

PROGRAMME

CARDS 2002 FINANCING PROPOSAL FOR CROATIA

1. Identification

<i>Form of programme:</i>	National Programme
<i>Beneficiary Country:</i>	Croatia
<i>Budget year:</i>	2002
<i>Financial allocation:</i>	€ 59 million
<i>Budget Line:</i>	B7-541
<i>Legal basis:</i>	Council Regulation (EC) No.2666/2000 as modified by Council Regulation (EC) No. 2415/2001
<i>Duration:</i>	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 31.12.2005
<i>Expiry dates:</i>	All contracts must be concluded by 31.12.2005 All disbursements must be made by 31.12.2006
<i>Sector:</i>	Democratic Stabilisation, Economic and Social Development, Justice and Home Affairs, Administrative Capacity Building, Environment and Natural Resources
<i>Programming:</i>	2002
<i>Implementation:</i>	European Commission; decentralisation on a case by case basis
<i>Remarks:</i>	No administrative expenditure will be financed under this programme

2. Summary of the programme

The **overall objective** of EC assistance is to assist and support Croatia in the implementation of the obligations under the Stabilisation and Association Agreement within the framework of the Stabilisation and Association Process as well as in its overall economic and social development. 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 modernisation of 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
- Environmental and Natural Resources

3. Country update

The following tendencies should be taken into account whilst analysing the political, social and economic situation in the country.

Political and administrative situation

The Government which came to power in early 2000 has shown determination in its efforts to establish a fully fledged democracy and to develop a culture of respect for the rule of law. The Government now faces two main challenges: to consolidate democracy to underpin long-term political and social stability; and to implement a comprehensive programme of structural reforms to achieve political and economic transition.

In particular, the Government took important steps in the area of human rights including minority rights, where Croatia's record has improved substantially since 2000. However, further progress still has to be made in the treatment of minorities, notably the Serb minority in the war-torn area, a question which is crucial for the long-term stabilisation of the country and its full democratisation. It is important to stress that the refugee return process still has some way to go, since return is still not genuinely encouraged and the reintegration of returnees of the Serb minority at local level is not yet satisfactory. An important element inhibiting the full implementation of refugee return is certainly the lack of availability of housing due to delays in solving questions such as property restitution, occupancy/tenancy rights and reconstruction. The lack of economic opportunities is another crucial factor discouraging return.

The role of civil society in social and political terms has hitherto been limited, and Croatia would benefit from increased co-operation between the different institutional players and representatives of civil society.

The judiciary remains one of the most problematic areas, underpinning the whole democratic system and where a radical urgent reform is necessary. The independence of the judiciary has been strengthened, but the machinery of justice continues to be rather unstable and disordered. Adequate law enforcement and reduction of the backlog of unresolved cases remains one of the major problems, and the challenge is to develop an efficient mechanism to ensure implementation of decisions.

Fight against corruption is another area where rapid action is required. Significant efforts have been made to fight corruption, the Office for the Fight Against Corruption and Organised Crime (USKOK) was established in October 2001, and the National Program for Fight Against Corruption and an Action Plan have recently been adopted. A largely satisfactory legislative framework to combat money laundering exists. It is important to build on these first actions.

A process of decentralisation which will permit a fundamental reorganisation of the overall political system, strengthening local government, has started. This is of particular interest in a country where the centralised system is very strong, despite the existence of wide regional differences. An important element for the success of this process should be ensuring build up in administrative capacity providing local authorities with adequate financial resources.

Political relations with third countries are slowly improving. It is crucial to boost regional co-operation supporting specific initiatives. In particular the area of border management is of interest. Croatia still has pending border demarcation issues with Slovenia, Bosnia and Herzegovina and the Federal Republic of Yugoslavia. With regard to border management, in parallel with strengthened border control by Slovenia on the joint border in preparation for the introduction of Schengen standards, the Croatian border police have started a stricter surveillance of border areas with Bosnia and Herzegovina. This is of particular interest taking into account Croatia's geographical position on the transit routes in the Balkans.

The Government is trying to harmonise its visa regime with the Schengen regime as far as possible. The asylum and migration regime, including voluntary repatriation to and from Croatia, deportation and family regime is defined by a variety of legal instruments, some of which are inadequate. Croatia is an important transit route for smuggling of arms and drugs, as well as illegal trafficking of persons, for which it appears to have also become a destination country in recent years.

Socio-economic situation

Croatia's economic data show an economy in transition, with positive trends at macroeconomic level, despite high unemployment, important external trade imbalances, and slow reforms in favour of the business community and in the agriculture sector.

Macroeconomic data for 2001 indicate a generally positive trend for the Croatian economy. Real GDP continued to grow in 2001 by an estimated 4,1 % in 2001 compared with 2000, and inflation slowed down markedly in the course of the year (2.6% year-on-year in December 2001). Fiscal performance in 2001 seems to have improved, but it increasingly relied on measures such as fiscal savings in subsidies and transfers, goods and non-wage services and capital spending. The central government budget deficit has been reduced from 5,7% to 5,4 % and is expected to meet the limit of 5.3% of GDP on an accrual basis, agreed with IMF. Notwithstanding some slippage on the expenditure side, fiscal consolidation allowed the easing of monetary policy.

In spite of the positive trend of macroeconomic data, the level and trend of unemployment remains worrying. Despite sustained economic growth and significant investment, the already high unemployment rate continued to increase, according to the usual seasonal pattern, and reached 23,4% in April 2002. The official rate is however likely to overestimate the actual employment situation: studies suggest that about 100,000 people are active, despite being registered as unemployed. The government has therefore taken action to better target unemployment benefits through the Employment Act passed in November 2001. It is estimated that the grey economy amounted to around 7% of the official economy in 2000.

With regard to trade with third countries, Croatia's external imbalances worsened during 2001. The deficit in the trade balance widened by 27% in 2001, reflecting strong domestic demand and the downturn of the world economy. Overall external debt increased slightly, to 53% of estimated GDP in 2001. The implementation of the first tranche of trade concessions of the SAA/Interim Agreement as from 1 January 2002 has not raised problems so far.

The Government is actively working on the development of legislative harmonisation strategies focused on the fundamental elements of the EU internal market acquis and other

trade-related areas and has already begun its gradual implementation. . Capacity of line Ministries and other public bodies involved in the harmonisation with European legislation and practices should be strengthened, in particular in those areas where the SAA sets out obligations to be complied with (e.g. movement of goods, consumer protection, public procurement, intellectual and industrial property rights).

The SME sector contributes approximately 45% of GDP, and is slowly starting to show signs of dynamism. Despite the existing long-term development programme for SMEs, there are still obstacles constraining their operations and further development (difficulties with financial institutions, absence of adequate institutional support, lack of managerial skills).

The slow pace of reform and extensive war damages have strongly impacted on the performance of the agriculture sector. The pace of reform has been slow and substantial structural reforms are still needed. A legislative framework to accelerate the distribution of agricultural land, modify the tax system, encourage state investments in the sector and favour the development of agricultural tourism and health food industry has been adopted.

A National Environmental Action Plan (NEAP) has been adopted in December 2001, and although the 2002 budget foresees a 10% reduction in environmental spending, expenditure seems more rationalised and focused on the priorities defined in the NEAP. Co-operation with neighbouring countries on environmental issues has improved.

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

A total of € 369 million have been provided in assistance to Croatia; of these, € 244 million were spent on humanitarian and relief assistance. In the period 1996-2000, assistance focused on reconstruction and return of refugees and internally displaced people, democratisation, independent media and de-mining. In 2001, € 60 million were committed under the CARDS programme. In addition, EU Member States have contributed more than € 55 million in the past years.

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 2002 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 2002 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.

2002 programming builds on experience acquired in the course of previous years' programming as well as training of the Croatian counterparts in issues such as project cycle management. Although the 2002 programming capacity was already relatively satisfactory, substantial improvements in future programming exercises are expected.

Mid-term planning: The project identification has been undertaken with a view to the programming of the 2003 Action Programme.

Duration of projects: Projects within the 2002 Action Programme have on average a longer project duration than within the previous programming exercises, to ensure continuity of the assistance and to avoid contract extensions, the processing of which would lead to interruptions and thus, to damage to the performance of the assistance.

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

6. Programme Components

Activities of the 2002 Action Programme are based on the sectoral analysis made in the Multiannual Indicative Programme for Croatia, and is translated into the following projects:

1. Democratic Stabilisation

1.1 Return of refugees and internally displaced persons

1.1.1 Sustainable development in return areas

To make a significant contribution to the sustainability of returns of refugees and displaced persons, especially of minority groups, through promotion of economic revitalisation, enterprise development, job creation and social inclusion. This should be achieved by:

- Support to existing and potential entrepreneurs and cooperatives by adequate training and advice,
- Improvement of basic public and business infrastructures to support local entrepreneurs and cooperatives, and attract outside investments in an environmentally sound context
- Mine clearance where necessary to enable rehabilitation of facilities
- Strengthening local governments and enabling them to effectively manage local development, foster income generating activities and enhance equitable distribution of resources in co-operation with civil society groups.
- Improving quantity and quality of community based programmes and to promote new forms and initiatives in community based activities
- Promoting social inclusion
- Widening and deepening of partnerships for local economic development between the public, private and non-governmental sector.

1.2 Civil Society

1.2.1 Promotion of Democracy and Human Rights

To improve and promote respect for human, minority and civic rights and enhance the development of democracy and civil society. This should be achieved through:

- a local call for proposals open to civic groups, media outlets, NGOs and associations to carry out projects improving and promoting respect for human, minority and civic rights and enhance the development of democracy and civil society.

1.2.2 Social Service delivery by the non-profit sector

To improve the quality of social services and advance the fight against poverty and social discrimination or inequality. This should be achieved by:

- Providing ‘**institution building**’ support to state institutions and Civil Society Organisations in relation to the operation of decentralised services in the areas of social care, health and education policies;
- Providing a ‘**grant scheme**’ support to strengthen the operations of a selection of those Civil Society Organisations participating under the State Budget’s 3-year financial support programme.

2. Economic and Social Development

2.1 Trade

2.1.1 Capacity building in the area of agriculture and food products

To enhance and facilitate the trade of agricultural and processed agricultural products thus increasing Croatia's presence on the European and world markets, by:

- Developing a national food safety strategy
- Further harmonising and align key legislation with the EC acquis
- Introducing the HACCP system of safety control of food products of plant origin in the food chain
- Strengthening the institutional and administrative capacity, technical know-how and human resources for harmonising/implementing EU standards and enforcing harmonised food legislation
- Informing the consumers on food quality and hygiene

2.1.2 Capacity building in the area of consumer protection

To achieve a high level of consumer protection in Croatia, protecting health, safety and economic interests of consumers. This should be done through:

- Further harmonising and aligning Consumer Protection legislation with the Acquis
- Strengthening the institutional and administrative structures for implementation and enforcement of consumer protection

- Upgrading professional knowledge and technical competence of the staff of Governmental and Non Governmental organisations dealing with Consumer protection
- Developing a national information-technological system between the State Inspectorate, Ministry of Economy and Associations for Consumer Protection
- Enhancing the awareness of producers and consumers as to their responsibilities and rights
- Strengthening the role and recognition of the Consumer Protection advocacy groups

2.2 Investment climate

2.2.1 Support to the cadastre and land registry reform

To contribute to the reform of the land and property system as a basis for a market in land and buildings and the foundation for spatially related national and local programmes and plans. This CARDS project will support - as an integral part - the overall World Bank Project “Modernisation of Cadastre and Land Registry” starting at the end of 2002, by concentrating on:

- The development of a Multi-purpose Spatial Information System
- Training and technical assistance for SGA
- Training and technical assistance to the Ministry of Justice
- Public Awareness Campaign

2.2.2 Development of the business and investment climate in Croatia

To develop the business and investment climate in Croatia by reducing administrative and regulatory barriers for business including a strengthened capacity to generate and disseminate information to foreign and domestic investors. This should be achieved through:

- Support to the Government-led institutional building, by reducing administrative and regulatory barriers and strengthening the development of the ‘one-stop shop’ to promote investments
- Support for a second year of activities to the Euro Info Correspondence Centre in Zagreb.

2.2.3 Strengthening the Croatian Public Procurement System

To contribute to the development and strengthening of a sound, transparent and competitive public procurement system in the Republic of Croatia, in accordance with EU standards, promoting efficiency and effectiveness in the use of public funds and reducing the potential for fraud and corruption. This should be achieved by:

- Strengthening methodological and legislative framework
- Strengthening professional skills and capacity among various stakeholders, such as the Public Procurement Office, procuring entities, potential suppliers/service providers and contractors
- Promoting public awareness about the new public procurement system

2.2.4 Support to the Croatian State aid system

To promote a more efficient allocation of resources and market competition, by improving the Croatian State aid system, by means of:

- Institution building (including legislative framework, procedures, IT network)
- Training (especially of staff in the State Aid Agency) , including awareness raising

2.3 Social Cohesion

2.3.1 Vocational Education and Training: Modernisation and institution building

To enhance the modernisation of the Croatian VET system with a view to better respond to the changed needs of the economy, the society and the individual, to combat unemployment, especially youth unemployment and to comply with European standards and the relevant acquis in the field. This should be achieved through:

- Institution building
- Procurement and installation of equipment
- Training of vocational school managers
- Design of new curricula and training of teachers

2.3.2 Local Partnerships for youth employment

To better match labour supply and demand by strengthening the capacity of local actors to design and implement training for young unemployed people and other active labour market measures, based on a partnership approach, through:

- Arrangements for forming local partnerships within 18 counties in Croatia, resulting in the formal establishment of the partnerships and the selection of their respective co-ordinators;
- Workshops for operative group members and partnership co-ordinators
- The realisation of a training needs analysis.
- Workshops on design of training and placement programmes for the young unemployed persons.
- Training to increase employability and placement programme for young unemployed
- Evaluation of project results and drafting recommendations

2.3.3 Higher education mobility: diploma recognition policy and legislation

The harmonisation of the Croatian Higher Education system with the standards and practices of the EU member states is furthered, thus opening the way to diploma recognition and facilitating Croatia's European integration process. This should be achieved by:

- Preparing amendments of existing legislation
- Establishing the National Directorate for Recognition of Academic Achievements and Competence linked to the Croatian office of the European Network of Information Centres (including staff training)
- Public awareness raising

- Introduction of the European Credit Transfer System
- Seminars on student mobility for different target groups at Higher Education Institutions

2.3.4 TEMPUS

To contribute 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

3. Justice and Home Affairs

Note: Attention will be paid to the recommendations of the Justice and Home Affairs experts' mission to Croatia in June 2002 in the course of implementation of these projects.

3.1 Modernisation of Justice

To effectively improve the operation and functioning of the Croatian Court system, by enhancing the operation and functioning of the seven pre-selected (pilot) courts, as these courts are the main cause of the problems in the Croatian judiciary. Where possible the system may be extended to other courts. This should be achieved by undertaking activities to:

- improve the organisation and structure of the Court system
- enhance the efficiency in judicial procedures
- improve court and case management

3.2 Policing and organised crime

3.2.1 Criminal intelligence system – Phase I

To strengthen the capacity of both the MOI and the General Police Directorate to efficiently and effectively deal with policing and the fight against organised crime and terrorism, by developing a proactive Central Intelligence System geared to combating transnational organised crime, illegal migration, money laundering, trafficking in human beings, weapons and drugs. It will support Croatia in its steps to adopt EU Member State standards and best practices in the field of police co-operation and training. This should be achieved through:

1. Improvement of administrative procedures
2. Criminal intelligence management
3. Human resource development
4. Technical resources (hardware, software)

3.3 Integrated Border Management

3.3.1 Development of a national border management information system

To establish greater security at international borders that will diminish cross border crime and illegal migration by establishing a national border management information system, so as to enhance Croatia's border security management systems. This should be achieved through:

- Providing institution building support to the Ministry of Interior relating to architecture and testing of border management information systems and corresponding institutional and administrative structures;
- Providing investment support related to the development and pilot testing of the information system, and strengthening control and surveillance capacities.

3.3.2 Strengthening the border sanitary inspection and food control

To facilitate movements of people and goods and better securing the population's health by performing food safety controls by strengthening and developing the capacity of Department of Border Sanitary Inspection and aligned institutions through introducing and enforcing the acquis regarding imported food control. The project will concentrate on:

- Analysis of the existing food control system
- Human resources development
- Technical (IT) resources development

3.3.3 Strengthening the phytosanitary inspection system

To enhance border management by strengthening the Border Phytosanitary Inspection Service, thus facilitating the movement of people and goods. This will be achieved by:

- Developing sector-specific phytosanitary strategy, action plan and impact assessment
- Developing human resource development plan with clear milestones and resource implications
- Developing and test pilot information system.

4. Administrative Capacity Building

4.1 Public Administration Reform

4.1.1 Capacity building facility for Croatian State institutions

To contribute to the efficient implementation of the Stabilisation and Association Agreement by a capable, effective and transparent Croatian public administration, by assisting Croatian state institutions in the creation, implementation and strengthening of the legal and policy framework in certain specific policy areas supporting the SAA; enhancing administrative capacity among Croatian civil servants; strengthening inter-institutional and sector-specific cooperation mechanisms within Croatian state institutions and with counterpart institutions in the EU Member States and candidate countries. This should be achieved by:

- Legal and policy advice
- Feasibility and impact studies relating to the implementation of the obligations of the SAA
- Training
- Exchange of information/experience
- Awareness-raising among governmental bodies and stakeholders about impact of legislative changes on identified sectors

4.1.2 Capacity building for the Office for Prevention of Corruption and Organised Crime (USKOK)

To contribute to more efficient combating and prevention of corruption and organised crime in Croatia by enabling USKOK to fulfil its tasks and exercise its authorities in a more efficient manner. This will be undertaken by focusing on:

- Human resource development
- Administrative and organisational structures
- Information systems and resources

4.1.3 Fiscal Decentralisation, equalisation and capacity measurement

To enhance the ongoing decentralisation process aiming at independent and accountable public administration in Croatia, in line with EU standards and practice in the Member States. This should be achieved by:

- Review of regulatory, institutional and methodological framework and recommendations for improvement
- Development of methodology for the database requirements on fiscal capacity indicators and creation of a required database
- Provision of training mainly on assessing fiscal capacity, its use in budget management and service delivery both at central government and local government level
- Capacity building in fiscal reporting

4.2 National, regional and local development

4.2.1 Strategy and capacity building for regional development

To contribute to the development and implementation of Croatia's regional policy in line with EU principles and practice, through the development of a national strategy and strengthening institutions and relevant actors in regional policy formulation and implementation. This should be achieved through assistance to:

- The development of National Strategy for Regional Development & corresponding Action Plan
- The reinforcement of the institutional capacity of central and sub-national institutions that are active in the field of regional development
- The establishment of a system for producing regional accounts, with the adequate staff training

4.3 Public Finance

4.3.1 Development of public internal financial control and internal audit

To develop and reinforce the Public Internal Financial Control system in Croatian public administration, including internal audit, in line with EU requirements and best practice in the EU Member States, by:

- Reviewing legal framework for PIFC; legal advice for new legislation
- Advising for institutional reorganisation; drafting of written procedures for all PIFC aspects, including *ex ante* control arrangements, separation of functions, protection of financial interests, etc.
- Expert reviewing of IT needs for internal audit and other key financial control functions; specification, procurement and implementation of the necessary IT system
- Drafting of common audit manual and methodological guidelines for internal audit units
- Designing and providing training for internal auditors, including option for formal certification
- Designing and providing comprehensive PIFC training programme for managers and administrators in the government administration
- Performing pilot audits both at central and local government level

4.3.2 Development of public debt management capacity

To develop an efficient public debt management system and policy in Croatia, in accordance with best practice in the EU Member States, by means of:

- Review of legal and institutional framework for debt management and further legal advice
- Evaluation of the existing organisational structure of the PDMD and recommendations for its improvement (front-, middle- and back-office) and assistance in implementation
- Assistance in developing national financial management information system, e.g. elaboration of general and functional requirements for IT development and procurement of necessary hardware and software, provision of training, software for Risk Management
- Training-needs analysis for the PDMD and other possible stakeholders, and implementation of the training programme
- Conceptual, methodological and implementation assistance in line with best practice and know-how in EU Member States for the PDMD and other stakeholders with regard to specific public debt statistics, debt portfolio, guarantee portfolio, domestic bond market, debt issuance and management, cash flow forecasting capacity, etc.)

4.3.3 Strengthening customs system and procedures

The strengthening and modernisation of the Customs Directorate of the Ministry of Finance as a core public finance institution with a view to the implementation process for new customs legislation and procedures. This should be achieved by:

- SWOT analysis regarding resource constraints for task achievement of Customs Directorate.

- Adaptation of Training Needs Analysis and Training Programme to required implementation steps for new procedures.
- Preparation and execution of study missions.
- Preparation and execution of technical assistance and training measures
- Preparation and execution of technical assistance (and training measures) to draft and implement appropriate procedures for the specific Customs system/legislation
- Preparation and execution of technical assistance and training measures for the strengthening of capacities for audit and enforcement functions
- Assistance to ad hoc to IT developments and other specific assistance

5. Environmental and Natural Resources

5.1 Strategy for EU environmental law approximation

To ensure a high level of environmental protection in Croatia, by providing a basis for harmonisation of Croatian environmental legislation with EU aquis and its implementation. This should be achieved by:

- Assisting legal approximation (legislation gap analysis, horizontal impact assessment and preparation of the draft Croatian strategy for EU environmental law approximation and its implementation plan)
- Building State administration capacity (administrative review, stakeholders analysis, training, drawing up of manuals and guidelines)

5.2 Pilot waste management strategy for Dalmatia

To approach EU standards through an economically and environmentally efficient waste management system, through the development of a pilot waste management strategy for four Dalmatian counties, with cost assessment and a series of administrative and technical guidelines, possessing demonstration value for whole of Croatia. This should be achieved by concentrating on:

- Administrative Capacity (structural review, manuals, training)
- Data Management (design of waste information system)
- Technical Resources (infrastructure needs assessment, development of waste management guidelines, support to enforcement monitoring, promotion of hazardous waste prevention)

5.3 Water Information System – standardisation and monitoring

To assist in the improvement of the water management system ensuring the protection and the rational use of water resources as well as the protection from adverse effects of water, by the modernisation, standardisation and improvement of the Water Information System through harmonised and implemented rules and procedures, as well as the design and procurement of specialised measurement and analytical systems. This should be achieved by focusing on:

- Standardisation (Prepare system and program design specifications, including IT, analysis profile, system data flow and procedures workshops, organisational review)

- Subsystem for real-time data gathering and processing (design subsystem for real time data gathering and processing, procurement of equipment, run real-time monitoring system workshops)

5.4 Support to environmental NGO network

To increase public awareness and greater involvement of citizens in environmental issues, by strengthening the environmental NGOs networks' institutional and advocacy capacity, improve their co-ordination and visibility and foster public awareness and participation in environmental issues. This should be achieved by:

- Strengthening of the institutional capacity of Green Forum, the national NGO network
- Strengthening and increasing the Green Phone Network project
- Establishment of an Environmental Advocacy Centre for Croatia

7. Complementary EC Assistance

The activities covered by this Financing Proposal may be complemented by the CARDS Regional Programme in the following sectors:

- Integrated Border Management
- Institution Building
- Democratic Stabilisation
- Regional Infrastructure
- Regional environment
- Justice and Home Affairs
- Trade

Given the international nature of the Sap countries' border management policies and their impact on EU Member States and candidate countries, the bodies involved in programming the EU Structural Funds INTERREG and the PHARE programme shall be fully associated with the development of the national integrated border management strategies so as to ensure maximum coherence and complementarity with EU INTERREG and PHARE programmes for cross border co-operation.

This co-ordination with INTERREG and PHARE will be key not only in ensuring the Border Regiona Co-operation programmes and projects complement activities on other sides of the borders but also in seeking similar synergies with programmes developed for the border control and border crossing areas or other CARDS support in border regions in which co-operation with INTERREG and PHARE could present an advantage.

8. Programme Implementation

The Action Programme will be implemented as follows:

8.1 Implementation & Management

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 31.12.2005, being the expiry date of the associated Financing Agreement. 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.
- No addenda adding funds from this programme to any contract or grant may be entered into after this expiry date.

The deadline by which all contractual activities under this programme must cease is no later than one calendar year after the expiry date of the relevant Financing Agreement . Therefore, no addenda to any contract or grant funded by this programme shall be entered into after the implementation deadline¹.

The programme will be implemented by the Commission Services on behalf of and in close collaboration with the relevant national and/or local authorities. Project implementation will be undertaken by the relevant Commission Services. The use of the decentralised implementation system will be decided on a case by case basis. A Financing Agreement corresponding to this Financing Proposal will be concluded with the counterpart authorities.

8.2 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)₂ and the European Union's Court of Auditors.

8.3 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, Council

¹ Note that the end date for contractual activities refers to project implementation activities, and not the date for submission of final report or final invoice.

Regulation 2666/2000² and the "Manual of instructions for contracts concluded for the purpose of Community co-operation with third countries" (adopted by the Commission on 10 November 1999).

² As amended by Council Regulation No. (EC) 2415/2001

9. Cost and financing

The Programme will be financed through a Community grant of € 59 million, allocated as follows among the different sectors:

SECTOR	Allocation (in MEUR)
1. DEMOCRATIC STABILISATION	16.0
1.1 Return of refugees and internally displaced persons	14.0
1.2 Civil society	2.0
2. ECONOMIC AND SOCIAL DEVELOPMENT	18.0
2.1 Trade	3.0
2.2 Investment climate	9.0
2.3 Social cohesion	6.0
3. JUSTICE AND HOME AFFAIRS	10.0
3.1 Modernisation of Justice	4.0
3.2 Policing and organised crime	2.0
3.3 Integrated border management	4.0
4. ADMINISTRATIVE CAPACITY BUILDING	12.0
4.1 Public administration reform	6.0
4.2 National, regional and local development	2.0
4.3 Public Finance	4.0
5. ENVIRONMENT AND NATURAL RESOURCES	3.0
5.1 Strategy for environmental law approximation	1.2
5.2 Pilot waste management strategy for four Dalmatian counties	0.8
5.3 Water information system - standardisation and monitoring	0.8
5.4 Support to environmental NGOs	0.2
TOTAL	59.0

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.

ANNEX:

Project fiches with logframes.