

PROGRAMME

**CARDS 2003 FINANCING PROPOSAL FOR CROATIA**

<b>1. Identification</b>	
Form of programme:	<b>National Programme</b>
Beneficiary Country:	<b>Croatia</b>
Budget year:	<b>2003</b>
Financial allocation	<b>€ 62 million (includes € 3 million for TEMPUS)</b>
Budget Line:	<b>B7-541</b>
Legal basis:	<b>CARDS Council Regulation (EC) No.2666/2000 as amended by Council Regulation (EC) No. 2415/2001</b>
Contracting:	All contracts must be concluded after the signature of the Financing Agreement and within 36 months following the date of the budgetary commitment
Implementation:	<b>The implementation of projects under this programme must be concluded by 31.12.2007. Therefore, all technical activities provided for under this programme and all contracts must end by 31.12.2007.</b>
Implementing bodies:	<b>European Commission. Decentralised implementation may be on a case by case basis</b>
Remarks:	<b>No administrative expenditure will be financed under this programme</b>

**2. Summary of the programme**

The **overall objective** of EC assistance is to support the participation of Croatia in the Stabilisation and Association Process (SAP), in particular the implementation of the Stabilisation and Association Agreement (including the Interim Agreement applied since January 2002).

The **specific objectives** are to assist Croatia in strengthening its democracy, reinforce the rule of law, contribute to the country's economic and social development, to the

modernisation of the state administration and other public institutions, as well as the sustainable the management of its natural resources.

This proposal consists of projects in the following priority areas:

- Democratic Stabilisation
- Economic and Social Development
- Justice and Home Affairs
- Administrative Capacity Building
- Environment and Natural Resources

### **3. Country update**

#### **3.1 Political and administrative situation**

Since July 2002, Croatia is governed by a five party centre-left coalition, supported by regional parties and independent Members of Parliament. Croatia continues to progress in the transition process with reasonable political stability. Democratic institutions are functioning well, but political dialogue between the Government and the opposition is still difficult with domestic considerations often prevailing over international requirements. Lack of internal cohesion in the Government coalition has a negative impact on the pace of reforms, especially in the economy, judiciary, military and public administration.

Despite the recently adopted government “green paper” on the reform of the judicial system, the Judiciary remains an area of concern, since it is suffering from serious organisational problems, inefficient procedures, lack of expertise and long delays in concluding cases. The approximately 1.300.000 backlog of pending civil law cases is still not properly dealt with, and a newly created “working group” led by the Minister of Justice has not produced concrete results. There is still a lack of suitably qualified staff and an appropriate professional training system for the Croatian Judiciary. A State Prosecution Council has been established and the Criminal Procedure Code has been amended in 2002, but important amendments to the Civil Procedure Code are still pending. Croatia has not yet developed an efficient mechanism to ensure implementation of decisions, with adequate law enforcement remaining a major problem related to the respect for the rule of law.

The decentralisation process continues to be slow, despite the entry into force of the Law on Local and Regional Self-Government in July 2001. In general, the build up of administrative and financial capacity of local authorities has not been sufficient to perform the tasks that should be undertaken by local governments..

Initial efforts have been made in the fight against corruption. The Office for the Fight against Corruption and Organised Crime was established in 2001, but is not yet properly staffed. The Office lacks funding, equipment and training and efficiency must be improved. Corruption remains a problem, and concrete measures to fight corruption need to be strengthened.

Approximately 20,000 civil society organisations are registered in Croatia, but there are no reliable indicators to assess how many of these organisations are active. Despite progress

with the creation of the Council for the development of Civil Society in 2002, the conditions for fair competition procedures and transparency when tendering grants have still to be met. The coming into effect in 2002 of the new Law on Associations has brought a much more liberal framework for freedom of association and supervision of the work undertaken by civil society organisations. However, the adaptation of Laws on Public Benefit Organisations and on Tax Benefit for NGO Donors has so far been delayed.

Human rights and fundamental freedoms, aligned to international standards, are constitutionally guaranteed and generally respected. The rights of minorities, which make up 7.47% of the population, have been further guaranteed and protected with the adoption in December 2002 of the Constitutional Law on National Minorities, overdue since the accession of Croatia to the Council of Europe in 1996. However, the treatment of the Roma population (0.2% of population) still raises concern, and Roma still suffer social and economic discrimination.

The Government maintains its stated commitment to implementing all obligations related to the return of refugees and displaced persons contained in the Dayton/Paris Agreements. Legislative steps to allow the reintegration of the Croatian Serb minority (4.5% of the total population), in particular returnees, and protecting occupancy and tenancy rights, have been taken. While there are no longer any physical obstacles at border crossings for the return of refugees and internally displaced people, in practice, the lack of economic opportunities, the difficulty to obtain housing and tensions vis-à-vis returnees in local communities have discouraged return. The Government attempts to address these issues by supporting the so-called Areas of Special State Concern.

Co-operation with neighbouring countries in the region has improved. Relations with Albania and the Former Yugoslav Republic of Macedonia continue to be good. Clear and transparent relations fully respecting the sovereignty and territorial integrity of Bosnia and Herzegovina continue to be developed. Relations with Serbia and Montenegro are improving in quality, although relations continue to be burdened by minority and refugee return issues. Although relations with Slovenia remain good overall, the issues of land and sea border definition, the debt of Ljubljanska Banka and the Krško nuclear power plant are still outstanding.

Croatia maintains good bilateral relations with the Central and Eastern European Countries. The Membership Agreement with CEFTA was signed on 5 December 2002. From 1 March 2003, the CEFTA Agreement replaces the bilateral Free Trade Agreements with CEFTA countries. Croatia has also completed negotiations on bilateral free trade agreements with the signatory countries of the Stability Pact's Memorandum of Understanding of trade liberalisation and facilitation (all CARDS countries, Bulgaria and Romania).

### **3.2 Socio-economic situation**

Despite the world wide slowdown, real GDP continued to grow in 2002 at an estimated real growth rate of up to 5% (year-on-year compared to 3.8% in 2001) resulting from continued growth of domestic demand, especially investment and personal consumption. The construction and trade (wholesale and retail) sector display particularly high growth rates. The tourism season was good but with lower growth rates than in the past two years. Industrial output picked up again recently, showing a 5.4% growth in the 2002 over the same period the previous year.

Croatia has achieved a high level of price stability in the past years using the exchange rate as nominal anchor. In 2002, average retail price inflation is estimated at 2.2% and the development of producer prices has been even more modest with an average 0.4% fall of prices in 2002. This positive development is the result of a number of factors, notably a stable exchange rate, trade liberalisation, wage moderation, productivity increases and enhanced competition in the retail sector.

Croatia experienced a process of de-industrialisation since independence: the importance of manufacturing has declined in terms of share of GDP as well as employment. Already high from the outset, the services sector, most notably tourism, has further grown to correspond to roughly 60% in share of GDP and employment.

In an environment of ongoing restructuring and growing labour force, unemployment remains high but there seem to be first signals of a gradual easing of the situation. The official unemployment rate stood at 21.5% in December, thus representing a 1.5 percentage point decline to the December figure in 2001. Even though the high and persistent unemployment has poverty implications, a World Bank study of April 2001 concluded that the incidence of poverty has been rather low by international and nationally specific standards compared to other countries of the region.

Despite a more pronounced adjustment on the central level, the fiscal deficit of the general government budget is estimated to have been reduced only modestly to reach 6.2% of GDP in 2002 (6.8% in 2001) but continued to rely on discretionary measures. The IMF estimates that the general government debt will increase, reaching 57.5% of GDP in 2002.

As regards the external situation in 2002, the deficit in the trade balance further widened by some 27% in the first eleven months of 2002: the modest export expansion was outpaced by import growth reflecting the increasing openness of the economy, strong domestic demand including from the initiation of large public investment projects, and the downturn of the world economy. The negative performance of trade was partly offset by strong tourism receipts and private transfers as well as reduced cross-border shopping. As a result, the current account deficit is estimated to improve slightly to 3.6% of GDP (2001: 3.8%). The European Union continues to be Croatia's most significant trade partner (Italy, Germany and Austria in order of importance).

Foreign Direct Investment (FDI) in 2002 is estimated to have fallen by 20% compared to 2001 but still to have amounted to some US-\$ 1,080 million (4.9% of GDP). Foreign debt has further increased and is estimated to have reached USD 13.6 billion at the end of 2002 corresponding to 61.7% of GDP. Debt service remained high at 25.3% of exports in 2002. Services, i.e. essentially tourism, together with strong capital inflows including from construction induced borrowing, have lifted gross international reserves of the Central Bank to more than US-\$ 5.7 bn at the end of last year.

On February 2003, the IMF board approved a successor Stand-by arrangement of SDR 105 million over a 14-month period ending in March 2004 of a "precautionary character", indicating that the authorities do not intend to draw the funds. The discipline of an IMF-supported programme and increased financial market confidence are expected to help the authorities to achieve their objectives. Under the programme, GDP growth of 4.2% is expected in 2003. The programme supported by the new SBA brings the planned fiscal deficit down to 5% of GDP in 2003, with the aim of stabilising the public debt ratio and paving the way for long term fiscal sustainability. A number of structural reforms are foreseen under the programme, notably the improvement of fiscal transparency and public

debt management, the acceleration of restructuring and privatisation of public enterprises, new legislation to enhance the functioning of markets and employment growth, and further progress in the area of trade liberalisation.

The World Bank has committed since 1993 a total amount of US-\$ 1,025 million for 21 projects . A Structural Adjustment Loan (SAL) of US-\$ 202 million was signed in December 2001 and a first tranche of US-\$ 102 million was disbursed in February 2002. In addition to financial assistance, the World Bank provided for several analytical and policy studies through its agencies.

By September 2002 the European Bank for Reconstruction and Development (EBRD) had made a cumulative commitment of about € 1,117 million in Croatia, contributing to a project of a total value of some € 3 billion. About two thirds of the EBRD's portfolio was in private and one third in state projects. In the first nine months of 2002, the EBRD signed five projects totalling € 125 million. The EBRD also provided technical support.

In November 2000, the European Investment Bank (EIB) mandate was extended to provide a Community guarantee for lending to Croatia. As of December 2002, eight projects, totalling € 276 million have been signed.

In the area of price liberalisation, the situation remained unchanged during 2002. According to performance indicators, the profitability and soundness of financial institutions has improved. An action plan with detailed measures to address administrative barriers to foreign investment and legislation on the establishment of a Trade and Investment promotion Agency were adopted in 2002.

In public finances, VAT remains the single most important revenue source for the State, accounting for almost 50% of total tax revenues (excluding social security contributions). In order to modernise its budgetary management, the Ministry of Finance is implementing a new accounting method and also the new GFS classification. The 2002 budget included for the first time the pension and health funds and the employment bureau. From 2003 onwards, all government agencies and funds will be integrated in the budget.

**4. Past EC assistance and co-ordination with other donors**

A total of € 488 million have been provided in assistance to Croatia from 1991 to 2002 (included); of these, € 292 million were spent on humanitarian and relief assistance. In the period 1996-2000, assistance focused on reconstruction and support to return of refugees and internally displaced people, including demining, as well as on democratisation and independent media . In 2001, € 60 million were committed under the CARDS programme, and in 2002 € 59 million.

<b>Priority</b>	<b>2001</b>	<b>2002</b>	<b>Total</b>
Democratic stabilisation	24.2	16.0	40.2
Economic and social development	15.4	18.0	33.4
Justice and home affairs	14.1	10.0	24.1
Administrative capacity building	2.5	12.0	14.5
Environment and natural resources	3.8	3.0	6.8
<b>Total</b>	<b>60</b>	<b>59</b>	<b>119</b>

The priorities and actions identified for the EC's Country Strategy for Croatia for the period from 2002 – 2006 have been selected to reflect the EC's comparative advantage as a donor.

The multiplicity of donors active in Croatia and their planned interventions have been taken into account so as to ensure complementarity whilst consolidating the Country Strategy, on which the Action Programme 2003 is based. Other donors as well as the Croatian authorities have participated in meetings with the EC Delegation to discuss the content of the present Financing Proposal. A number of mechanisms exist for the exchange of information between the Commission, Member State's missions, and other bilateral and multilateral donors (see Country Strategy Paper 2002 – 2006).

## **5. Lessons learnt**

**Preparation of project proposals:** The 2003 programming has been conducted in a transparent and participatory way, beneficiaries have been closely involved in project identification, and co-ordination with other donors has been sought whenever relevant. In some cases projects proposed build on activities undertaken by other donors.

2003 programming builds on experience acquired in the course of previous years' programming as well as continuing training of the Croatian counterparts in issues such as project cycle management.

During the identification of project proposals in the Justice and Home Affairs area, close attention has been given to the findings and recommendations of the Croatia JHA Assessment Mission, carried out in June 2002 by EU Member States JHA experts.

**Mid-term planning:** The project identification has been undertaken with a view to the programming of the 2004 Action Programme, and has taken into account activities funded by previous CARDS programmes.

**Sustainability aspects:** The present Action Programme addresses sustainability aspects within each sector.

## **6. Programme Components**

Priorities and sectors identified in the Multi-annual Indicative Programme for Croatia are reflected in the following programme components of the 2003 Annual programme.

### **1. DEMOCRATIC STABILISATION**

#### **1.1 Return of refugees and internally displaced people**

##### 1.1 Sustainable development in Areas of Special State Concern

The EU has provided financial support to Croatia for post war reconstruction and the return of refugees to their former homes since 1996. These programmes were designed to

deliver emergency aid in the immediate post-war period. The CARDS 2002 programme marked a turning point towards developing a longer-term approach to socio-economic development, by taking a regional development approach.

Significant national and donor support to the so-called Areas of Special State Concern brought some improvements in terms of access to credit, housing and infrastructure reconstruction and general support to entrepreneurs. However, a continuing lack of economic prospects impedes a sustainable return of refugees to Croatia's war affected areas. Reinforced economic revitalisation and enhanced economic development is key to ensuring the sustainability of the return process, and to achieve an increasing degree of "normalisation" in the former war zones.

The overall objective of this project is to contribute to democratic stabilisation by reinforcing the sustainability of refugee return in the war affected areas. This should promote socio-economic revitalisation and development in a structured way in the selected Areas of Special State Concern.

The programme will follow a regional development approach, whereby specific local development projects will be derived from a Regional Operational Programme in selected counties. The project supports the implementation of projects in any of the following eligible areas:

- Socio-economic infrastructure
- Human resources development and social inclusion
- Productive sector development
- Programme management and capacity building
- Mine clearance

A further component of the MIP concerns the legal, procedural and integration issues underpinning sustainability of return. Complying with these issues is a key requirement for Croatia to meet international obligations. The Croatian Government is committed to solve all outstanding issues. Should needs for support in these areas be identified and/or pending issues not be solved by the beginning of this project, resources from the budget allocated to this project can be attributed for this purpose, in accordance with the MIP.

## **1.2 Civil society**

### 1.2.1 Promotion of democracy and human rights

Overall Croatia counts on a substantial degree of stability, and Croatia's human rights record has notably improved. Human rights and fundamental freedom are generally constitutionally guaranteed and respected. Progress has also been made in the completion of the legislative framework and the Government is firmly committed to keep human rights implementation high on its agenda. However there is room for improvement. For instance, the general situation of the media, private property restitution, tenancy rights on former socially owned property, and the position of minorities, particularly Serbs and Roma, facing discrimination at local level, still raise some concerns.

Principles and practises of political participation, consultation mechanisms for policy reform and channels for the recognition and implementation of grassroots initiatives remain underdeveloped. Political dialogue between the government, the opposition, the

social partners and the citizenry remains very difficult and is far from being co-operative. Tendencies to radicalism remain evident in a part of the opposition but these tendencies do not encounter massive public opinion support and can no longer be considered as a threat to stability.

The overall objective of the programme is to sustain and reinforce the democratisation process in Croatia in view of the Copenhagen political criterion. This should contribute to improve and promote the respect of human, minority and civic rights in Croatia and to enhance the development of democracy through civil society.

Through a local call for proposals, non-governmental and non-profit making organisations, civic groups and media outlets will get funding for carrying out projects aiming at improving and promoting the respect of human, minority and civic rights in Croatia, as well as furthering the development of democracy and civil society.

### 1.2.2 Social service delivery by the non profit sector

The number of registered Civil Society Organisations (CSOs) in the Republic of Croatia is rapidly growing and increasingly diversifying. Their objectives vary considerably, covering sport and culture, as well as economic, national and many facets of social issues.

Social services are currently delivered almost entirely by the governmental sector with the involvement of local CSOs essentially limited to the delivery of humanitarian aid. This will change with the gradual introduction of decentralised co-operation with local communities as envisaged in the Law on Local and Regional Self-Government. Decentralisation will start with social care, health care and education and the medium-term strategic plan for CSOs identified these as the three key areas of public service provision where CSOs could strengthen the provision of service delivery. This will require active cooperation between line ministries and CSOs, including the development of management systems and personnel capacity within key line ministries and the development of transparent criteria for operational, supervision and evaluation procedures and structures.

Within the Government of the Republic of Croatia there is an Office for Cooperation with NGOs (operational since November 1998, with a staff of three), which should be turned into a Foundation for Civil Society Development in March 2003.

Under CARDS 2002 co-operation between public institutions and CSOs was promoted and facilitated and this present project can be viewed as an extension of the earlier assistance and the second part of a multi-annual programme of strategic empowerment of CSOs. The emphasis for 2003 will be on enhancing service delivery.

The overall objective of the programme is to improve the quality of social services, thus contributing to the fight against poverty and inequality as well as to the culture of dialogue, democratisation, and the development of civil society. The project should assist in enhancing the delivery of social services in areas in which the third sector brings added value and where the state fails or is unable to provide these services.

A **Grant Scheme** managed by the Foundation will be the major component of assistance under 2003. It is foreseen to make a direct agreement for a grant agreement with the Foundation for this purpose.

The project will provide:



- Technical Assistance to enhance the capacity and operational efficiency acquired under the earlier programme.
- A grant scheme to be managed by the Foundation for Civil Society Development.

## **2. ECONOMIC AND SOCIAL DEVELOPMENT**

### **2.1 Trade**

#### 2.1.1 Development of accreditation systems and support to national testing and calibration laboratories

The State Office for Standardisation and Metrology has already started the activities in regard of the adoption of European standards and the establishment of the system of accreditation and certification, which would comply with the corresponding systems in the EU countries.

However, the pace of these activities is not quite satisfactory, due to the lack of staff and financial resources as well as the inadequate equipment of metrological and testing laboratories and bodies performing certification. The new draft law on technical requirements for product is not finished yet. The draft law on technical requirements for product will cover standardisation, accreditation as well as general product safety and has to be prepared by June 2003.

The overall objective is to enhance and facilitate trade in industrial products, thus increasing Croatia's presence in the European and world markets. The project should continue the process of harmonisation of Croatia's technical legislation, standardisation, accreditation, conformity assessment and metrology system to that of the EU. The focus of this project will be on:

- Technical harmonisation
- Capacity building of testing and calibration laboratories
- Establishment of conformity assessment and accreditation system

#### 2.1.2 Capacity building in the area of plant health

The Ministry of Agriculture and Forestry (MAF) of the Republic of Croatia has developed the institutional setting regarding plant health. The responsibility for the technical implementation of statutory work lies within the Plant Protection Institute (PPI) and in smaller part (residues) within the Institute of Public Health (PHI). Currently, the PPI is responsible for laboratory tests and part of quarantine, integrated pest management, phytopharmacy and pesticide evaluation. The responsibility of the PHI is focused on laboratory analysis for pesticide residues. Taking into account the increasing importance of plant health issues and the envisaged application of EU standards in the daily activities of the PPI and the PHI in the forthcoming years, its institutional and technical set up does not meet EU requirements.

The overall objective of this project is to increase Croatia's trade opportunities through an improved capacity of the phytosanitary services. This should be achieved by improving the plant health and plant protection products sector in Croatia. For this, the technical capacity of the central laboratory services of the PPI and the PHI (Pesticide Residues Laboratory) to

meet recognised standards should be enhanced. Where appropriate, the capacity to meet international accreditation standards, for example Good Laboratory Practice (GLP) or equivalent, and to use those methods generally specified in EU Directives, including plant quarantine, plant protection products - PPP (pesticides used in agriculture production) and pesticide residues should be enhanced.

This project will provide state-of-the-art equipment for the central laboratory services of both the PPI and the PHI (Pesticide Residues Laboratory) in order to begin complying with the requirements laid down in EU Directive 2000/29/EC and methods specified in subsidiary Directives (Plant Health), to support chemical and physical analysis of plant protection products and to comply with the requirement for an accredited analysis of pesticide residues in foodstuffs.

### 2.1.3 Strengthening the Croatian Veterinary Service

One of the challenges the agricultural sector is facing is competitive production, which needs to take into account Croatia's obligations as a member of WTO and those stemming from bilateral free trade agreements signed with neighbouring and other European countries.

The responsibility for developing and enforcing veterinary legislation lies within the Veterinary Directorate. As an administrative organisation within the framework of the Ministry of Agriculture and Forestry (MAF), it is responsible for all administrative and inspection activities. Inspection supervision in the second instance is being performed by the state veterinary inspectors of the Veterinary Directorate's Veterinary Inspection Department. According to the provisions of the Veterinary Law, the Law on Veterinary Drugs and Veterinary-Medicinal products and the Animal Welfare Act inspection supervision is being performed by the district, i.e. authorised veterinary inspectors.

The overall objective of this project is to increase Croatia's trade of agricultural and processed agricultural products. This should be achieved by improving and strengthening the capacity of the Veterinary Directorate to develop and implement legislation consistent with EU standards in order to improve the animal health situation in Croatia. The project will provide:

- Support to further approximating and implementing animal health legislation (legislation gap analysis, approximation of legislation, preparation of working guidelines and manuals for implementing the newly adopted legislation and good veterinary practice in the field of animal health).
- Institutional capacity building in the area of animal disease control (training needs assessment and training for public veterinary service staff as well as governmental, public and private veterinarians, equipment needs assessment of veterinary laboratories and procurement of equipment for implementing specific animal disease diagnostic procedures and for on going surveillance and control thereof)

## **2.2 Investment climate**

### 2.2.1 Registration of maritime domain

Accurate and up to date records of the ownership of land and buildings are vital components of a successful market economy. Information about the ownership of land and

buildings in Croatia is held in the Cadastre and Land Registry. However, data are often out of date and unreliable; there is a backlog of cases to be processed and a lack of suitable mapping to support the Land Registry and Cadastre's work.

The maritime domain in Croatia covers the whole coastal strip along 5839 km of the Croatian coast, and is of high economic interest. The process of defining the domain and the possibility to issue concessions on the same, is stipulated in the Maritime Law in place since 1994. The process of granting a concession is stipulated in the Concession Law.

Maritime domains are defined and concessions are granted on a regular basis. However, there is no systematic registration, and in the absence of this, legal security of the concessions cannot be granted. In accordance with the legal framework on land registers and land cadastre, such registration should take place at the municipal courts and at the local cadastre offices. Within the registration procedure, the rather poor technical and administrative capacities of the institutions and the low quality of the documentation available (incompleteness of documentation, of surveying data and out-dated maps) have been highlighted as problems to be addressed.

The overall objective of the project is to contribute to the reform of the cadastre and land registry in Croatia. If possible, the project will be implemented by the established EC/WB Trust Fund agreement. The project will contribute to:

- Develop systematic registration of maritime domains and concessions,
- Improve the legal framework, and further define the registration procedures and harmonise all steps in definition and registration of maritime domain and concessions;
- Build capacity and provide necessary training to the involved institutions, in particular the State Geodetic Administration and its local cadastre offices as well as the Municipal courts and the Maritime affairs offices. This activity will include certain IT investments.

#### 2.2.2 Strategic plan for the long-term development of existing free zones in Croatia

The Law on Free Zones promulgated in 1996, provided for the establishment of Free Zones in Croatia. These Free Zones permitted the granting of concessions on customs and tax liabilities to agreed legal persons within a confined geographic location and under certain conditions. To date 12 such zones have been created in Croatia, and an additional one is planned. 3,500 people are employed in these zones, which are an important factor for potential investment and regional economic development

The overall objective of the project is to contribute to the improvement of the legal and institutional framework affecting private sector development, ensuring that the existing Free Zones evolve and develop in a manner that is consistent with European legislation and best practice in the field. The development of a long-term strategy for the development of the existing free zones in Croatia will in turn contribute to this. The main activities of the project will focus on:

- Development of a strategy
- Development and enhancement of partnership structures
- Transfer of know-how to key actors
- Pilot implementation of specific aspects of the strategy which has been developed

### 2.2.3 Further strengthening of the Agency for Protection of Market Competition and implementation of competition law and policy

The existing Croatian competition law is the Law on the Protection of Market Competition (LPMC) and the bylaw on Merger Notification. The Agency for Protection of Market Competition (APMC) was established in 1995 as a separate and independent body for the enforcement of the LPMC. A new draft Competition Act now exists and has been submitted to Government procedures in March 2003. After the adoption of the new Act, the approximation process has to be dedicated to the continued drafting of secondary legislation. APMC is continuing this work on the approximation process in the field of competition law and policy but efforts need to be taken to strengthen the administrative capacity of APMC's staff and other officials in enforcing the relevant legislation.

The application and enforcement of the Law is entrusted to the APMC. The Agency performs the tasks assigned to it by the LPMC and reports to the Croatian Parliament. The Council for Telecommunication and the Council for Energy, as well as the Croatian National Bank, also implement LPMC in their respective sectors. Other partners include the Administrative Court and Misdemeanor courts which are responsible for the implementation and enforcement of LPMC.

The overall objective is to improve APMC's institutional and administrative capacity to enable it to align Croatia's Competition policy with EU standards and best practices, and implement the related articles of the SAA. Further development of legislation in the area of competition law and improvement of the capacity to deal with competition cases should contribute to this. This project will assist in:

- Legal approximation
- Improved implementation and enforcement of competition law and policy
- Institution Building

### 2.2.4 Strengthening of intellectual property implementation system

The Croatian State Patent Office was established in 1991, and in 1996 the responsibility of the Croatian State Patent Office was extended to copyright and related rights, that previously had been under the responsibility of the Ministry of Culture. The Office was renamed to State Intellectual Property Office of the Republic of Croatia (SIPO).

By means of the Notification on Succession, the Republic of Croatia became a member to the World Intellectual Property Organisation (WIPO) as well as a party to conventions and treaties that are administered by WIPO, to which a former Yugoslavia was party. In 2000 the Republic of Croatia became a party to WTO, and fulfilled all the obligations contained in the provisions of the Trade Related Aspects of Intellectual Property Rights Agreement (TRIPS).

The overall objective of this project is to strengthen the investment climate and to foster the economic development by providing effective protection of intellectual property rights in Croatia. Improving SIPO's internal capacity for granting of industrial property rights and process of industrial property right applications should contribute to this objective. If possible, the project will be (fully or partly) implemented by a direct agreement with the European Patent Office (EPO) and the Office for Harmonisation in the Internal Market (OHIM). The project will focus on:

- Capacity building for SIPO Distinctive signs and Patent departments.
- Support to the further development of SIPO IT infrastructure, and training of staff.

### 2.2.5 Intellectual property infrastructure for the research and development sector

At present, the Intellectual Property infrastructure for the Research and Development (R&D) sector is characterised by weak linkages between research, education and industrial communities with much of the research undertaken unrelated to the needs of the economy. Research institutes also have little motivation or interest in commercialisation of research results whilst individual Croatian researchers and scientists lack strategic and legal support to market their inventions.

A specialised facility with a range of services in legal protection and economic valuation of Intellectual Property developed at R & D institutions will be set-up in the coming months by the Ministry of science and Technology. The facility has been developed, and will run in close co-operation with the State Intellectual Property Office (SIPO), officially responsible for issues related to Intellectual property.

The overall objective of this project is to further the development and building up of the intellectual property system in line with EU acquis and models. To contribute to this, the funds provided will assist in increasing the commercial exploitation of the R & D sector. Activities will focus on:

- Support to the work of the IP facility
- Supporting a training and awareness campaign
- Recommendations in view of the sustainability of the initiative

## **2.3 Social Cohesion**

### 2.3.1 Upgrading of vocational education and training schools – establishing centres of excellence.

The Government has clearly expressed the political will for changes within the existing education system, which implies the removal of all sorts of obstacles to implement the lifelong learning concept. In addition to the general education issues, as well as the much needed harmonisation with European standards in terms of both structures and organisation, a number of priorities have been set. These include, (i) horizontal and vertical mobility for students and adults; (ii) decentralisation in management and finances followed gradually by an institutional and curricular autonomy of the school; and (iii) active involvement of stakeholders at local level to safeguard improvement of relevant skills and competencies.

Education, especially its vocational education and training area at secondary level and adult learning, is directly affected by the decentralised financing and management to be put in place following the Government decision to decentralise social services through the law enacted in 2001.

The project aims to reinforce the local capacities of Croatian vocational education and training schools, to better respond to the needs of the local/regional economy and follow good practices in vocational education and training, as an integrating element of the

upcoming reform activities envisaged by the national educational reform documents. To achieve this, the project will assist in strengthening co-operation among the vocational education and training schools and key stakeholders, so as to increase the school autonomy; and to bring together modern approaches that ensure quality and efficiency in the design and delivery of Croatian VET programmes. The project will concentrate on:

- New management in decentralised governance and financing
- School-based curriculum development and in-service teacher training
- Development of relevant instruments, standards and evaluation criteria within the Education Institute taking into account equal opportunities aspects (gender dimension and inclusion of persons with special educational needs)
- The procurement of specialised equipment for VET schools in support of new curricula.

### 2.3.2 Decentralisation and reorganisation of the Croatian employment service

Croatia's labour market is characterised by a strong segmentation, rigidity, over-regulation and a structural mismatch between labour supply and demand. Due primarily to the lack of focus on labour market policy the funding of an active employment measures stopped in March 2000. However, the ever-growing unemployment rate has recently forced the Government to take new steps aimed at stimulating employment and reintegrating unemployed people in the labour market. The Croatian government reintroduced modified active employment policy measures, implemented since March 2002.

The overall objective is that the decentralisation and public administration reform at the Croatian Employment Service is implemented in order to achieve a greater match between labour market needs and supply. To achieve this, the project will assist in strengthening local, regional and national management capacity of the Croatian Employment Service to respond to structural change. This will be carried out by:

- Analysing current organisational structures; identifying the functions to be decentralised; defining regional clusters and organisational structure; and defining roles, responsibilities and accountability flows;
- Drafting an operations manual;
- Undertaking a training needs assessment and training of staff at different levels within the Croatian Employment Service;
- Drafting an implementation plan and timetable.

### 2.3.3 Upgrading of labour market statistics

The current Government's measures in reducing unemployment cover a wide range of issues, being its main concern to help the unemployed reintegrate into the labour market and support the employed in improving their professional skills pursuant to the challenges of continuous industrial and technological changes. The development of human resources and the improvement of performance at the labour market throughout the country is the Government's main task in this field.

The collection of labour statistics in Croatia is currently effected following two methodologies, namely: the Labour Force Survey, carried out by the CBS, and the monthly survey of employment and administrative data collection on unemployment by the Croatian Employment Service (CES). The Croatian Government's plans and commitments

to foster the welfare state and the standard of living among its citizens will be successful only if the necessary data on employment and labour market are available for decision making, and the application and monitoring of policies and measures.

To achieve a greater match between the labour market demand and supply, this project will contribute to improve, broaden and enhance data collection and processing in labour statistics in line with the EU standards, specifically to achieve harmonisation with the Statistical Requirements Compendium Theme 32 and its modules as component parts. The following activities will be undertaken:

- Assessment of the existing methodology, indicators and available data sources on labour market statistics.
- Acquaintance with the EU best practices and introduction of new indicators on labour market statistics.
- Revision of the methodology for data collection, processing and analysis in the field of labour market statistics.
- Procurement of the necessary equipment (mostly IT) and training of staff.

#### 2.3.4 Furtherance of the Quality Assurance Agency and supporting a Management Information System in Higher Education

Traditionally, the university in Croatia is of a fragmented structure, meaning that each faculty, academy or school of professional higher education is legally independent. But this independence does not imply autonomy, since the Ministry of Science and Technology makes all financial decisions concerning the management of higher education institutions. Each faculty, academy or school of professional higher education is autonomous in choosing its study programmes that have to be evaluated and accredited by the National Council for Higher Education (NCHE). There is therefore a need to create a set of quality criteria and standards based on competency assessment that are nationally and internationally established.

The overall Croatian legislation in higher education, including the Law on Higher Education, the Law on Science, and the Law on Academic and Professional Titles must be in conformity with the European laws and best practices. The new draft legislation includes the establishment of a new Quality Assurance Agency (QAA) in higher education.

This project aims to strengthen the European dimension in accreditation and quality assurance and remove obstacles for the mobility of students and staff, by facilitating the establishment of quality standards within HE institutions that can be independently and objectively verified. The project will focus on:

- Designing the type of organisational structure and systems that meets the European requirements of a Quality Assurance Agency, and training needs assessment
- Designing and setting up a Management Information System that meets the needs of the Quality Assurance Agency
- Designing and launching an awareness raising programme to introduce the Quality Assurance Agency
- Designing the types of quality standards and criteria and drafting model standards and assist in the development of the inspection arm of the Quality Assurance Agency

- Assisting in the design and costing of the technical specifications based on the EU model for a Higher Education Management Information System (HEMIS) and incorporating the pilot schemes currently existing in Croatia to it
- Piloting the new HEMIS in two universities in Croatia and extending the pilot system to the rest of the country
- Procurement of IT equipment, training of staff and academics on the use of the system and develop a handbook and set of guidance notes on the system.

### 2.3.5 TEMPUS

In 1999 the Council adopted a new decision on the Tempus programme called “Tempus III” covering the associated and non-associated countries of South-East Europe and the Partner States of Eastern Europe and Central Asia and Mongolia. This new phase of the programme will run until 2006. Croatia became eligible for Tempus funding in 2000.

Tempus III aims to promote the development of the higher education systems in the partner countries through balanced co-operation between higher education institutions in the partner countries and the Member States of the European Union. It is however of utmost importance to point out that the Tempus III will also contribute to the strengthening of regional co-operation between higher education institutions in South-East Europe.

The overall objective of the project is to contribute to social and economic development (bearing in mind equal opportunities aspects) and the strengthening of civil society in Croatia. The project will assist in contributing to higher education reform by funding Joint European Projects and individual mobility grants. Joint European Projects can focus on one of the following areas:

- University management
- Curriculum development
- Institution building
- Multiplier projects
- Mobility

## **3. JUSTICE AND HOME AFFAIRS**

### **3.1 Modernisation of Justice**

#### 3.1.1 Training and education of prosecutors

Croatia has taken some first steps to improve the functioning of its judiciary system in line with European and international standards and practices. In order to be able to implement new legislation and other measures in the judiciary reform process further development towards a well-structured training system for prosecutors is required.

The State Attorney’s Office is an independent judiciary body, with the competence of prosecuting criminal offenders, protecting State property and submitting legal remedies to protect the Constitution and the rule of law. The State Attorney’s Office is financed from the State budget through the Ministry of Justice, Administration and Local Self Government as this Ministry is responsible for judiciary administration, including training of officials. The State Attorney’s Office is the starting point in criminal procedure,



however currently there is no specialised training for prosecutors beyond their standard legal education.

The overall objective of the project is to improve the level of competence of prosecutors, judicial and non-judicial court personnel and Ministry of Justice officials. The project will be undertaking:

- Design of an initial and in-service training concept for prosecutors based on training needs assessment
- Integration of Prosecutor's training concept into the Training Centre for Judges and Other Judicial Staff
- Development of Training Programmes, including train-the-trainers and curricula development
- Direct delivery of specialised training or other forms of professional improvement.

### 3.1.2 Ongoing support to a more efficient, effective and modern operation and functioning Croatian Court system

An effective administration of justice is one of the fundamental conditions for the establishment of the Rule of Law. One of the major problems the Croatian judiciary is currently facing is a large caseload of pending cases accumulated of more than 1.200.000. The most important causes for this backlog of cases are the lengthy and delaying procedures, the lack of systematic training of judges and other court staff, judges are performing administrative work, which could be done by other staff, and the poor working conditions in many courts including limited IT support.

The Government adopted in November 2002 a reform programme for the judiciary involving measures to reduce the backlog of cases. The Government plans various legislative reforms that should lead to more efficient and effective proceedings while maintaining the principles of the rule of law. The reform programme also foresees the improvement of the system of education and training, and the Government plans to undertake several measures to improve the working conditions within the courts, such as introducing ICT-based systems for enhancing the administration of court and case management. The Higher Administrative Court in Zagreb has developed through its own financial means the first ICT-based court and case management system in the country.

The overall objective of the project is to continue assistance to effectively improve the operation and functioning of the Croatian Judiciary system. To achieve this, the project will assist in further enhancing the operation and functioning of the courts system as a whole and the 25 pre-selected courts in particular. Where possible, the system will be extended to other courts and the final aim should be to work towards an improved judiciary nation-wide. Assistance will be provided for:

- Enhancing efficiency of organisation and administration and fostering the management of courts
- Legal reform, focusing on implementation and awareness of the rule of law
- Introducing court and case management within the courts and implementing Information Technology in the court system and the required training for judges, prosecutors and clerks.

## **3.2 Policing and organised crime**

### 3.2.1 Criminal intelligence system – phase 2

The current operating Criminal Intelligence System (CIS) of the Croatian Ministry of the Interior consists of various components and/or elements, that are at different stages of completion. Several elements (e.g. central intelligence repository and pertinent applications) are still missing completely, whereas some components are operating at a basic level and need to be further developed. Phase 1, foreseen with CARDS 2002 assistance, will provide the design of the missing components and assist with fine-tuning the already developed components. The final product of the Phase 1 will be an elaborated and detailed concept of the complete Criminal Intelligence System.

The Crime Analysis Department within the Ministry of Interior is a specialised unit, which systematically collects and stores all relevant information regarding criminal activities. With the assistance of modern information technology through analytical methodology it classifies collected data and analyses information (intelligence), which is then disseminated. Specialised crime analysis units have been established in each of the 20 Police districts. The human resource development plan for the Criminal Police Directorate identifies the Crime Analysis Department as requiring additional resources if the organised crime is going to be tackled seriously. The Crime Analysis Department needs the support of trained and educated computer experts for the maintenance and implementation of already designed components of the Criminal Intelligence System.

The overall objective of the project is to strengthen the capacity of both the Ministry of Interior and General Police Directorate to deal with policing and the fight against organised crime and terrorism in the Republic of Croatia. Phase 2 of the Criminal Intelligence System should assist in putting a “pro-active” Criminal Intelligence System mechanism in place focused on combating trans-national organised crime, illegal migration, terrorism, money laundering, trafficking in human beings and weapons and drugs smuggling. The main activities of the project will be:

- Implementation of the administrative procedures.
- Development of the Criminal Intelligence System (software and dataware components), on the base of the CIS design established in Phase 1.
- Procurement and installation of hard- and software
- Testing and full operation of the system.
- Training and familiarisation of core staff with the operation, monitoring and maintenance of the system.

### 3.2.2 Preventing and combating money laundering

The issue of money laundering is closely linked to organised crime. Institutions fighting organised crime (customs, police and financial institutions) have difficulties in coping with the money laundering activities because of their understaffing and inadequately trained personnel. Croatian authorities have undertaken only a limited number of actions to address the problem so far.

At the State Attorney's Office there are no special prosecutors for money laundering cases, even though Departments for Economic Crime exist on municipal and county level. However, at this level there is an informal division of work whereby some prosecutors

deal with money laundering cases more often than others. The Anti Money Laundering Department is an independent body within the Ministry of Finance, and serves as a financial intelligence unit. The Anti Money Laundering Department is responsible for the collection, analysis and record keeping of suspicious financial transactions from reporting institutions (stipulated by the Law). At the Ministry of Interior, the Economic Crime and Corruption Department, established in July 2001, handles the cases of economic crime and corruption, including money laundering.

The overall objective of the project is to achieve a more efficient combat and prevention of organised crime in Croatia. The project will contribute to this by improving the level of competence and inter-institutional co-operation of all institutions involved, ensuring international co-operation and appropriately equip the involved institutions with IT equipment and software. The current project is directly focussing on strengthening the human resource capacity of these institutions through the organisation of systematic training and skills development. The project will undertake:

- Review and analysis of the current legislation, assessment of updating
- Detailed needs assessment of each institution, in terms of institutional capacity building and supply of equipment.
- Development of training curricula and training of staff
- Procurement and installation of IT equipment, including training in operating and updating the IT system
- Setting up specialised units in the institutions involved and working relations with similar institutions in the EU and the candidate countries.

### **3.3 Integrated border management**

#### 3.3.1 Continued support to the the Border Sanitary Inspectorate

Within the Croatian Ministry of Health, the Border Sanitary Inspectorate is responsible for ensuring the implementation of regulations governing the cross-border movement of people and commodities with an aim to protect human health. Most of the Inspectorate's work is related to surveillance over imported food safety, control over passengers arriving from the countries in which there are still endemic quarantine diseases; and control over import of so-called dangerous goods like hazardous chemicals and radioactive sources. A particular problem for the border sanitary inspectorate is the exchange of information among inspectors, border crossing points and certified laboratories.

The National Institute of Public Health is concerned with healthcare and disease prevention. The Institute also controls and coordinates the work of the 21 regional institutes of public health. Besides the National Institute of Public Health there are five more laboratories certified to obtain analysis and so called "super-analysis" (second opinion) and 23 more that cannot perform results for all parameters required. The analytical capacity of all food control laboratories is not uniform and most lack modern techniques and equipment. There are no standardised laboratory procedures and the laboratory service is not compatible with laboratories in the EU Member States.

The overall objective of the project is to facilitate the flow of trade with Croatia's neighbours and trading partners notably with the EU Member States and with the candidate countries. Specifically this project will contribute to enhance the institutional

and technical capacity of the Border Sanitary Inspection and other related institutions (certified laboratories) involved in border management. This will be done through:

- Training of staff in the Inspectorate and the laboratories
- Legal reform, including gap analysis and drafting of relevant regulatory measures
- Purchase of analytical equipment for laboratories and IT equipment to improve communication between the institutions involved

### 3.3.2 Continued support to the phytosanitary inspection

A review of the existing legislation, of the institutional structure of phytosanitary control, and a review of the responsibilities and capacities of the State Institute for Plant Protection is currently ongoing. The inspection system and other parts of the phytosanitary inspection service are to be restructured. This may include the establishment of a new organisation, changes in the functions of existing institutions, and a rationalisation of the number of border inspection posts. Diagnostic facilities in the current State Institute for Plant Protection are to be improved. While the exact strategy for the transformation of the phytosanitary service into one which meets EU requirements cannot be anticipated, substantial retraining and re-equipping will most certainly be needed.

The overall objective of the project is to strengthen the institutional capacity of Croatia to apply EU phytosanitary standards efficiently and effectively. Upgrading the capacities of the phytosanitary inspection service so that EU inspection standards can be applied should contribute to this. The capacities of the phytosanitary inspection service should be upgraded through:

- Training measures
- Establishment of management systems
- Providing reference manuals and equipment.

### 3.3.3 National border management information system – phase 2

Thorough analysis of statistical data on cross border crime in the Republic of Croatia has shown that there is a strong need for strengthening and modernising the border management system. Croatian border police, as the authority empowered to safeguard border security, faces a number of problems in its efforts to improve the current situation. Mostly, the problems refer to poor equipment in border control and surveillance, lack of adequately trained human resources, organisational deficiencies and outdated and inefficient legislation. At present, nearly each border crossing in Croatia has an IT link with the central database of the Ministry of the Interior. However, the system is outdated and requires a thorough upgrading. Phase 1, foreseen with CARDS 2002 assistance, will provide the design of a “tailor-made” border management information system in line with the IT strategy developed by the government and compatible to currently existing systems within the Ministry of Interior.

Within the Ministry of Interior, a Border Police Directorate was established in the summer of 2002, which is responsible for all matters related to state border protection and illegal movement of persons. The Directorate consists of the following separate departments: State Border Protection Department, Neighbouring Countries Department, Illegal

Migration Department, Maritime and Airport Police Department, Dog Training School, Alien Reception Centre.

The overall objective of the project is to establish a greater security at Croatia's international borders resulting in a decrease of cross border crime and illegal migration. To achieve this objective it is necessary to extend the National Border Management Information System into an integrated mechanism based on the design and tests made in Phase 1. The project will focus on:

- Pre-select border crossing point and fine-tune the specialised software
- Procure, install and test the required equipment.
- Connect the pre-selected border crossing points equipped with modern devices with the central server in the Ministry.
- Train and familiarise staff attached to the selected border crossing points in the operation, monitoring and management of the specific devices

#### 3.3.4 Continued support and capacity building for the Border Police Directorate.

Thorough analysis of statistical data on cross border crime in the Republic of Croatia has shown that there is a strong need for strengthening and modernising the border management system. Croatian border police, as the authority empowered to safeguard border security, faces a number of problems in its efforts to improve the current situation. Mostly, the problems refer to poor equipment in border control and surveillance, lack of adequately trained human resources, organisational deficiencies and outdated and inefficient legislation. Within the Ministry of Interior, a Border Police Directorate was established in the summer of 2002, which is responsible for all matters related to state border protection and illegal movement of people.

The overall objective of the project is to establish a greater security at Croatia's international borders resulting in a decrease of cross border crime and illegal migration. This project should contribute to develop and strengthen a professional and sufficient capacity of border police officers to manage and monitor border control in the most effective way. The activities of the project will be related to:

- Training of border police officers
- International border co-operation
- Implementation directives and instructions for border police related regulations

#### 3.3.5 Capacity building in the area of illegal migration

Croatia is at present mostly a country for transit of illegal migrants. In the future, the facts such as development of Croatia's economy, rapprochement to the EU, further removal of barriers for free movement of services, capital, goods and people, and needs of labour market, will contribute also to increased number of people residing illegally in the country. In this respect, the Ministry of Interior is committed to take steps for adjustment of policies and procedures for acceptance and implementation of the EU Acquis and Schengen rules regarding migrations.

Drafts of the two new laws: "Law on Foreigners" and "Law on Asylum" are pending in parliamentary procedure, and should replace the current "Law about movement and stay of Aliens". Considering the general situation of illegal migration in Croatia, there is a need

for adequate accommodation (detention) premises. The only existing Reception Centre in Croatia requires adaptation and modernisation, and should become a central detention centre with adequate social, medical and security standards for illegal migrants.

The project's overall objective is to establish greater security at international borders that will diminish cross-border crime and illegal migration, and at the same time facilitate cross-border movement of people by developing and implementing asylum and migration policies. The project will assist in improving capacity to process and assess illegal migrants in line with EU standards and best practices, including reception and accommodation of illegal migrants, (social and medical) care for illegal migrants of all categories.

There are three main components foreseen within this project:

1. Organisation and operation of the Reception Centre, including definition of space and security facilities, but also gaps and needs analysis on illegal migration in general
2. Upgrading and (possibly) extension of the Reception Centre, including investment in equipment and reconstruction/modernisation or building of new infrastructure
3. Capacity building, including development of training schemes for personnel of the Reception Centre and officers involved in apprehension of illegal migrants.

#### **4. ADMINISTRATIVE CAPACITY BUILDING**

##### **4.1 Public Administration Reform**

###### 4.1.1 Capacity Strengthening for Administrative Decentralisation

Decentralisation is among the strategic priorities in the work programme of the Government of Croatia for 2000-04. Sub-national level is assured a higher degree of independence with respect to central government and administration, but at the same time sub-national entities are expected to carry out larger range of activities.

The first phase of decentralisation started in July 2001 after adoption of amendments to a number of laws, whereby certain responsibilities were transferred to counties and 32 larger cities in administration, operation and maintenance in the fields of primary and secondary education, health care and social welfare. However, decentralisation process started prior sufficient "enabling conditions" were in place and without an agreed strategy or policy on appropriate level of decentralisation in the Croatian context. Therefore the second phase of decentralisation has not started according to previously foreseen timetable.

The institutional responsibility at central Government level for local self-government is currently with the Ministry of Justice, Administration and Local Self-Government (MoJALSG). However, the MoJALSG does not have the overall responsibility for monitoring and coordinating decentralisation process, and the inter-ministerial coordination is done on ad-hoc basis.

The overall objective of the project is therefore to support the decentralisation process aiming at independent and accountable public administration in Croatia, in line with EU Standards and practice in the Member States. The project will focus on:

- Strengthening the overall institutional and legal framework governing administrative decentralisation

- Support to central government level to monitor and coordinate the decentralisation process
- Strengthening capacity of public servants at lower level of government, especially in county administrations

#### 4.1.2 Further Support to the Reform of Public Administration and Implementation of the Civil Service Reform Programme

Public administration reform (PAR) is one of the corner stones of the Stabilisation and Association Process, since it addresses the issue of improving horizontally integrity systems and administrative capacity, which are necessary in order to implement coherently new EU-compliant legislation and policies. Civil service reform, including necessary supporting legal and organisational structures, is an integral element of the overall PAR process. A unified, efficient, transparent and modern civil service system, which is capable of meeting EU administrative standards, is a fundamental goal for Croatia when it wants to bring its structures closer to the EU.

The Government Programme for 2000-2004 defines PAR – and among its core elements civil service reform – as one of the priority areas for Government action. Currently the Ministry of Justice, Administration and Local Self-Government is institutionally responsible for supervising and monitoring implementation of legal framework governing civil service and for ensuring horizontal compliance with the rules governing the organisation and staffing of state administration institutions – including state administration offices at county level.

In line with the CARDS 2001 Public administration reform project, under this project support will be provided to the ongoing civil service reform process. The scope of support will be enlarged to state administration at sub-national level of government and beyond civil service legislation to necessary legal and organisational structures and administrative procedures. The overall objective is to continue to support the ongoing civil service reform process and legal framework development, including supporting institutional structures, in conformity with EU standards, in order to promote a unified, accountable, transparent and efficient civil service. The main components of this project will focus on:

- Further development and implementation of the new legal framework on civil service
- Development of institutional and legal framework for civil service, in particular administrative procedures to ensure inter alia adequate accountability mechanisms and citizen participation
- Curricula development for horizontal training of civil servants

#### 4.1.3 Further support to the Government of Croatia in Co-ordination and Monitoring of EU Assistance

The Ministry for European Integration (MEI) was established in February 2000 having evolved from the Government Office for European Integration, which had existed since 1998. One of the key responsibilities of the MEI is coordination of the EU assistance and cooperation programmes.

The Directorate for Coordination of EU Assistance and Cooperation Programmes of the Ministry functions as an aid co-ordination unit. It coordinates the preparation and monitoring of implementation of CARDS programmes and projects and provides technical

support to the project implementation units (PIUs), which have been created in 23 state administration bodies to be responsible for sectoral contributions to CARDS programming as well as preparation and technical implementation of projects. The PIU structures differ in terms of their institutional set-up and capacity. There is not yet a functioning PIU network, which is managed effectively by the Coordination Directorate.

There is currently no institutionalised project monitoring system in place at national level. The need for an effective CARDS monitoring system is recognised especially taken into consideration the start of implementation of CARDS projects on a larger scale.

The overall objective of the project is therefore to develop administrative capacity in the state administration for better management of European integration process and improved absorption of CARDS assistance. The project will assist in achieving this objective by:

- Further rationalising the system of effective aid co-ordination
- Supporting capacity building of the PIUs
- Implementing an effective CARDS monitoring system

#### 4.1.4 Further support to selected Croatian institutions under a capacity building facility

Croatian State institutions have received large scale EU assistance since 2001. There is still a lack of experience with regard to programming and making mature project proposals. To more efficiently support implementation of the Stabilisation and Association Agreement, it is necessary to provide a limited possibility for state institutions working on the implementation of the SAA to apply for CARDS funds outside the annual programming cycle. Capacity building support under this facility is offered in a number of areas, including a.o. agriculture, competition, environment, justice and home affairs, public finance and trade.

The overall objective of the facility is to support efficient implementation of the Stabilisation and Association Agreement by capable, effective and transparent Croatian State institutions. The projects financed under the facility may include activities such as:

- Feasibility and impact studies related to the implementation of SAA obligations
- Provision of policy advice and/or legal advice
- Development of inter-institutional management structures
- Sector specific training, information and screening seminars
- Exchange of information/experience with EU Member States and/or candidate countries

## **4.2 National, regional and local development**

### 4.2.1 Support to national development planning

Croatia is still in an early phase of establishing a coherent institutional framework and capacity for national and regional development planning. EU co-operation in this sector in the first place focused on the regional aspects, due to diverging development levels of different parts of the country, and the apparent lack of any policy in this area. Regarding national development strategies, work is more advanced. The Croatian *Government Office for Strategic Planning (GOSP)* has co-ordinated the preparation of *Development Guidelines* and *19 sector-based strategies* in order to lead the country into the 21<sup>st</sup> century.



Some of the sector strategies have already been adopted by parliament. These strategies provide quite a clear vision for Croatia's development in the respective sectors. However, these documents do not offer an integrated framework within which to manage and implement sector and region based development policy.

Croatia needs support from the EU in order to build on the existing work of the GOSP to create a consistent frame for national development planning, in line with EU standards. The basis for this is the elaboration of a National Development Plan. The National Development Plan will be the basis for the effective allocation of national and international funds towards development priorities, integrating both sectoral and regional dimensions. In addition to the above, the institutional basis for national development planning in Croatia is not yet fully in place.

The objective of this project is to enhance Croatia's development planning capacity through the elaboration National Development Plan, based on wide consensus and in line with EU best practice; and to continue the development of accurate regional statistics. The project will contribute to:

- Promote political commitment through information campaigns
- Support the development of a coherent and consistent legal basis for development planning & implementation
- Develop capacity to carry out programming, as well as management and implementation of programmes, including preparing and disseminating EC standard guidelines for programme preparation and agreeing on the programming process.
- Support the definition of institutional and financial structures for the implementation of the National Development Plan.
- Support the establishment of partnership for national development policy.
- Prepare NDP according to EU best practice, including elaborating the relevant programme documents and clearly delimitate Regional Operational Programmes and Sectoral Operational Programmes (SOP) or regional / sectoral priorities.
- Develop short-term indicators and structural economic and social statistics (NUTS II)

#### 4.2.2 Border region co-operation

The importance of establishing good neighbourly relations in the region and the prospect of EU integration make border region and transnational co-operation an high profile policy issue in Croatia.

There is great mutual interest in joint border region programmes with Slovenia, Hungary and Italy. This strong co-operation interest is to some extent inspired by the EU programmes Interreg (for Italy) and Phare CBC (Slovenia, Hungary). It already lead to the elaboration of a number of joint co-operation programmes between these countries and Croatia. Formal border region co-operation with Bosnia and Herzegovina and Yugoslavia is in earlier stages. However, there have been selected initiatives on the local level, e.g. Danube-Drava-Sava Euroregion initiative.

The wider objective of this project is to promote Croatia's border region development and transnational integration in a EU accession context, through:

- Strengthening good neighbourly relations in the border regions
- Alleviating obstacles to local and regional development of border regions

- Capitalising on economic, social, environmental and cultural development potential of border regions
- Learning and exchange of know-how with countries/regions/institutions/organisations that are more advanced in the European integration process

This will be achieved by enabling the participation of relevant stakeholders in projects related to EU programmes for cross-border, trans-national and interregional co-operation, including:

- *For cooperating with INTERREG IIIA/Phare* – To promote border region co-operation between neighbouring authorities/stakeholders to develop cross-border economic and social centres through joint strategies for sustainable territorial development.
- *For participation in transnational co-operation projects within the INTERREG IIIB programme* - Promotion of harmonious, balanced and sustainable development, and contribute to economic and social integration and to the development of the cooperation areas concerned.
- *For participation Interregional cooperation under INTERREG IIIC* – Promotion of interregional cooperation to improve the effectiveness of policies and instruments for regional development and cohesion through networking, particularly for regions whose development is lagging behind and those undergoing conversion.

### **4.3 Public Finance**

#### 4.3.1 Strengthening the external oversight of budget execution

The State Audit Office (SAO) is the supreme audit institution in Croatia. It was established by the State Audit Act of 1993, and it is responsible for auditing the state budget expenditure and financial statements and financial transactions of the following entities: government units, local self-government and administrative units, legal entities that are partially or fully financed from the budget and legal entities in which the state is majority shareholder. The SAO is a member of the INTOSAI since 1994 and the EUROSAI since 1996.

The SAO is led by an Auditor General, who is supported by a Deputy Auditor General and 7 Assistants to the Auditor General. The SAO has currently a total staff of 283. The scope, duties, methods and ways of carrying out audits are defined in the State Audit Act. The audits are carried out according to the annual programme of the SAO adopted by the Parliament. The scope of the audit includes regularity and value-for-money audits. The SAO submits its Annual Audit Report and Annual Work Report to the Parliament.

The peer review carried out by SIGMA in 2002 provides a clear indication that the overall external oversight system of budget execution needs to be strengthened in Croatia. The improvement of external audit principles and procedures will contribute to better transparency and accountability of the budget execution, thereby supporting the development of an appropriate public internal financial control (PIFC) structure in Croatia.

The overall objective of the project is therefore to contribute to development and implementation of a well-functioning PIFC system, in line with the good European practice. The project should contribute to the development and implementation of a PIFC system, where the Government is held accountable for the budget execution. Project activities will focus on:

- Legal framework development
- Improvement of core process: auditing
- Support to setting up organisational and management structures
- IT system development
- Support to the overall system of external oversight

#### 4.3.2 Development of methodology for production of key public finance statistics

The Central Bureau of Statistics, the Ministry of Finance and the Croatian National Bank are the main producers and disseminators of financial statistical data i.e. indicators. In order to satisfy its users' needs in the best possible way, these indicators have to be produced according to the EU standards. The new law on official statistics, defining the Central Bureau of Statistics of the Republic of Croatia as main producer and disseminator of the official statistics, as well as main co-ordinator of the official statistical system in Croatia, has entered into Parliament procedure in September 2002.

The establishment of an integrated system of National Accounts in line with EU standards is a priority issue. The Ministry of Finance needs to completely restructure its system of budget accounting in order to provide the Central Bureau of Statistics with data on all current budgetary transactions and financial transactions in a capital part of a budget, in line with EU and international practice and standards.

The overall project objective is to improve Croatia's management of public finances by providing reliable and inter-institutionally harmonised data on Public Finance. To assist in achieving this objective, activities will focus on:

- Development and implementation of a common methodology for public finance statistics
- Institutional capacity strengthening to produce public finance statistics

## **5. ENVIRONMENT AND NATURAL RESOURCES**

### 5.1 Approximation of Croatian water management legislation with the EU water acquis

The Croatian Government is committed to sustainable development and to provide a healthy and safe environment for all its citizens in accordance with the Croatian Constitution and with the Croatian Development Strategy: 'Croatia in 21<sup>st</sup> Century' which stresses water as one of the priority areas. Furthermore, in January 2001, the Croatian Parliament adopted the National Environmental Strategy and Action Plan. The National Environmental Strategy provides a basis for mainstreaming environment into all sectors and emphasizes the importance of the EU approximation process in the field of environment and the need to provide accurate estimates of implementation costs.

The legal framework for water management in Croatia consists of the Constitution of the Republic of Croatia, the Water Act and the Water Management Financing Act and number of by-laws. To administrate the water management system, the State Water Directorate, an autonomous governmental body, and Croatian Waters, a water management agency, have been set up. According to the present legislative framework, other state and local administration bodies have certain responsibilities regarding water management issues.

There is still not sufficient knowledge on the degree of harmonisation between national water management legislation and the EU water *acquis*: a gap analysis was performed with some Directives but it is incomplete. Existing legislation, structures and procedural measures are not fully aligned with EU requirements and the costs, institutional and regulatory impact of transposing, implementing and enforcing EU legislation is unknown. Moreover, the implementation of present water management legislative framework is insufficient, due to inadequate competence of local officials but also more generally to inadequate enforcement mechanism, unclear division of roles and responsibilities and lack of stakeholders involvement in the water sector.

The main focus for Croatia at present in the field of water management are the so-called “heavy investments” water Directives, of which the Urban Waste Water Treatment (UWWT) Directive is the main priority

The overall objective of the project is to ensure the efficient implementation of EU water management standards as a part of overall efforts on environmental protection in Croatia. Approximation of water legislation to EU relevant legislation with particular emphasis on the UWWT Directive should contribute to this objective. The project will focus on:

- Legal assessment: analysis of present situation of Croatia's water management legislation and identification of gaps with EU water *acquis*
- Administrative and institutional assessment
- Impact assessment of required institutional actions, priority areas and estimations of implementation costs, for compliance with the “heavy investment” Directives.
- Drafting of a Compliance Plan with the requirements of the UWWT Directive
- Preparation of a draft Strategy and Action-plan for the approximation of Croatian water legislation with EU water *acquis*

## 5.2 Environmental assessment of development strategies

The Ministry of Environmental Protection and Physical Planning (MEPPP) drafted in April 2002 a list of amendments to be proposed to the Law on Environmental Protection. These amendments concern the performance of Strategic Environmental Assessment procedures in agriculture, fisheries, energy, industry, transport, communications, waste management, water management and physical planning. In view of that the MEPPP would like to initiate the establishment of the institutional framework for the incorporation of this process in the development of the national, regional and sectoral plans and programmes and start building the capacity within the administrations on the use of SEA related principles and tools.

Of particular concern to the Ministry are certain areas, like the Adriatic Sea, that are threatened by the current lack of environmentally sustainable planning approach. There are a number of developing sectors that render this region particularly sensitive (tourism, maritime transport, energy, fishing) and therefore they need to be co-ordinated and placed within a framework of environmentally sustainable planning. Strategic Environmental Assessment should be performed on the existing plans, programmes, strategies and policies affecting amongst others the Adriatic Sea area, leading to an improvement of those sectoral strategies.

The overall objective of this project is to establish a framework for environmentally sustainable development in Croatia. Developing a continuing capacity to carry out

Strategic Environmental Assessment will assist in reaching this objective. The projects activities will relate to:

- Developing institutional, legal and administrative capacity to introduce and implement SEA processes for programmes and plans at the national and regional level
- Performing Strategic Environmental Assessments and developing a cross-matrix of impacts of selected sectoral policies
- Developing a pilot integrated programme on the Adriatic

### 5.3 Implementation of Environmental Impact Assessment guidelines and training

The Ministry for Environmental Protection and Physical Planning is the body responsible for environmental impact assessments on the national level, while the County Offices for Environmental Protection and Physical Planning are responsible for environmental impact assessments on the regional level. The current legal basis for environmental impact assessments is in the Law on Environmental Protection, the By-law on Environmental Impact Assessment and the Rule Book on Environmental Impact Assessment. Aiming at further harmonisation with the EU requirements, the Ministry has prepared Draft Amendments to the Law on Environmental Protection in 2002.

Although Croatia already has legislation on EIA and is in process of improving its functioning, further support to the use of this important environmental instrument is needed. From the legal point of view, support is needed for further harmonisation to EU requirements on EIA (Directive 97/11/EC) particularly with regards to the scoping requirements. Moreover, at present there is insufficient capacity to review environmental impact assessment, particularly at the county level, due to lack of clear and detailed guidance from the Ministry as the 2000 Rule Book on environmental impact assessment provides only general framework for the process. Furthermore, there is a need to increase ability of environmental impact assessment officers to implement assessment tools such as cost and benefit analysis, health impact assessment, impact significance, etc as this has not been adequately tackled so far. Concerning public participation, it does not come in early enough to enable effective participation of stakeholders in the process and to improve environmental impact assessment.

The overall objective of the project is to increase the sustainability of development projects in Croatia. This project will contribute to this objective by assisting in enhancing, facilitating and strengthening the use of environmental impact assessment according to EU standards and practices. The activities of the project will be devoted to:

- Increasing knowledge and capacity of the Ministry of Environment to harmonise environmental impact assessment procedures with EU requirements
- Developing and implementing Ministry of Environment Guidance tools for environmental impact assessment
- Improving the capacity of environmental impact assessment officers to perform environmental impact assessment reviews
- Increasing environmental impact assessment transparency and public participation

### 5.4 Promoting access to information and public participation in environmental matters in line with the Aarhus Convention

In June 1998, Croatia signed the UN Economic Commission for Europe *Convention on Access to Information, Public Participation in Decision Making and Access to Justice in Environmental Matters* (“Aarhus Convention”). During 2001-2002, the Ministry of Environment and Physical Planning carried out the first phase of its preparation for the Convention under the project “*Assistance to Croatia in implementation of the Aarhus Convention*”, funded by Danish bilateral assistance. The Ministry, having completed this first phase, would like to proceed with the next steps needed to ratify the Convention

In order to be in line with the Aarhus Convention, the current practices regarding access to information and public participation need to be improved. There is a rather low level of awareness and ability of civil servants to provide relevant and appropriate environmental information to the public. Furthermore, there is a rather low level of awareness by the general public, including stakeholders, of the right to participate in decision-making and access to environmental information.

The overall objective is to ratify and implement the Aarhus Convention. The project will contribute to transparency of national and local public administration by promoting and enabling access to environmental information and public participation in decision making. The project will primarily focus on:

- Developing and implementing information and training material for all three targeted groups (civil servants, public/NGOs, stakeholders) to improve the mechanism of access to information and public participation
- Establishment of environmental info centres that would contribute to public accessibility of environmental information
- Carrying out a promotion and awareness campaign promoting the objectives of the Aarhus convention and the environmental info centres
- Designing and carrying out a pilot project at county level on public consultation and participation

#### 5.5 Support to civil society active in the field of environment

In Croatia, there are more than 200 non-profit organisations dealing with environmental issues of which about 30 are active citizens-based associations and advocacy oriented environmental NGOs. In 1998 Green Forum, a national network of environmental NGOs was established, serving as a national forum for discussion and planning of national advocacy campaigns.

Dialogue and involvement between the institutions and the civil society in the field of environment remains very difficult and is far from being co-operative. A culture of dialogue between the executive and the legislative powers with the civil society active in the field of environment is still very weak. Especially at the local level, environmental issues are not high on the agenda of the regional and municipal administration and participation of citizens is necessary to push environmental related issues higher on the agenda. The principles of the Aarhus Convention are rarely practiced and adequate mechanisms for co-operation between the civil society and the local authorities are still to be developed.

In addition to the project on the implementation of the Aarhus Convention, the CARDS 2003 programme will support projects with public institutions (Ministry of Environment, State Water Directorate), for which a strong participation of civil society will be a

prerequisite for success. This facility will support initiatives enabling civil society to become active partners in these processes and aimed at complementing the activities of these projects.

The overall objective is to improve and promote environmental protection and sustainable management of environmental resources in Croatia. The purpose is to enhance the role and active participation in decision making and planning processes, at national and local level, of civil society active in the field of environment.

Through a local call for proposals, non-governmental and non-profit making organisations, civic groups and media outlets will get funding for carrying out projects aiming at promoting awareness and strengthen advocacy of civil society in the following fields:

- Sustainable management of natural resources and waste
- Health and environment
- Nature and biodiversity protection
- Limiting climate change

#### 5.6 Assessment of wind and solar energy resources in a Croatian pilot region

The use of renewable energy sources is a constituent part of the global sustainable development concept. The development of renewable energy sources, as recognised by the Croatian Energy Strategy, could contribute to significant decrease of environmental impact of the energy sector in Croatia. The legal basis is partially in place, set by the laws on energy, electricity market, natural gas market, oil market and regulation of energy activities, adopted in 2001. These laws call for special treatment of renewable energy. In view of the need for Croatia to integrate further its energy market with that of the EU, energy legislation and policies should be adopted and implemented in line with the EU energy acquis, not least in the renewable energy field.

At present, no direct or indirect financial support exists for renewable energy sources development. A successful implementation of reform in the renewable energy sources sector primarily depends on the harmonisation of energy policy instruments regarding market structuring and direct State influence. The lack of reliable data has been identified as a real constraint in planning the future role of renewable energy sources and attracting the necessary investments. Wind and solar energy potential assessment have been identified as priorities in the process of establishing the Croatian renewable energy sources market model.

The overall objective of the project is to develop the basis for economically and environmentally sustainable market for wind and solar energy projects and services, for the elaboration of a renewable energy strategy, create the legislative framework for renewable energy sources and improve the state of the environment in general. The main components of the project are.

- Review of existing wind and solar resource basis, definition of equipment needs and investment plan
- Wind and solar measurement programme
- Training on wind and solar measurement, data verification and resource modelling
- Wind and solar resource modelling and assessment in the pilot region.

## 7. Complementary EC Assistance

The projects included in this programme will be complemented by the CARDS Regional Programme in the following sectors:

**Integrated Border Management** (€ 1 million)<sup>1</sup>: Regional Support (networking/co-ordination)

**Institution Building** (€ 26 million): Institution Building Facility for the Stabilisation and Association process; Regional Police and Judicial Co-operation; European networks for sustainable development; Regional Statistical Co-operation.

**Democratic Stabilisation** (€ 5 million): Civil Society (NGO-media/minorities)

**Regional Infrastructure** (€2 million): Regional Infrastructure Development

Projects funded in 2003 can additionally be complementary to projects funded in previous years (Croatia annual programme, regional programme) or in this 2003 programme.

The LIFE Third Countries programme provided € 1.3 million to support projects in the environment field.

## 8. Programme Implementation

The Action Programme will be implemented as follows:

### 8.1 Implementation & Management

1. The Financing Agreement shall be concluded by 31 December of the year following that of the budgetary commitment.
2. The end of the implementation period of the Financing Agreement is hereby set at 31.12.2007
3. Any balance of funds remaining available under the EC Grant shall be automatically cancelled 18 months after the end of the implementation period of the Financing Agreement.

Contracts financed under this programme shall enter into force no earlier than the signature of the Financing Agreement in due form by the competent signatories, and no later than 3 years starting from the date of the budgetary commitment. Therefore:

- Any relevant contract or grant must have entered into force, having been signed by all the relevant parties, by this expiry date.
- Any contracts or grants that have not been entered force, having been signed by the signature of all the relevant parties by this expiry date will be not be finalised but will be cancelled and considered null and void.
- Any balance of funds under this programme that has not been used to fund contracts or grants that are in force by this expiry date will be de-committed as soon as possible thereafter.

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<sup>1</sup> Figures in Regional multiannual programme



- No addenda adding funds from this programme to any contract or grant may be entered into after this expiry date.

The programme will be implemented by the Commission Services on behalf of and in close collaboration with the relevant national and/or local authorities. Decentralised implementation may be considered on a case by case basis. The relevant Commission Services will undertake project implementation. A Financing Agreement corresponding to this Financing Proposal will be concluded with the counterpart authorities.

## **8.2 Tendering Procedures**

The contracts for services, works and supplies shall be concluded in accordance with the tendering and contract award procedures laid down in the Financial Regulation and other relevant instructions.

## **8.3 Monitoring, Evaluation and Audit**

This programme will be monitored and supervised by the European Commission services, who shall:

- a) monitor the implementation of the programme on the basis of regular reports, contacts with stakeholders and site visits
- b) carry out regular monitoring and evaluations to follow the progress of the programme and its components as well as ex-post evaluations after its completion

The accounts and operations of the programme components will be checked at intervals by an outside auditor contracted by the Commission without prejudice to the responsibilities of the European Commission, including the European Antifraud Office (OLAF), and the European Union's Court of Auditors.

## 9. Cost and financing

The Programme will be financed through a Community grant of **€ 62 million**, allocated as follows among the different sectors:

<b>CARDS Priority Area</b>	<b>M€ (*)</b>
<b>1. DEMOCRATIC STABILISATION</b>	<b>17.0</b>
1.1 Return of refugees and internally displaced people	15.0
1.2 Civil society	2.0
<b>2. ECONOMIC AND SOCIAL DEVELOPMENT</b>	<b>17.5</b>
2.1 Trade	2.5
2.2 Investment climate	6.15
2.3 Social cohesion (including TEMPUS € 3 million)	8.85
<b>3. JUSTICE AND HOME AFFAIRS</b>	<b>12.0</b>
3.1 Modernisation of Justice	4.0
3.2 Policing and organised crime	3.0
3.3 Integrated border management	5.0
<b>4. ADMINISTRATIVE CAPACITY BUILDING</b>	<b>11.8</b>
4.1 Public Administration Reform	6.0
4.2 National, regional and local development	3.0
4.3 Public finance	2.8
<b>5. ENVIRONMENT AND NATURAL RESOURCES</b>	<b>3.7</b>
<b>TOTAL</b>	<b>62.0</b>

(\*) The total budget per sector has a range of +/- 20 %.

## 10. Government Commitment and Conditionalities

Assistance is provided on the basis of the existence of the necessary elements for the continuation of co-operation through assistance, in particular respect of democratic principles and human rights, as well as the obligations of Croatia as set out in the Stabilisation and Association Agreement. Specific conditionality for implementation may exist in certain projects.

### ANNEXES:

Project fiches with logframes, Risk analysis