provided

Forms of agriculture and rural development related assistance

IPA funds under Component V will be implemented through a **single multi-annual Rural Development Programme** covering the entire period of 2007-2013 taking account of the related implementation requirements. The Programme will address the three main priority areas and a selected set of measures under each of those areas.

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 IPA Rural Development 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 EU rural development programmes.

Assistance will mainly be granted in the form of support for **private investments** undertaken by natural or legal persons like farmers, food processing and marketing enterprises, co-operatives, producer unions etc.

Institutional set-up for the implementation of the assistance to be provided under Component V

The institutional set-up for the IPARD assistance in Croatia will substantially rely on the structure which has been set up for SAPARD.

Croatia has already designated the Directorate for Sustainable Development of Rural Areas in the Ministry of Agriculture, Forestry, and Water Management (nowadays the Managing Authority for SAPARD programme) as the Managing Authority being responsible for the

elaboration of an IPA Rural Development Programme, the efficiency and correctness of the related co-ordination as well as for reporting on the monitoring and evaluation of the Programme.

Monitoring will be ensured through a sectoral Monitoring Committee appointed by Croatia. The Programme, following the rules of the IPA legal framework, will be subject to ex-ante, interim and ex-post evaluation.

The Programme will be implemented by the Beneficiary Country through structures according to the rules laid down in the IPA legal framework. Croatia has already designated the Directorate for Market and Structural Support in Agriculture (nowadays the SAPARD Agency) to be in charge for the implementation of the rural development assistance.

The Commission will control that the funds are used in accordance with the applicable rules, inter alia by applying clearance of accounts procedures and financial correction mechanisms. Such management is very similar to that applied in Member States and contributes directly, and in a practical manner, to preparing for accession through administrative capacity building.

6. Financial indications

Priority axis 1: 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: A **minimum of 3%** 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: 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	Min. 60%
Priority 2	Min. 3%
Priority 3	Min. 20%

INDICATIVE ALLOCATIONS TO MAIN AREAS OF INTERVENTION	
<i>Republic of Croatia</i>	
Component I (Transition Assistance and Institution Building)	
Political criteria	10 % - 20 %
Economic criteria	05 % - 15 %
Ability to assume the obligations of membership	50 % - 70 %
Supporting Programmes	10 % - 20 %
Component II (Cross-Border Co-operation)	
Croatia - Slovenia	19.5 %
Croatia - Hungary	15.9 %
IPA Adriatic CBC	44.4 %
CBC with neighbouring potential Candidate Countries and ERDF transnational and interregional programmes	20.1 %
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	20 % - 30 %
Increasing human capital investment	30 % - 40 %
Strengthening administrative capacity	10 % - 20 %
Component V (Rural Development)	
Priority 1	Min 60 %
Priority 2	Min 3 %
Priority 3	Min 20 %

Annex A

CROSS CUTTING ISSUES

The major cross cutting issues to be tackled in the Republic of Croatia are:

- ***Civil Society*** will be supported by the European Initiative for Human Rights and Democracy and the IPA financial framework. Civil Society is understood as including employers' organisations, trade unions, associations of local self-governments as well as any other non-governmental organisation. A justified balance has to be kept between Western Balkans' regional activities for civil society and specific activities along the national IPA programmes.
- *Environmental considerations will duly be reflected in all IPA financed activities, in particular for projects requiring Environmental impact assessment.*
- ***Equal opportunities and non-discrimination*** will be respected as regards gender as well as minorities and vulnerable groups at the programming and implementation stage, particularly in relation to socio-economic support programmes.
- 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.
- Specific action instruments for the ***good governance***, with particular attention to ***fight against corruption***, will be incorporated on a horizontal basis.