

**DRAFT PROGRAMME**  
**AN INITIAL SUPPORT PROGRAMME FOR CROATIA IN 2001**  
Sustainable Return of Refugees and Displaced Persons

**1 IDENTIFICATION**

<b>Beneficiary state:</b>	Croatia
<b>Programme:</b>	Council Regulation (EC) No.2666/2000
<b>Year:</b>	2001
<b>Cost:</b>	€23.2 million
<b>Expiry date:</b>	31.12.2003 contracting 31.12.2004 disbursement
<b>Sector:</b>	AA
<b>Group:</b>	M
<b>Budget line:</b>	B7-541

**2 SUMMARY**

Council Regulation (EC) n° 2666/2000 of 5 December 2000 provides a legal basis for the use of funds from the budget heading B7-541 under the CARDS Programme. Art. 2 of the Regulation stipulates that the Community assistance shall, inter alia, be for reconstruction, aid for the return of refugees and displaced persons, facilitating social development and strengthening the rule of law. This Financing Proposal responds to these objectives and makes specific provision for a first tranche of assistance to Croatia of €23.2 million for 2001.

The overall budget available in 2001 under the Cards programme on budgetary line B7-541 is € 304.000 million out of which € 60 million have been tentatively allocated to Croatia. This Financing Proposal makes specific provisions for a programme with a value of € 23.2 million to be drawn from the above-mentioned budget.

The Commission proposes to continue to deliver its support through the well-established and widely-recognised "European Union Reconstruction Programme for Return" (EUPOP: Europska Unija Program Obnove za Povratak) in co-operation with NGOs already experienced on the ground and familiar with the concept. The EUPOP has represented a comprehensive approach to the sustainable reintegration of displaced persons (DPs) and refugees. It allows the objectives of the European Commission's support for sustainable return of refugees and displaced persons, set out below, to be met:

- The effective return of displaced persons and refugees to their pre-war homes
- The sustainability of the return process
- The reintegration and reconciliation through the improvement of the quality of life, not only for the returnees, but also for the entire municipality of return.

The programme will be implemented over an 18-month period for the Reconstruction and Related Measures Programme and a 30-months period for the other programmes.

### **3 BACKGROUND**

#### **3.1 The return process**

Annex 7 of the General Framework Agreement for Peace defines as a priority the facilitation of the return of Refugees and Displaced Persons to and within Croatia. The International Community (IC) in co-operation with the Government of Croatia (GoC) has introduced a number of initiatives designed to support the rehabilitation of housing, basic infrastructure, restoration of utilities, creation of business and employment opportunities and the provision of a physically safe and secure environment.

As stated in the Brussels Peace Implementation Council (PIC) Declaration of May 2000 return remains a central priority and much needs to be done not to lose the momentum and favourable environment for return created by the activities undertaken by the IC and the GoC. The return of refugees is likely to accelerate in 2001. Many of these returns will be spontaneous and there have been calls for additional funds to support them and make them sustainable.

It is estimated that some 200.000 refugees are still living abroad, and that the majority of the refugees are located in the Federal Republic of Yugoslavia. In fact the latest UNHCR FRY survey indicates that as many as 240.000 refugees from Croatia are still in the FRY, though UNHCR Croatia has estimated 150.000. 24.000 refugees remain in BiH. In view of the recent changes within the Federal Republic of Yugoslavia the return issue now has a regional dimension, which is likely to increase over the next few years. As well as these refugees, 35.000 people are still displaced within Croatia.

Out of the requests for reconstruction filed until now, it is estimated that 31.500 destroyed houses have to be reconstructed. This number is covered by the GoC budget (budgets of the years 2000 to 2003) and the donations and loans of the IC as foreseen until the end of 2000. Additionally, the GoC decided recently (known as the Knin Decision) to foresee an extra \$100 million for reconstruction through a State loan, which will advance the programme of reconstruction by one year. However, 15.000 new requests for reconstruction are expected in 2001 after a publicity campaign in the FRY. The GoC can only cover the reconstruction of these from 2002/2003 on. To speed up this process and to convince potential returnees that reconstruction of their houses will be done in the foreseeable future the help of the IC is needed

It continues to be true that if the return process to Croatia can be improved significantly, this will without doubt generate further returns throughout the region and best influence to the overall return process. A strong and immediate support

to returns to Croatia was therefore defined as a priority during the meetings of the Steering Committee of the Stability Pact's Regional Initiative uniting governments and international organisations with significant expertise in the return process in the region. This has been reflected in the substantial resources which it is proposed to allocate in this programme.

The political changes in Belgrade and Sarajevo, the Croatian government's publicly announced commitment to support the return process, the instruments put in place by the Croatian government to facilitate the return process and in particular the continued policy of the IC to support the return process, create better conditions than in the past for a considerable effort to help people to return to their homes.

However, much remains to be done in particular by the Croatian government. The OSCE progress report published 25 May 2001 indicates major areas of concern in this respect (guarantee of unconditional return for all refugees, restitution of property, resolution of the issue of lost occupancy and tenancy rights and re-integration of returnees into the Croatian society).

To keep the momentum, the assistance to the return process has to be provided as quickly as possible. As UNHCR and the International Community are expecting a significant number of spontaneous, ie not planned or organised by the IC, return movements throughout the year, and given that such spontaneous return movements should be encouraged to the maximum extent possible, particular attention will be paid to supporting this category of returnee. Quick and flexible support to return movements to Croatia has been defined repeatedly in different fora as a key political priority.

### **3.2 The obstacles to return and related issues**

Besides the insufficiency of the funds for reconstruction, several other obstacles to the return of refugees and displaced persons remain: **slow administrative procedures to take decisions on reconstruction, legal and administrative obstacles for repossession of property and the lack of alternative accommodation**. It is estimated that 5.000 families will need alternative accommodation, which is an additional financial burden for the GoC.

The successful implementation of this restitution depends on the rapidity of legal changes to allow a faster procedure for evictions but also on the availability of alternative accommodation. The availability of reliable up-to-date data on reconstructed dwellings (by the GoC) and their occupancy, as well on the use and management of the state assets (state owned apartments) are crucial for a speedy solution.

A further obstacle is the **lack of know how in most of the Municipalities** to cope with the problems ahead of them. In view of making them less dependent of outside help and to prepare the phasing out, capacity strengthening is needed.

Furthermore, the re-integration and reconciliation process has to be re-inforced to secure a viable environment in the Municipalities of return. Therefore, **civil society should be strengthened** to enable this process to develop.

The return process can only advance if potential returnees have confidence in that they are returning to a physically **safe environment free of mines and other explosives**. In most of the priority areas for return of refugees and displaced persons, de-mining is also a precondition for economic development and as such for a sustainable return. De-mining activities will be linked to the reconstruction projects foreseen in this programme.

### **3.3 Economic sustainability of return**

The reconstruction of houses and other infrastructure and the removal of technical obstacles to return are only part of the picture in a programme to encourage sustainable return of refugees and displaced persons. The existence of economic opportunity in return areas is a key determinant of the attractiveness of return to those who are considering at, and of the long-term potential of return. This does not relate to the possibility of a subsistence income, but to genuine economic development in return areas. This is a particular challenge because many of these border areas were in decline even before they were affected by war and population movements. It is not, therefore, simply a question of restoring previous industries, but in many cases of finding new potential growth sectors.

Support to economic development will therefore form a specific sub-programme of this refugee return programme, with a dedicated and identifiable resource allocation.

## **4 PROGRAMMING CONTEXT**

The main focus of the 2001 budget is assistance to the Government of Croatia in achieving sustainable return through integrated projects covering both reconstruction and related measures (such as capacity strengthening of the local authorities and reinforcement of the civil society to promote re-integration and reconciliation), and economic development. By this, the European Commission contributes to the political priority of quick and substantial assistance to the return process in Croatia, as defined by the EU and in the framework of different international fora like the Stability Pact.

The return programme will be concentrated upon the return areas and within these upon designated EUPOP municipalities. In continuing the EUPOP approach, a guarantee for cohesion, impact and visibility of the Community assistance in the field of return is assured.

## **The programming criteria**

The main programming criteria are:

- To provide assistance that can be contracted and absorbed quickly and efficiently;
- To ensure a sense of local “ownership” of the Programme, and in particular that it accords with the priorities established by the local authorities,
- To ensure that the individual Programme components are mutually supportive of the primary goal of facilitating sustainable return,
- To work closely with other donors in order to avoid duplication.

## **5 PAST EC FUNDING AND COMPLEMENTARITY WITH OTHER INTERESTED PARTIES**

### **5.1 Reconstruction and related measures**

Since 1996, the EC has concentrated its assistance to Croatia on the return process. In the period 1996-2000 the EC has provided €53.7 million for projects helping Refugees and DP's to return to their original homes, mostly implemented by the Arbeiter Samariter Bund e.V and UNDP. Reconstruction and Economic aid to Croatia was concentrated on the formerly contested areas between Serbs and Croats, namely Eastern Slavonia, Western Slavonia and former Sectors South and North ('Krajina').

The return programme (EUPOP) financed from the 1999 and 2000 OBNOVA budgets focused on a municipality approach co-ordinated with the GoC and based on the potential for returns, especially cross border and multiple return. They will be completed, for the reconstruction part, respectively by the end of 2001 and mid-2002 and for the economic part, mid-2002 and 2003. Through the refugee return programme, starter packages, comprising equipment and other means of income generation, were offered to support the basic needs of returnees. This has been mainly agricultural support

The CARDS 2001 refugee return programme will complement and build on the experience gained from these programmes.

### **5.2 Sustainability of the return – Economic measures**

In recognition of the importance of employment opportunities in return areas, the Commission has already, through previous assistance programmes, supported job creation. The OBNOVA 2000 budget allocated resources to a programme for local economic rehabilitation in war-torn areas, donations in kind in the form of rehabilitation of premises and technical infrastructure as well as basic machinery (already ongoing). An additional economic programme will begin operation

during 2001 which will provide capacity building for Local Economic Development Agencies (LEDAs), credit for micro and small enterprises through guarantee funds, and associated capacity building for firms and local authorities. A feature of the Croatian economy is that (despite the excess liquidity in the banking system) there is limited access to credit for small and micro-businesses, especially in return areas, because the banks are averse to risks.

This support to economic revitalisation is considered increasingly important as the reconstruction effort draws to a close and attention turns to the long-term sustainability of areas of refugee return. The actions to be supported under the 2001 budget will build on and complement those still ongoing from previous years' budgets. The support will focus on areas of refugee return but all economic actors in the relevant area will be able to benefit; it will not be restricted to returnees.

Under the CARDS programme for 2001, economic support will be grouped in the Quick Impact Facility (QIF), building on experience in Croatia and on the established QIF in Bosnia and Herzegovina. The QIF will co-ordinate and enhance the economic sustainability measures.

### **5.3 Complementarity to other Community budget lines**

The present proposal for Croatia takes into consideration the return programmes for Bosnia and Herzegovina and aims to complement them as far as possible.

All steps undertaken by the Implementing Partners will be co-ordinated with the European Commission to ensure that they are in line with the overall policy of the European Union.

### **5.4 Co-ordination with the Government of Croatia and the local authorities**

These programmes will be closely co-ordinated with the GoC and the respective local authorities. The Croatian Government has established a committee for the co-ordination of return matters on the highest level. It comprises representatives of the government and of the International Community and is put under the auspices of the deputy Prime Minister. The European Commission Delegation is actively participating in this committee.

The GoC and all municipalities and Counties have declared their good will and support envisaged operations. A Memorandum of Understanding with the local authorities has or will be signed for each of the EUPOP municipalities.

The Implementing Partners will build up on the previous return programmes of the EC in the Republic of Croatia and especially on the experience in co-operating with the Croatian Government and its individual institutions and agencies, which is also crucial for the success of the proposed programme.

## **5.5 Co-ordination with other donors**

The present programme takes careful account of the current and prospective activities of other donors in Croatia, particularly the programmes developed by the United Nations High Commissioner for Refugees (UNHCR) and the United States Agency for International Development (USAID). EC and US actions will continue to complement each other with US assistance mainly focussed on Public Infrastructure.

The close co-ordination, by the implementing partners, of all activities provided under the project with, UNHCR, OSCE as well as with the Office of the High Representative (in Bosnia and Herzegovina) and the Reconstruction Return Task Force is essential.

The success in achieving this aim, though, can only be accomplished through a joint effort of all involved organisations. Therefore, the Implementing Partners will take careful account of current and prospective activities carried out by other non-profit Organisations in the areas covered by this programme.

On a regional level, co-ordination is also enhanced by the active participation of the Commission's Services in the Steering Committee of the Stability Pact's Regional Return Initiative chaired by Hans Koschnick.

## **6 PROGRAMME OBJECTIVES**

### **6.1 Overall Objective:**

The overall objective of the programme is to improve the overall conditions for return allowing for political stability and economic and social normalisation in Croatia and the Region.

### **6.2 Immediate Objectives**

The immediate objectives of the programme are:

1. To create the conditions for the sustainable return of a minimum of 5000 direct and indirect additional sustainable returns of refugees and displaced persons
2. To contribute to the sustainability of the return process by stimulating economic activities in areas of return and generating employment opportunities

## **7 ACTIVITIES: RECONSTRUCTION AND RELATED MEASURES**

### **7.1 Reconstruction Programme**

A major part of a sustainable approach to refugee return is an integrated package of measures comprising the reconstruction of housing, the rehabilitation of public and social infrastructure, the provision of basic sustainability measures for returnees and the development of Civil Society. The intention is that in each assisted municipality the whole package of measures should be provided, to ensure a comprehensive support. There will however be flexibility in this approach to take account of particular circumstances in given municipalities and the actions of other donors. This package will be complemented by measures to remove obstacles to return, and for mine-clearance when necessary for the realisation of the reconstruction/rehabilitation and economic projects. The proposed EUPOP-programme for 2001 will include follow-up projects in the already selected EUPOP-municipalities for activities provided under the 97, 98, 99 and 2000 budgets of the EC, as well as in new target areas that fulfil the basic conditions for return. The final selection of the locations will be done by the Implementing Partners in close co-ordination with the European Commission Delegation, with respect to local and governmental priorities, to other donor activities and taking into account the expertise of UNHCR, the OSCE and other competent International Organisations.

#### **7.1.1 Beneficiary Selection Component**

Careful selection of beneficiaries is crucial for the success of the whole programme. At the same time this component will – especially through the Beneficiary Identification and Return Co-ordination Unit - allow the beneficiary selection to be as quick and flexible as possible.

The assistance will be directed, as it has been so far both towards the candidate refugees from abroad and those who have returned already. However, in recognition of the significant number of spontaneous returns taking place in Croatia, an effort will be made when selecting beneficiaries to support and consolidate new return movements. This principle will affect both the choice of municipalities and the choice of individual beneficiaries. It is important however that spontaneous (non-planned) returns show clear evidence of their intent to repossess their homes, especially, if their houses are from the 4-6 category, by entering the administrative procedure of the Croatian Government of applying for reconstruction assistance.

#### **7.1.2 Housing Component**

Surveys of the targeted regions were regularly carried out during the planning and implementation of the previous EC programmes and a sufficient number of displaced persons (DPs) and refugees and the respective areas for return have been identified. This includes a follow-up programme in already selected EUPOP municipalities as well as the selection of new locations. Based on the identified



DPs and refugees and the respective return areas, possible reconstruction projects have been located, that can be implemented within this budget. These projects already take into account the increased number of cross-border return of refugees. In addition to this, data on potential returnees collected and structured by UNHCR and the Croatian Government will be taken into consideration, in order to ensure the best possible update of all necessary data.

The relevant Law of the Republic of Croatia defines the standard for reconstruction of family houses and apartment buildings. According to this, houses are classified in 6 categories: Category 1-3 describes minor damages; Category 4-6 describes more severe structural damages. The average price for rehabilitation of dwellings up to minimum living standards (according to the Croatian Law for Reconstruction) depends on the category of destruction and the number of family members and square metres, respectively. The average amount needed for the previous programmes is 10,000 EURO.

The overall reconstruction budget of about 10 m € that is provided under this programme would allow reconstruction of about 1000 destroyed housing units (Category of destruction 1-6). The reconstruction of a total of 1000 housing units therefore immediately provides viable accommodation for approximately 3500 DPs and refugees. The number of returnees on both sides (most of them will be cross-border returns) will, however, be two or three times higher, as almost every family leaving an occupied house will in turn allow one or more families to return to their house of origin. In other words, reconstruction of housing provided under this programme should in total enable at least 5000 displaced persons and refugees to return to their pre-war homes.

### ***7.1.3 Technical and Social Infrastructure Component***

**The rehabilitation of the technical infrastructure** in the targeted areas is as important as the reconstruction of houses since it is necessary to meet the future needs of the returnees and the entire communities. The technical infrastructure works will be carried out over the period of the construction works in the selected EUPOP municipalities. Priorities will be assessed and identified with respect to the principal guidelines of the Croatian Ministry for Public Works, Reconstruction and Construction.

The principle for each project will be that the Implementing Partner will develop project proposals in co-operation and close liaison with the respective Croatian legal authority. All projects will be commissioned, tested and certified in accordance with current regulations. The respective public company will be legally responsible for the project design with the Implementing Partner acting in support (tendering, contracting, etc.).

The Implementing Partner will work in close co-operation with other donors such as USAID, which are concentrating on the rehabilitation of public infrastructure and utility services in the areas targeted for reconstruction. These activities will

be implemented in close liaison with the respective organisations in order to avoid overlaps.

**The reconstruction of social infrastructure** is a crucial factor in supporting the return and reconciliation process. It improves the basic living conditions and environment within the community.

Thus, for the success of the EUPOP programme in the Republic of Croatia, emphasis will continue to be given to the reconstruction of these services. "Community Reconstruction" will have a direct impact on the number of people returning to their homes of origin.

The Implementing partner in close co-operation with the local authorities and other organisations supporting the return and reintegration process will carry out identification of potential projects. Preference is given to (in priority order):

- Health: medical centres, etc.
- Education: Schools, kindergartens, nurseries, etc.
- Cultural: Community centres, libraries, sports centres, etc.

However, the available funds for social infrastructure under the proposed programme are limited compared to the needs in the selected municipalities. Therefore, the Implementing Partner will actively liaise with other potential donors to encourage them to become partners in the EUPOP programme and assist in funding the reconstruction of priority social infrastructure. With such possible additional involvement of individual EU Member States and other donors, it will certainly be possible to fill this gap.

#### **7.1.4 Sustainability (start-up packages)**

This component is meant to make an initial effort to ensure the sustainability of the return, more specifically by supporting low-income families. The groups that the programme will focus on include in particular those of the returnee population in the EUPOP municipalities who are particularly vulnerable: elderly people, female-headed households, disabled persons, unemployed families living at the subsistence level or on humanitarian assistance handouts.

The objective of this component is to provide agricultural/livestock packages for families that have returned or are expected to do so, which will enable them to start with a small self-subsistence or income-generating activity. These packages, whose value ranges between 500 and 2.000 € per family, have already been designed and may include tools, seeds, fertilisers, and/ or animals (cows, pregnant sows, sheep, goats, etc). The value of the package varies according to the social conditions and the interest of the potential beneficiaries.

However, many beneficiary families will be expected to make some repayment through in-kind contributions, like second-generation animals, for other socially vulnerable in the community.

Using the existing UNDP/UNOPS criteria to determine vulnerability (based on the previous ECHO criteria), all beneficiary families will be identified at the village level, starting from the lists that will be provided by local institutions (like the Centre for Social Welfare) or international organisations (such as UNHCR and NGOs).

It is envisaged to support at least 500 additional local and returnee vulnerable families, who will re-start small production activities in their places of origin, allowing them to reach a self-subsistence level of living.

### **7.1.5 Civil Society Component**

The civil society structure is one of the weak elements in the Croatian society. It is a necessity to strengthen this to cope with the problems of re-integration and reconciliation in the areas of return. The focus will be on the EUPOP municipalities, using local NGOs to implement projects fostering re-integration and reconciliation.

## **7.2 Related measures**

### **7.2.1 De-mining Component**

The presence of mines and unexploded ordinances is still, and will be for many years, a major problem not only for reconstruction but also for the economic development and the overall security environment. De-mining (mine-checking) is in most of the projects a pre-condition for implementation. The budget foreseen, €2 million, will cover the de-mining of all the EC projects under the CARDS 2001 programme. It will enable the de-mining of 1 million sqm at the actual cost level.

The de-mining programme will be implemented in close co-operation with the Croatian Mine Action Centre (CROMAC), considered as the best in the region and already profiting of other EC projects. CROMAC will, as in the past, be responsible for the project design, the supervision and the issuing consequently of the **Quality Assurance Certificate** proving the object or area is de-mined. The implementing partner will participate in making the design to assure its correctness and will be responsible for the tendering, selection (in co-ordination with CROMAC) and contracting of the de-mining companies.

### **7.2.2 Removal of Obstacles Component**

The removal of obstacles component consists of three parts:

#### *7.2.2.1 Survey and management of the State owned assets (apartments)*

As mentioned already, alternative accommodation is in the actual legal environment a pre-condition for repossession of property. Around 10,000 families (actually occupying a house) have to be provided with an alternative. The GoC has not the budgetary means in the short term, even when considerable funds

are dedicated to this issue, to solve this problem. However, the GoC owns directly or indirectly a considerable amount of apartments (tens of thousand so-called socially owned apartments) which could be used as a part of the solution if there would be an effective management of these assets.

This project aims to help to set up such a management and to first make a survey of the available assets while this information is lacking for the moment. If realised, this could reduce considerably the costs of alternative accommodation and bring a quicker solution to the issue of repossession of property.

#### *7.2.2.2 Survey of the reconstructed dwellings*

The existing requests and decisions for reconstruction have not been followed up as it should with as a consequence a lack of information about the status and progress in each of them.

This project foresees a survey of all existing requests and decisions for reconstruction, as well as a survey of the reconstructed dwellings, to gather the necessary information to make a better reconstruction planning and to prevent discrimination in handling the requests and decisions.

#### *7.2.2.3 Capacity building for the local authorities*

The local authorities are the first to be confronted with the problems of return. They have to cope with the re-integration and social issues and the high unemployment in the areas of return. Often they have neither the capacity nor the know-how to deal with it. Moreover, the municipality and county authorities have been newly elected (20 May 2001) and in the same time a decentralisation towards the local institutions is ongoing. Taking this in account there is obviously a need for advice and training to these local institutions on ways of better managing the formalities of the return process, as well as in the issues of re-integration and social considerations where they are under their responsibility. This project will be implemented by organisations already working on this, building on their experience and know-how.

### **8 ACTIVITIES: ECONOMIC SUSTAINABILITY OF THE RETURN (QUICK IMPACT FACILITY - QIF)**

A key priority remains support for the return and re-integration of displaced persons and refugees in order to create the conditions for political and social stability. Economic reform and return are closely related issues with sustainable return being dependent in the long term on opportunities for economic activity and employment. This was articulated at the Peace Implementation Council in Madrid, where an integrated approach to return was proposed. This approach includes:

- Dealing with housing through reconstruction and property legislation
- Creating a secure environment for individuals to return;
- Creating sustainable return through employment generation and provision of social and physical infrastructure.

## **8.1 Capacity strengthening: municipalities and local service providers**

### ***8.1.1 Capacity strengthening: the municipalities***

Effective local economic development starts from the local level. Municipalities in return areas must be able to plan their own, long-term, economic development to ensure that development is sustainable. Support will therefore be given to the development of such local plans in individual municipalities. The plans should be developed with the involvement of all relevant players, ie both the local administration and socio-economic partners, to ensure ownership and commitment to the conclusions reached. Investments and other actions supported using national or donor funds should then correspond to these plans. Other capacity building support will be given to municipalities to enable them to engage in and follow through this process.

### ***8.1.2 Capacity strengthening: the local service providers (LEDAs and others)***

Three local economic development agencies (LEDAs) have been set up in Dalmatia, Banovina and Western Slavonia, during the period June 2000 to June 2001. A fourth LEDA, this time in Eastern Slavonia, is expected to start its activities in July or August 2001. There is no LEDA in the Zadar County, and the programme should identify a local economic stakeholder that could provide the needed services to SMEs in that region.

The strategy focuses on building a regional institutional capacity to promote economic development at the county and municipal level. It is based on the co-ordinated use of local resources, such as the county offices of Economy, Agriculture and Labour, the local Chambers of Commerce and Crafts, the region-based commercial banks, private firms /entrepreneurs, and other grass root organisations, such as agricultural co-operatives. The promotion of the LEDAs builds, as much as possible, on already existing initiatives, thus fostering the development of public-private partnerships.

The estimated yearly budget for a LEDA is Euros 45.000

Building on this existing structure and its experience this project's scope is to:

- Identify a local economic institution in Zadar County that could provide the services to the business community, as foreseen under the LEDA statutes. Only if strictly necessary, establish a new LEDA in that County, in accordance with the usual procedure for the creation of a LEDA.

- Strengthen the LEDA staff and member organisations in the following topics: investment opportunities identification, evaluation of business plans, intermediation activities, business counselling and provision of market information.
- Establish permanent cooperation and training programmes between the LEDAs and other institutions related with economic development, such as CTR Slavonski Brod, TCS Split, Eko-Liburnia, etc.
- Assure the overall co-ordination of the QIF programme

## **8.2 Support to SME's**

### ***8.2.1 Donations in Kind for Rehabilitation Component***

The programme will contribute immediately to income generation in enabling starters and existing firms to start up or develop their activities. These goals will be achieved through:

- Construction, improvement of installations in industrial areas, rehabilitation or reconnection of utility services
- Rehabilitation, improvement of workshops, water and energy connections
- Rehabilitation, improvement of farming units, such as stables for different types of livestock
- The rehabilitation or replacement of equipment
- The development or strengthening of intermediate support organisations (ISOs)

The implementing partner will co-operate closely with the other projects of the QIF programme, the LEDA being in charge for the overall co-ordination of the QIF. More specifically, in this context, they will identify the viable projects for this sub-component and complement these interventions through micro-loans where necessary. The co-ordination will be achieved by joint planning exercises, frequent communication and the coordination of resources and interventions.

This programme started already with the 1999 and 2000 Obnova budgets and proved to be very effective. Up until now 588 direct and 3524 indirect jobs have been created at an average investment of € 440 per job.

### ***8.2.2 The Guarantee Fund***

The credit component for Small and Medium Enterprises (SMEs), based on the Guarantee Fund, will be implemented only in two regions: Eastern Slavonia and Zadar County. This is due to the fact that, under the OBNOVA 2000 programme, similar activities are about to start in Western Slavonia, Banovina and Dalmatia regions.

Under a Trust Fund or Guarantee Fund modality, this component will provide credit to at least 70 to 75 SMEs in both regions. Individual loans could reach a

maximum amount of 25.000 Euros per firm. Part of the loans will target existing firms, which have been operating for a minimum of two years, as long as they increase the number of employees. For the new firms, the selection criteria will be applied scrupulously in order to avoid default payments. One of the main goals of this SME component is job creation. If, on average, each of the 70 to 75 firms would provide a minimum of 3 to 4 new jobs, it means that, altogether, between 210 and 300 new jobs would have been created.

### **8.2.3 Technical advice and training to entrepreneurs**

Support will be given to entrepreneurs in the field of:

- Business advice to existing or new entrepreneurs
- Access to domestic credit
- Regional planning

Training will be delivered to pre-selected entrepreneurs in the regions of Eastern Slavonia and Zadar County on the following topics:

- preparation of business plans,
- credit applications,
- financial management
- marketing.

## **9 THE REGIONAL DISTRIBUTION OF THE FUNDS**

The return problem in Croatia differs from region to region due to the “historical” background. The following paragraphs will focus more in detail on each region formerly under UN administration. These regions are defined as follows:

### **9.1 Eastern Slavonia**

Former UNTAES region, also called Danube region is the key area for assistance for Croat DPs and already returned Serb DPs and refugees.

The region includes the counties of Osijek and Vukovar. This region, heavily destroyed during the war, has received most of the reconstruction assistance provided to Croatia by the EC so far. Moreover, in 2000, this region was the key focal point of the Croatian Government’s own reconstruction programme. For both reasons, this region will therefore not be a priority for new or follow-up EUPOP reconstruction projects under the present proposal. Nevertheless, the EC will continue to implement economic projects under this programme as been done in the past. The EUPOP municipalities in the region are: Vukovar, Stari Jankovci, Lovas and Ernestinovo.

## **9.2 Western Slavonia**

The region is the key area for assistance to cross border return from Bosnia and Herzegovina.

The region includes the counties of Pozega (Pozesko-slavonska), Slavonski Brod (Brodsko-posavska), Virovitica (Viroviticko-podravska) and Bjelovar (Bjelovarsko-bilogorska).

The main obstacle hindering the sustainable return process to Western Slavonia is predominantly related to the housing situation. The majority of people willing to return to this region is of Serb origin and is currently located primarily in the RS. In addition, Croat refugees occupy many houses, while the Serb owners are still waiting for repossession. The return of Serb DPs and refugees to Western Slavonia would also enable the vacation of occupied houses in RS and provide possibility for returnees from Croatia, Bosnia and Herzegovina and third countries.

Since 1997, the EC is supporting EUPOP projects in this region in 6 municipalities: Pakrac, Lipik, Dragalic, Brestovac, Okucani and Đulovac, and has identified a significant number of families, currently living in Bosnia and Herzegovina as willing to return to their pre-war homes. The physical reconstruction of the mostly completely destroyed and mine-contaminated villages is expensive, but it is the only way in this sector to enable a sustainable return. Therefore the present programme foresees to follow-up the programmes in these municipalities and additional municipalities have been identified: Cacinci, Daruvar, Sirac and Vocin.

## **9.3 Lika and Northern Dalmatia (Former UN-Sector South)**

This region is the key area for cross border return from FRY and assistance to Bosnian Croat refugees

This region covers the area south of Karlovac towards Zadar at the Dalmatian coast (formerly also known as the "Krajina" region). It includes the counties of Gospic (Licko-senjska), Sibenik/Knin (Sibensko-kninska) and Zadar (Zadarska).

Apart from the physical destruction of dwellings and administrative constraints, the lack of funds has in the past represented the main obstacle of cross-border return to this region. Additionally, large numbers of spontaneous returnees find their houses occupied by Bosnian Croats and the local authorities are faced with difficulty of not being able to provide them with alternative accommodation.

Identified beneficiaries for return either returned spontaneously or are still located in FRY, mainly in collective centres. However, the number of refugees that returned to their place of origin has significantly increased since the EC started in 1998 implementation of reconstruction assistance under the OBNOVA programme in the municipalities of Gracac Donji Lapac, Biskupija, Benkovac



and Knin. The present programme foresees a follow-up in the existing EUPOP municipalities. In addition the municipalities of Drniš, Polaca, Ervenik, Civljane, Kistanje and Obrovac have been identified as potential candidates.

#### 9.4 Banovina and Kordun (Former UN-controlled Sector North)

As the region above it is also a return area for refugees from FRY.

This region covers the area south of the capital Zagreb down to the border with Bosnia-Herzegovina. It includes the counties of Sisak (Sisacko-moslavacka) and Karlovac (Karlovacka). Like Lika and Northern Dalmatia this area was part of the former so-called "Republika Srpska Krajina".

In 1998, the EC started the reconstruction assistance projects in the municipality of Petrinja and additional 4 agreements with Glina, Vojnic, Karlovac and Dvor were signed. The aim is to assist both the high number of IDPs that have not received any assistance over the past years as well as cross-border returnees, in a careful balance, in order not to jeopardise the fragile peace in this area. The present programme foresees to follow-up the programmes in these municipalities. In addition, the municipalities of Gvozd and Sunja have been selected as potential candidates.

### 10 BUDGET

The total amount available for this programme is € 23.2 million, broken down as follows:

N°	Description	Budget (€ Mio)
<b>1</b>	<b>Reconstruction and Related Measures</b>	<b>19.00</b>
<b>1.1</b>	<b>Reconstruction</b>	<b>16.00</b>
1.1.1	Beneficiaries' component (Beneficiary Identification and Return Co-ordination Unit -BIRC)	0.05
1.1.2	Housing component	10.85
1.1.3	Infrastructures component (Technical and Social Infrastructure)	3,35
1.1.4	Start-Up Packages	1.00
1.1.5	Civil Society	0.50
1.1.6	Project-Visibility	0,05
1.1.7	Contingency/Reserve	0,20
<b>1.2</b>	<b>Related measures</b>	<b>3.00</b>
1.2.1	De-mining	2.00
1.2.2	Removal of obstacles	1.00
1.2.2.1	<i>Survey and management of the State owned assets</i>	<i>0.20</i>
1.2.2.2	<i>Survey of the reconstructed dwellings</i>	<i>0.23</i>
1.2.2.3	<i>Capacity building for local authorities</i>	<i>0.20</i>
1.2.2.4	<i>Contingency/reserve</i>	<i>0.37</i>

<b>2</b>	<b>Economic sustainability (QIF)</b>	<b>4.20</b>
<b>2.1</b>	<b>Capacity building: municipalities and local service providers</b>	<b>0.54</b>
2.1.1	Municipalities	0.20
2.1.2	Local service providers (LEDAs and others)	0.34
<b>2.2</b>	<b>Support to SMEs</b>	<b>3.43</b>
2.2.1	Donations in Kind for Rehabilitation	1.70
2.2.2	Guarantee Fund	1.50
2.2.3	Training and technical advice to entrepreneurs	0.23
<b>2.3</b>	<b>Visibility</b>	<b>0.03</b>
<b>2.4</b>	<b>Contingencies</b>	<b>0.20</b>
	<b>GRAND TOTAL</b>	<b>23.20</b>

The budget includes all direct and indirect costs necessary for the implementation of the programme. These costs will be agreed upon between the EC and the Implementing Partners, within the limits set out in the general conditions of the contracts to be concluded between them.

External audit, Monitoring and Evaluation of the programme will not be financed from this programme but will be carried out under contracts financed from appropriations reserved for, inter alia, this purpose (ATA)

## **11 IMPLEMENTATION**

The European Commission will directly implement the programme, in accordance with the Council Regulation EEC n° 2666/2000 of 5 December 2000. The project Implementing Partners will follow the guidelines and specific instructions established by the European Commission, which should be without prejudice to the responsibilities of the Court of Auditors.

In order to meet the overall political objective of implementing a solid and comprehensive return programme in 2001 without delay, the proposed programme should be implemented, like previous EC-Return programmes in Croatia, under the umbrella of the current implementing partners, the Office of ASB/EC in Croatia and UNDP/UNOPS for the reconstruction (excluding sustainability measures), and QIF components respectively (+ start-up packages). As usual, the reconstruction (including technical infrastructure) and the demining activities would be sub-contracted locally, whereas other experienced NGOs, operational in Croatia in the envisaged fields, should participate, under this umbrella, in the implementation of the other components. In this way, implementation could start without delays. Indeed, the additional partners could benefit immediately from all the agreements already existing with the actual implementers such as: exemption of VAT and customs taxes, current agreement between the GoC and ASB on the GoC financing of the design and supervision of the reconstruction effort, the UNDP agreements with the banks and authorities, the ongoing co-ordination with the GoC and the local authorities, the procedures established in co-ordination with the Croatian authorities at all levels, etc. A complete new implementation structure would mean that new

partners would have to negotiate most of these elements with the authorities, which would result in a great loss of time and a gap in the continuity of the efforts of the EC in Croatia.

The first component of the programme, the reconstruction and related measures, will be completed within an **18 months** time frame from the date of signature of the contract. The second component, the economic sustainability through the QIF, will be implemented within a **30 months** time frame from the date of signature of the contract.

## **12 MONITORING, EVALUATION AND AUDIT**

The services of the European Commission shall:

- Monitor the implementation of the programme on the basis of regular reports
- Carry out regular monitoring and evaluations to follow the progress of the programme and its components as well as ex-post evaluation after the completion of the programme.

The accounts and operations of the programme will be checked on a regular basis by an outside auditor contracted by the Commission, without prejudice to the responsibilities of the Commission, OLAF and the Community's Court of Auditors.

## **13 RISKS AND ASSUMPTIONS**

The reconstruction programme is a complex process and the successful realisation will depend on a number of conditions. Risks that may affect this programme are much more unlikely than in the previous years. Nevertheless they should be considered:

- the uncertainty related to the evolution of the political and economical situation in Croatia in general and in the regions concerned in particular,
- the non-fulfilment of the political obligations under the peace agreements of Dayton and Erdut regarding the return of refugees and displaced persons,
- a spill over of potential crisis situations in the region,
- the lack of commitment from parties involved for peaceful coexistence; and
- bureaucratic obstacles concerning the timely delivery of decisions for reconstruction.

### **Annexes**

Annex A: Log Frame Reconstruction and Related Measures

Annex B: Log Frame QIF