

ANNEX

**Instrument for Pre-Accession Assistance (IPA)
Multi-annual Indicative Planning Document
(MIPD)
2011-2013
Croatia**

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Executive summary

The purpose of this Multi-Annual Indicative Planning Document (MIPD) is to set out the EU's priorities for assistance to Croatia for the programming period 2011-2013. It is based on the needs identified in the Accession Partnership of Croatia, as well as in the latest Progress Report and in Croatia's own strategies. The Government of Croatia, local stakeholders, EU Member States and other donors have been consulted in the design of this MIPD.

The Commission has taken a number of steps to enhance the strategic nature of this process over the last few years and to strengthen the link between the priorities established in the progress reports and the programming of assistance. To better illustrate this focus, and to strengthen ownership by the beneficiary countries, where possible under the lead of the national authorities, the Commission will increase its use of a sector-based¹ logic in its planning of pre-accession assistance.

To increase the impact of IPA assistance and to give greater focus to achievable results, the Commission has decided to concentrate its efforts on targeted sectors. A sector approach will facilitate cooperation among donors and beneficiaries, eliminating duplication of efforts and leading to greater efficiency and effectiveness. This in turn should allow all stakeholders to focus increasingly on the impact of our combined efforts.

To date, the number of fully fledged sector programmes developed by IPA beneficiary countries is limited. Nonetheless, by beginning to focus increasingly on priority sectors now, the Commission can better support the development of such programmes on which the EU and other donor assistance can then be based.

According to the Enlargement Strategy and Main Challenges 2010—2011 and 2010 Progress Report², Croatia needs to consolidate reforms in the field of judiciary and fundamental rights. Regarding public administration reform, considerable further efforts are needed to finalise the legal framework and to implement it efficiently across the board. Croatia needs to sustain efforts to fully establish the administrative structures required for the management and control of EU funds.

Therefore, the priorities selected for the period covered by this MIPD aim at supporting the strengthening of the rule of law, public administration reform, and preparation for the implementation of the EU cohesion and agriculture and rural development policies, the latter supporting investments in infrastructures and boosting competitiveness in order to alleviate the impact of the financial crisis. To achieve these priorities, the Commission will focus its assistance primarily on the following sectors: Justice and Home Affairs and Fundamental Rights, Public Administration Reform, Environment and Climate Change, Transports, Private Sector Development, Social Development, Agriculture / Rural Development.

¹ Or programme-based approach where the selected priorities span across sectors

² Enlargement Strategy and Main Challenges 2010-2011, COM(2010) 660 of 9 November 2010, http://ec.europa.eu/enlargement/press_corner/key-documents/reports_nov_2010_en.htm

1. IPA STRATEGIC OBJECTIVE

The overall objective of EU financial assistance to Croatia is to support its efforts for reform and towards compliance with EU law in order that it may become fully prepared to take on the obligations of membership in the European Union.

The "Europe 2020" agenda offers the enlargement countries an important inspiration for reforms. Croatia is invited to consider the priorities of the strategy and adapt its main challenges in the national context. The enlargement policy also supports the "Europe 2020" strategy by extending the internal market and enhancing cooperation in areas where cross border cooperation is key.

2. STRATEGIC PLANNING OF IPA ASSISTANCE

2.1. Country challenges and needs assessment

According to the **Enlargement Strategy 2010—2011**, Croatia needs to consolidate reforms in the field of judiciary and fundamental rights. Regarding public administration reform, considerable further efforts are needed to finalise the legal framework and to implement it efficiently across the board. Croatia needs to sustain efforts to fully establish the administrative structures required for the management and control of EU funds.

The Enlargement Strategy underlined the importance of civil society being able to play its role in a participatory democracy. The "*Civil Society Facility*" (CSF), financed under both the IPA Multi-beneficiary and the IPA national programmes, was set up as the tool to financially support the development of civil society. The CSF includes actions to strengthen freedom of expression, as it represents a basic precondition for a functioning democracy.

2.2. National strategies

Croatia's own needs and priorities in the framework of the accession process are presented in the "**Program of the Government of the Republic of Croatia for assumption and implementation of the *acquis***". This document describes under the political, economic and *acquis* criteria the achievements as well as the plans for the adoption of legislation and the administrative capacity building measures, including the identification of the competent authority, the implementation deadline and the planned budgetary funds.

Croatia has adopted a number of **sectoral strategies**. In particular, IPA Components III, IV and V are available to Croatia since 2007 and operate on the basis of sectors, in view of preparing Croatia for the future management of EU Structural and Rural Development funds.

2.3. Relations with the EU

Croatia has made steady progress towards meeting the criteria for membership since starting accession negotiations in October 2005. As of 22 December 2010, 28 out of 35 chapters have been provisionally closed.

The EU provides guidance to the authorities on reform priorities through the Accession Partnership which was last updated in February 2008. Progress on these reform priorities is monitored through the bodies of the Stabilisation and Association Agreement (SAA).

2.4. Lessons learned

The effective implementation of IPA programmes under Components I to IV could only start once the "decentralised management of assistance", namely implementation by the Croatian authorities themselves, was decided by the Commission at the end of 2008. As regards IPA Component V, the setting up of decentralised management of assistance requires more time as, for this Component, differently from the other ones, the Commission does not operate any *ex ante* controls on the implementation. This process started in 2009 and is expected to continue during 2011.

Given its advanced stage of membership preparation, the strategy for the latest **IPA Component I** programmes was to focus on remaining assistance needs relevant for assuming membership obligations. Most of IPA funding is delivered through institution building activities, whereas investments amount to the remaining third of the IPA allocation. Regarding *institution building*, the twinning instrument continues to be the preferred implementation modality for all transposition or legal approximation-related projects where the relevant expertise lies within the Member States. *Investments* are related to the growing importance of administrative strengthening priorities over the sheer alignment with the *acquis*, and the increasing emphasis on post-accession objectives.

In designing annual IPA programmes, careful account is taken of the "lessons learned" from projects programmed in previous years, notably as described in the thematic *Public Administration Reform*³ evaluation and in the *Country Programme Interim Evaluation*⁴ carried out by the Commission in 2009.

Issues that in the past affected the achievement of project purposes were increasingly addressed under IPA, as compared to PHARE. More attention was paid to conditionality and sequencing, since the programming stage, and the need to assess the complementarity with past and ongoing projects to avoid any overlaps in the delivery of financial assistance. Most IPA projects are to a various extent follow-up of previous initiatives (e.g. under CARDS and PHARE) or precursors for new ones. Measures were deployed to improve the administrative implementability of projects and compress the length of the preparatory phase. Where required, measures were adopted to enhance the involvement of decision-makers in the execution of projects, and to facilitate inter-institutional coordination.

According to the 2009 *Country Programme Interim Evaluation*, a precise measurement of the effectiveness of pre-accession assistance is often hampered by the unavailability of indicators, but, in general, completed projects have delivered the expected results, and the prospects for almost completed ones are fairly positive. Prospects for impact are generally positive, with some qualifications. Actions aimed at achieving alignment with specific *acquis* requirements sometimes provided a decisive contribution to the opening or closing of negotiations in certain chapters. The impact of assistance aimed at strengthening the public administration is more difficult to assess, because structural changes take longer to generate and more often suffer from the lack of systematic evidence. Therefore, in the future programming, more attention should be devoted to these aspects.

As regards **IPA Component III**, "Regional Development", lessons have been learned during the preparation and implementation of infrastructural projects co-financed by the Instrument

³ Supporting Public Administration Reform in Croatia – Thematic Evaluation of EU and other support, MWH Consortium, June 2009.

⁴ 2009 *Country Program Interim Evaluation of EU Pre-accession Assistance to Croatia*, Economisti Associati, draft report of 22 December 2009, final report of 12 March 2010.

for Structural Policies for Pre-Accession - ISPA (and partly by IPA). Project preparation is a complex process which requires significant time and human resources, especially in case of large infrastructure projects. Investment projects require the complex expertise by all involved stakeholders. The delays in project implementation start very often already in the procurement procedure. Experience has also proven that the adequate preparation of a project is of the utmost importance for the later stages. The risk of delays or failures in implementation is higher in inadequately prepared projects. The lessons learned showed that there is a need to enhance the capacity of all relevant stakeholders in project preparation and implementation. Technical assistance has been programmed under Component I and III of IPA to assist with these tasks.

The implementation of **IPA Component IV**, "Human Resources Development" started in 2009. The conferral of management powers for the implementation of the Human Resources Development programme was approved in December 2008, which paved the way for the effective kicking-off of the implementation activities in March 2009. Since 2009, the key priority has been the selection, approval and implementation of operations, and the absorption of the available funding. Up to 31 December 2010 the tenders for all 8 grant schemes have been launched and contracts for 7 grant schemes have been signed, which is an important step in terms of preparations for the European Social Fund. Operational programme Human Resource Development has been revised and adopted on 23 November 2010. Despite the good progress in the contracting of grant schemes, IPA Component IV is facing some delays. Lessons learned from the project preparation phase point out that Croatia needs to take into consideration staffing issue and administrative capacity problem.

The implementation of projects from the first two accredited measures under **IPA Component V**, "Rural Development", started in 2010. The small number of applications received from the calls shows that Croatia needs to intensify its efforts in dealing with obstacles to participation in the programme and to increase potential beneficiaries' interest. At the same time, the Croatian authorities have also strongly focused on the preparation of procedures for conferral of management powers for the remaining five programme measures. Although progress in preparations could be observed, the delays in implementation that were still persisting by the end of 2009 put at risk the funds allocated for 2007 and 2008. According to the budgetary rule "n+3", these funds will have to be de-committed if not spent by the end of 2011. Therefore in the future all efforts should be oriented towards further conferral of management and calls for applications.

2.5. Consultations with stakeholders and donors

The Commission, together with the support of the EU Delegation in Zagreb, organised in November 2010 consultations on this MIPD with the National IPA Coordinator (NIPAC), as well as of EU Member States' embassies, local branches of International Financing Institutions (IFIs) and Civil Society Organisations (CSOs).

2.6. Selected priorities for EU assistance

This MIPD 2011-2013, while strengthening the sector approach, builds on the strategic planning of the MIPD 2009-2011 of 9 July 2009⁵ which remains largely relevant and was established in line with the Accession Partnership of 12 February 2008 and the ongoing accession negotiations.

⁵ Multi-annual Indicative Planning Document (MIPD) 2009-2011, C(2009)5371 of 9 July 2009, http://ec.europa.eu/enlargement/pdf/mipd_croatia_2009_2011_en.pdf

The needs assessment for EU financial assistance takes into account Croatia's "Program of the Government of the Republic of Croatia for assumption and implementation of the *acquis communautaire*" and relevant national sectoral strategies.

EU funds may support, as appropriate, Croatia's efforts to comply with the requirements related to the "transition periods" which are requested by the Croatian authorities in the context of accession negotiations of the various chapters. Pre-accession assistance may also be programmed in views of preparations for a possible "Transition Facility" and "Schengen Facility".

The strategy for EU financial assistance is to directly support Croatia's pre-accession preparations for joining the EU, thus contributing, on a wider scale, to the "**Europe 2020** – the European strategy for smart, sustainable and inclusive growth". As highlighted in the Enlargement Strategy, closer integration through the enlargement process helps the EU to achieve its objectives in a number of areas which are key to economic recovery and sustainable growth, including energy, transport, the protection of the environment and efforts to address climate change. The strategy also guides the reform efforts in Croatia.

According to the **Enlargement Strategy**, Croatia needs to consolidate reforms in the field of judiciary and fundamental rights. Regarding public administration reform, considerable further efforts are needed to finalise the legal framework and to implement it efficiently across the board. Croatia needs to sustain efforts to fully establish the administrative structures required for the management and control of EU funds.

The economic crisis has affected all enlargement countries. Croatia was heavily affected. The EU, together with IFIs, helps alleviate the impact of the crisis. IPA assistance supports investment in infrastructure and competitiveness. The Western Balkans Investment Framework (WBIF) plays an important role in mobilising funds for large infrastructure projects.

Therefore, the priorities selected for the period covered by this MIPD aim at supporting the strengthening of the rule of law, public administration reform, and preparation for the implementation of the EU's cohesion and agriculture and rural development policies, the latter supporting investments in infrastructures and boosting competitiveness in order to alleviate the impact of the financial crisis.

3. MAIN SECTORS FOR EU SUPPORT FOR 2011 – 2013

To achieve the priorities selected for support in the programming period 2011-2013, the Commission will focus its assistance primarily on the following sectors for which strategies were adopted by the Croatian government:

1. Justice and Home Affairs and Fundamental Rights: Assistance will be provided to further support the implementation of the Judicial Reform Strategy, the Anti-Corruption Strategy, the Action Plan for refugee return, the Integrated Border Management (IBM) Action Plan and Schengen Action Plan, the protection of fundamental rights and the development of civil society.

2. Public Administration Reform: Support will be provided to reforms of the public administration and to the development of a professional and non-politicised civil service. Other related policy areas, such as public procurement, taxation, statistics, customs union and financial control may also be supported.

The following sectors 3 "Environment and Climate Change", 4 "Transports", 5 "Private Sector Development" and 6 "Social Development" are based on Croatia's "Strategic Coherence Framework (SCF) 2007-2013", in the context of policy development and preparation for the implementation and management of the EU cohesion policy. Acquis-related or institutional capacity building projects may also be supported.

3. Environment and Climate Change: Support will be provided to environmental protection: treatment and disposal of solid waste, supply of drinking water, collection, treatment and discharge of waste water, as well as institutional capacity building, including mitigation of and adaptation to climate change.

4. Transports: Support will be provided to the transports sector: railway sector, inland waterway infrastructure as well as institutional capacity building.

5. Private Sector Development: Support will be provided to increase the competitiveness of the Croatian economy and convergence with the economy of the EU and to reduce regional socio-economic disparities, including the promotion of low-carbon development.

6. Social Development: Support will be provided in the sector of human resources development: education and training, employment and social inclusion as well as institutional capacity building.

7. Agriculture and Rural Development: Support will be provided in policy development as well as preparation for the implementation and management of the EU's agriculture and rural development policy, as described in the IPA Rural Development programme adopted by the Croatian authorities. Acquis-related or institutional capacity building projects may also be supported.

The first two sectors, "Justice and Home Affairs and Fundamental Rights" and "Public Administration Reform", were identified in the Enlargement Strategy and the 2010 Progress Report as areas requiring further reforms efforts, also in light of lessons learned from previous enlargements and in line with the renewed consensus on enlargement, as agreed by the December 2006 European Council.

The other five sectors, "Environment and Climate Change", "Transports", "Private Sector Development", "Social Development" and "Agriculture and Rural Development" derive from the unified legal structure set up by the new Instrument for Pre-Accession Assistance (IPA) in 2007 and the establishment of IPA Components III, IV and V in view of better preparing candidate countries for the future management of the EU Cohesion and Rural Development policies. These sectors may also be supported by *acquis*-related projects under IPA Component I where needed. A sector approach with sector analysis and strategies as basis for multi-annual programmes has already been pursued under IPA Components III, IV and V since 2007.

Croatia needs to ensure that the challenges linked to climate change are addressed, in particular by reducing the emission intensity of its economic development. The aim to reduce greenhouse gas emissions shall be taken into account in all relevant sectors of the MIPD. Furthermore, all financial assistance must comply with the principle of sustainable development and meet the requirements of the relevant EU environment *acquis*, in particular the Environmental Impact Assessment (EIA) as well the Birds and Habitats directives.

Fighting corruption is a crucial challenge for Croatia, tangible results and a credible track-record needs to be achieved. Financial Assistance will pay particular attention to this.

The principles of equal opportunity and non-discrimination will be respected in all areas of the IPA programme.

Indicators of achievement will be included at programme and/or project level. Programmes and/or projects may benefit several sectors and therefore require strong coordination structures during all programming and implementation stages in order to achieve the maximum impact. This coordination role should be ensured by the National IPA Coordinator (NIPAC) in Croatia as well as the Strategic Coordinator for IPA Components III and IV.

According to the Multi-annual Indicative Financial Framework (MIFF) for IPA for the years 2011-2013⁶, Croatia will receive an indicative allocation of about EUR 479 million of pre-accession funds. The planned allocation per sector and per year is presented below:

In EUR million

Indicative Financial Allocation per Sector (€ million)			
2011-2013	<i>Period 2007 - 2010</i>	<i>Period 2011 - 2013</i>	
Justice and Home Affairs and Fundamental Rights	56.27	64.50	15 %
Public Administration Reform	17.93	8.60	2 %
Environment and Climate Change	84.94	77.40	18 %
Transports	77.96	77.40	18 %
Private Sector Development	62.63	51.60	12 %
Social Development	30.81	60.20	14 %
Agriculture and Rural Development	127.32	90.30	21 %
Other (Acquis specific projects)	17.07	-	-
TOTAL	474.13*	430.00*	100 %

* This table does not include allocations for IPA Component II, Cross-border cooperation, which is dealt with in a separate MIPD.

⁶ COM (2009) 543 of 14 October 2009.

The financial assistance will be implemented through the relevant IPA Components as follows:

In € million

IPA Component	2011	2012	2013
Transition Assistance and Institution Building	39,96	40,87	38,51
Regional Development	58,20	59,35	62,00
Human Resources Development	16,00	16,04	18,00
Rural Development	26,50	27,27	27,70
TOTAL	140,66	143,53	146,21

* This table does not include allocations for IPA Component II, Cross-border cooperation, which is dealt with in a separate MIPD.

The "Justice and Home Affairs and Fundamental Rights" and "Public Administration Reform" sectors will be supported by IPA Component I. The "Environment and Climate Change", "Transports" and "Private Sector Development" sectors will be supported by IPA Components I and III. The "Social Development" sector will be supported by IPA Components I and IV. The "Agriculture and Rural Development" will be supported by IPA Components I and V.

Financial allocations are indicative and may vary according to actual financial needs identified at the time of programming.

In addition, IPA may finance actions that fall outside the scope of these sectors such as, but not limited to: i) project/sector programme identification and preparation; ii) *acquis*-related activities; iii) participation in EU Programmes to which the country becomes eligible unless they are included in one of the sectors chosen above; iv) as well as support measures for the implementation, monitoring and audit of IPA programmes.

3.1. Justice and Home Affairs and Fundamental Rights

3.1.1. Description of sector

In terms of main challenges and issues, the **Progress Report 2010** assessed that Croatia has made good progress on *judiciary and fundamental rights* and *justice, freedom and security* but reforms need to be consolidated.

Civil society organisations (CSOs) continue to play a prominent role in promoting and protecting human rights, democracy and minorities. Efforts remain to be done to ensure the independence and sustainability of CSOs.

The sector readiness and national ownership are demonstrated by the existence of, amongst others, the following sectoral strategies:

- the judicial reform strategy and related action plan;
- the anti-corruption strategy and related action plan;
- the revised action plan on refugee return;
- the Integrated Border Management (IBM) Action Plan and the Schengen Action Plan;

- the National Strategy for the Creation of an Enabling Environment for Civil Society.

3.1.2. Past and ongoing assistance (EU and other donors)

Extensive support was provided by the EU and other donors in the areas of Justice and Home Affairs and Fundamental Rights.

In the area of the *judiciary*, CARDS and Phare projects supported the reform of the court system, court administration and case management and the harmonization and publication of case law.

Bilateral projects from France on the improvement of the enforcement system, the Netherlands (MATRA) on the enhancement of the capacities of the Ministry of Justice, the Work Bank with the "Justice Sector Support Project" (JSSP), and the "Balkans enforcement reform project" (BERP) regional project, were also implemented in Croatia.

Several projects under IPA are in the pipeline to support, *inter alia*, the reform of criminal proceedings, the development of the probation services, the training of judicial advisors and future judges and state attorneys, the institutional capacity of misdemeanor courts, and the development of Integrated Case Management System (ICMS).

As regards *justice, freedom and security*, CARDS and Phare projects have supported Integrated Border Management (IBM) and preparations for the implementation of the Schengen acquis.

Under IPA, projects are being implemented or are in the pipeline to support USKOK and inter-agency cooperation in the fight against corruption, as well as to further support IBM.

As regards the support to *civil society*, DG Enlargement's Civil Society Facility has been supporting the dialogue between Croatian civil society organization (CSOs), Croatian state administration and CSOs in the EU Member States, and provided CSOs with relevant knowledge, skills and experience required for strengthening their role as relevant actors in the EU accession preparations process.

3.1.3. Sector Objectives for EU support over the next three years

The objectives of EU support in this sector are consistent with the **Enlargement Strategy's** key challenge of strengthening the judiciary and the fight against organised crime, as well as with the "**Europe 2020**" strategy of reinforcing the rule of law to improve conditions for the business environment and increase growth and competitiveness.

The sectoral objectives are related to the chapters *Judiciary and fundamental rights* (23) and *Justice, freedom and security* (24) of the accession negotiations.

The main **objectives** in this sector are to strengthen judicial independence and efficiency; to support the protection of fundamental rights, especially for minority groups and refugees; to support the further alignment of migration, visa and asylum policies; to continue the implementation of Integrated Border Management (IBM) Action Plan and Schengen Action Plan; to support Croatia's efforts to fight organised crime, corruption - including the prevention of corruption -, money laundering and trafficking of human beings and drugs; to support de-mining measures with a view to enhance the economic development and the overall security environment, as well as to contribute to refugee return; and to support civil society in the framework of the Commission's Civil Society Facility covering a wide range of

sectors not limited to "justice and home affairs" and including support to CSOs at the regional and local levels.

Indicators to assess the impact of EU support may include, *inter alia*:

- Consolidation of qualitative criteria for the appraisal of judges and prosecutors;
- Reduction in the length of court proceedings and reduction in the backlog of cases;
- Improved court management systems;
- Number of successful prosecutions and final convictions for cases of organised crime, corruption, money laundering and trafficking of human beings and narcotics;
- Increased amounts of proceeds of crime recovered;
- Strengthened capacity of law enforcement institutions, including improved inter-agency and international cooperation;
- Strengthened IBM and prevention of illegal migration by creating effective systems for management of asylum, illegal migration and borders;
- Improved environment for civil society and strengthened capacities of CSOs, more effective civic participation in policy processes at all levels.

3.1.4. EU assistance per IPA component

Financial assistance under this sector will be mainly delivered under IPA Component I. IPA Components III, IV and V contribute indirectly to the consolidation of the rule of law through the social and economic development of Croatia.

3.2. Public Administration Reform

3.2.1. Description of sector

In terms of main challenges and issues for Croatia, the **Progress Report 2010** assessed that limited progress can be reported with public administration reform. Considerable further efforts are needed to finalise the legal framework and to implement it efficiently across the board.

The sector readiness and national ownership is based on the following national legislation and strategies:

- the State Administration Reform Strategy;
- the revised General Administrative Procedures Act (GAPA);
- the human resources development strategy (2010-2013) and its associated action plan;
- a decentralisation strategy still remains to be developed.

3.2.2. Past and ongoing assistance (EU and other donors)

Extensive support was provided by the EU and other donors in the area of Public Administration Reform.

CARDS projects have supported the implementation of the civil service reform programme and Croatia's capacity for administrative decentralisation.

Bilateral projects from Denmark, EBRD, Sweden, the UK, the World Bank, and "HITRORez" (Regulatory guillotine) project involving USAID and UNDP, were also implemented in Croatia.

Several projects under IPA are in the pipeline to support the development of Regulatory Impact Assessment, the implementation of the aforementioned General Administrative Procedures Act (GAPA) and the Regional School for Public Administration (ReSPA) based in Montenegro, as well as financing the activities of SIGMA related to Croatia.

3.2.3. Sector Objectives for EU support over the next three years

The objectives for EU support in the sector of Public Administration Reform are consistent with the **Enlargement Strategy's** key challenge of strengthening public administration and the development of a professional and non-politicised civil service, as well as with the "**Europe 2020**" strategy of improving public finances and the quality of spending.

The sectoral objectives are related to chapters *Public Procurement* (5), *Taxation* (16), *Statistics* (18), *Customs Union* (29), and *Financial Control* (32) of the accession negotiations.

The main **objectives** in this sector are to support the implementation of the human resources development strategy (2010-2013); to support the capacity of public administration at central, regional and local levels to manage decentralisation reforms; to support the improvement of the administrative capacity of the Ministry of Public Administration; and to support further alignment in the fields of public procurement, taxation, statistics, customs, budgetary reforms, and public internal financial control (PIFC).

Indicators to assess the impact of EU support may include, *inter alia*:

- Strategies, Action Plans and guidelines for the implementation of the reforms adopted;
- Legal framework developed and implemented efficiently;
- Enhanced co-ordination and administrative capacities of main stakeholders in the sector;
- Trainings carried out and training materials produced and a sufficient number of civil servants trained;
- Information/awareness-raising campaigns carried out.

3.2.4. EU assistance per IPA component

Financial assistance under these areas will be mainly delivered under IPA Component I. In addition, Croatia is preparing for an Administrative Capacity Development Operational Programme (OP) to be financed under the European Social Fund (ESF) upon accession, which will be a continuation of the issues tackled under IPA Component I in the public

administration sector. IPA Component I and SIGMA are supporting the development of this programme.

3.3. Environment and Climate Change

3.3.1. Description of sector

In terms of main challenges and issues, the Progress Report 2010 assessed that, overall, good progress has been made in the "Environment" chapter as regards both alignment and implementation of the legislation. Administrative capacity, especially at local level, needs further strengthening.

As regards the "regional policy and coordination of structural instruments" chapter, good progress was made, notably on preparing strategic documents and designating the institutions and mechanisms to implement the EU cohesion policy, recruit and train further staff. Croatia needs to complete its preparations by focusing on the establishment of a mature project pipeline and the absorption of funds.

In terms of sector readiness and national ownership, Croatia has established the "Strategic Coherence Framework (SCF) for 2007-2013" covering IPA Components III (Regional Development) and IV (Human Resources Development). Within the SCF, the supporting socio-economic analysis and subsequent strategy identified the key objectives and priorities implemented through four multi-annual Operational Programmes (three in Component III and one in Component IV) with a strong strategic focus. IPA with, its similarities to the European Regional Development Fund and Cohesion fund, is a precursor of Structural Funds. The SCF is also considered as "mini National Strategic Reference Framework (NSRF)".

3.3.2. Past and ongoing assistance (EU and other donors)

Under ISPA, two investment projects in the field of environment have been supported in Croatia.

Under Phare and IPA Component I, projects, which are being implemented, support the development of institutional capacity and a project pipeline for the management of EU structural funds, including monitoring and evaluation requirements.

Under IPA Component III, the multi-annual operational programme "Environmental" was adopted on 29 November 2007 (see further details in section 3.3.4).

3.3.3. Sector Objectives for EU support over the next three years

The objectives for EU support in this sector are consistent with the **Enlargement Strategy** and "**Europe 2020**" priorities in terms of "smart, sustainable and inclusive growth".

The sectoral objectives are related to the chapters *Energy* (15) and *Environment* (27) of the accession negotiations.

On the basis of the aforementioned Strategic Coherence Framework (SCF), support will be provided in policy development as well as preparation for the implementation and management of the *EU cohesion policy*, in particular regarding the European Regional Development Fund and the Cohesion Fund, in the field of environmental protection (treatment and disposal of solid waste, supply of drinking water, collection, treatment and discharge of

waste water, as well as institutional capacity building), including mitigation of and adaptation to climate change.

Indicators to assess the impact of EU support may include, *inter alia*:

- - Higher protection of the environment and human health;
- - Development of a project pipeline for infrastructure investments;
- - Further implementation of relevant legislation;
- - Steps taken to promote mitigation of and adaptation to climate change.

3.3.4. EU assistance per IPA component

Under IPA Component I, acquis-related or institutional capacity building projects may be supported within the various chapters/policy areas related to energy and environmental protection.

Under IPA Component III, support is provided through the multi-annual Operational Programme (OP) "Environmental". This programme aims at developing waste management infrastructures for establishing an integrated waste management system and at protecting the country's water resources through improved water supply and waste water integrated Management Systems. The programme includes technical assistance to ensure the sound and efficient management of EU funds.

3.4. Transports

3.4.1. Description of sector

In terms of main challenges and issues, the **Progress Report 2010** assessed that further progress has been achieved and, overall, the level of alignment in the "Transports" chapter is good. Additional efforts are still needed to implement and enforce the *acquis*.

As regards the "regional policy and coordination of structural instruments" chapter, as indicated in the above section 3.3.1, Croatia needs to complete its preparations by focusing on the establishment of a mature project pipeline and the absorption of funds.

The sector readiness and national ownership is demonstrated by the aforementioned Strategic Coherence Framework (see section 3.3.1.).

3.4.2. Past and ongoing assistance (EU and other donors)

One investment project in the field of transports has been supported under ISPA.

Under Phare and IPA Component I, projects, which are being implemented, support the development of institutional capacity and a project pipeline for the management of EU structural funds, including monitoring and evaluation requirements.

Under IPA Component III, the multi-annual operational programme "Transportation" was adopted on 7 December 2007 (see further details in section 3.4.4).

3.4.3. Sector Objectives for EU support over the next three years

The objectives of EU support in this sector are consistent with the **Enlargement Strategy's** key challenge of overcoming the economic crisis and supporting growth and competitiveness, as well as with the "**Europe 2020**" priorities in the areas of transports.

The sectoral objectives are related to the chapters *Transport policy* (14) and *Trans-European networks* (21) of the accession negotiations.

On the basis of the aforementioned Strategic Coherence Framework, support will be provided in policy development as well as preparation for the implementation and management of the *EU cohesion policy*, in particular regarding the European Regional Development Fund and the Cohesion Fund, in the field of transport (railway sector, inland waterway infrastructure as well as institutional capacity building).

Indicators to assess the impact of EU support may include, *inter alia*:

- Improvement of railway network and safety conditions of the railway system;
- Development of a project pipeline for infrastructure investments;
- Further implementation of relevant legislation.

3.4.4. EU assistance per IPA component

Under IPA Component I, acquis-related or institutional capacity building projects may be supported within the various chapters/policy areas related to transports.

Under IPA Component III, support is provided through the multi-annual Operational Programme (OP) "Transportation". This programme addresses the following priorities of gradually improving the standard of the railways, along TEN Corridors X and V within Croatia; rehabilitating the Croatian inland waterway system, making it more attractive and competitive in comparison with other modes of transport, including the rehabilitation of the Sava river waterway to category IV navigational status, as well as its alignment with the EU River Information System (RIS). The programme includes technical assistance to ensure the sound and efficient management of EU funds.

3.5. Private Sector Development

3.5.1. Description of sector

In terms of main challenges and issues, the **Progress Report 2010** assessed that, as regards the economic criteria for membership, Croatia is a functioning market economy. Croatia should be able to cope with competitive pressures and market forces within the Union, provided that it implements its comprehensive reform programme with determination in order to reduce structural weaknesses.

As regards the "regional policy and coordination of structural instruments" chapter, as indicated in the above section 3.3.1, Croatia needs to complete its preparations by focusing on the establishment of a mature project pipeline and the absorption of funds.

The sector readiness and national ownership is demonstrated by the aforementioned Strategic Coherence Framework (see section 3.3.1.).

3.5.2. Past and ongoing assistance (EU and other donors)

CARDS and Phare projects have supported Croatia's competitiveness and regional infrastructures.

Under Phare and IPA Component I, projects which are being implemented support the development of institutional capacity and a project pipeline for the management of EU structural funds, including monitoring and evaluation requirements.

Under IPA Component III, the multi-annual operational programme "Regional Competitiveness" was adopted on 29 November 2007 (see further details in section 3.5.4).

3.5.3. Sector Objectives for EU support over the next three years

The objectives of EU support in this sector are consistent with the **Enlargement Strategy's** key challenge of overcoming the economic crisis and supporting growth and competitiveness, as well as with the "**Europe 2020**" priorities in the areas of knowledge economy.

The sectoral objectives are related to chapters *Free movement of goods* (1), *Right of establishment and freedom to provide services* (3), *Public procurement* (5), *Intellectual property law* (7), *Competition policy* (8), *Information society and media* (10), *Enterprise and industrial policy* (20), and *Science and research* (25) of the accession negotiations.

On the basis of the aforementioned Strategic Coherence Framework, support will be provided in policy development as well as preparation for the implementation and management of the *EU cohesion policy*, in particular regarding the European Regional Development Fund and the Cohesion Fund, in the fields of regional competitiveness (reducing regional disparities, enhancing economic competitiveness as well as institutional capacity building).

Indicators to assess the impact of EU support may include, *inter alia*:

- Enhanced competitiveness and innovation capacity of SMEs and improvement in commercialisation of technology;
- Increased investment in research and innovation;
- Development of a project pipeline for infrastructure investments;
- Further implementation of relevant legislation.

3.5.4. EU assistance per IPA component

Under IPA Component I, acquis-related or institutional capacity building projects may be supported within the various chapters/policy areas related to Private Sector Development.

Under IPA Component III, support is provided through the multi-annual Operational Programme (OP): "Regional Competitiveness". This programme addresses the priorities of improving the development potential of lagging behind regions and enhancing the competitiveness of the Croatian economy. The programme includes technical assistance to ensure the sound and efficient management of EU funds.

3.6. Social Development

3.6.1. Description of sector

In terms of main challenges and issues, the Progress Report 2010 assessed that good progress has been made in the "social policy and employment" chapter. However, some gaps remain in alignment of the legislation. Social dialogue and administrative capacity require further strengthening.

As regards the "regional policy and coordination of structural instruments" chapter, as indicated in above section 3.3.1, Croatia needs to complete its preparations by focusing on establishment of a mature project pipeline and absorption of funds.

Overall, structural problems persist, as indicated by the high rate of youth unemployment and low employment and participation rates. In spite of various policy measures, structural weaknesses in the labour market remain major challenges.

The sector readiness and national ownership is demonstrated by the aforementioned Strategic Coherence Framework (see section 3.3.1.).

3.6.2. Past and ongoing assistance (EU and other donors)

Under Phare and IPA Component I, projects implemented or being implemented support the development of institutional capacity and a project pipeline for the management of EU structural funds, including monitoring and evaluation requirements.

Under IPA Component IV, the multi-annual operational programme "Human Resources Development" for Croatia was adopted on 7 December 2007 and consists of 4 priority axes: "Enhancing access to employment and sustainable inclusion in the labour market", "Reinforcing social inclusion of people at a disadvantage", "Enhancing human capital and employability", and Technical Assistance (see further details in section 3.4.4).

3.6.3. Sector Objectives for EU support over the next three years

The objectives for EU support in this sector are consistent with the **Enlargement Strategy's** key challenge of overcoming the economic crisis and supporting growth and competitiveness, as well as social inclusion. The objectives are equally consistent with the inclusive growth strand of the "**Europe 2020**" strategy, notably in implementing the "flexicurity" approach, increasing labour market participation, decreasing structural unemployment, promoting education, skills and lifelong learning, social inclusion and fighting poverty.

The sectoral objectives are related to chapters *Social Policy and employment* (19), *Regional policy and coordination of structural instruments* (22), *Education and culture* (26), and *Consumer and health protection* (28) of the accession negotiations.

Support will be provided to Croatia in policy development as well as preparation for the implementation and management of the EU cohesion policy, in particular regarding the European Social Fund, in the sector of human resources development (education and training, employment and social inclusion as well as institutional capacity building).

Indicators to assess the impact of EU support may include, *inter alia*:

- Further implementation of relevant legislation;

- More people attracted and retained in employment and social protection systems modernised;
- Improved adaptability of enterprises and workers including labour market flexibility and security;
- Improved human capital investment through better and greater investment in education and skills;
- Strengthened administrative capacity in the employment, education/training, and social policy fields.

3.6.4. EU assistance per IPA component

Under IPA Component I, acquis-related or institutional building projects may be supported within the various chapters/policy areas. As regards interventions in the area of social policy, assistance objectives may also be related to the political criteria, notably economic and social rights, including rights for vulnerable groups in society.

The reconstruction and revitalization of cultural heritage sites under the "Ljubljana Process", the new phase of the 2003-2010 Council of Europe and the European Commission joint action "Integrated Rehabilitation Project Plan / Survey of the Architectural and Archaeological Heritage" in the countries of South-East Europe, may be supported under this sector.

Under IPA Component IV, support to the sector of "Human Resources Development" will be provided under IPA Component IV through a single multi-annual Operational Programme, namely, the "Human Resources Development" Operational Programme. The overall strategic objective of this programme is to contribute to the creation of more and better jobs through priority goals designed to attract and retain more people in employment, reinforce social inclusion and promote adaptability of enterprises and workers. The financed priorities aim at enhancing access to employment and sustainable inclusion in the labour market; reinforcing social inclusion and integration of people at a disadvantage; enhancing human capital and employability; and developing the Croatian institutions' capacity to receive IPA funds and implement programmes and projects.

3.7. Agriculture and Rural development

3.7.1. Description of sector

In terms of main challenges and issues, the **Progress Report 2010** assessed that good progress can be reported in the "agriculture and rural development" chapter. However, considerable efforts in these key areas of the Common Agricultural Policy need to be sustained. Croatia also needs to align the agricultural support system fully with the acquis and to increase absorption capacity for rural development funds.

Good progress has been made in alignment in the "food safety, veterinary and phytosanitary policy" chapter. Continued efforts are required regarding the programme's implementation, as well as on strengthening administrative and control capacity, and setting up border inspection posts.

Croatia has made good progress in aligning with the acquis in the "fisheries" chapter. Croatia needs to improve implementation of the legislation.

In terms of sector readiness and national ownership, in particular for rural development funds, Croatia has established the multi-annual "Programme for agriculture and rural development" (IPARD) under IPA Component V.

3.7.2. Past and ongoing assistance (EU and other donors)

Under IPA Component I, support is being provided for capacity building and setting up for essential elements of the Common Agricultural Policy and Rural Development. Infrastructure and capacity building has also been supported in the area of food safety, veterinary and phytosanitary policy. As regards fisheries, Croatia used funds to establish the vessel monitoring system aligned with the acquis, to improve data collection and processing as well as to build up and strengthen the Croatia's fisheries administration and control capacity. Similar areas were supported under the processor programmes such as CARDS and PHARE.

Under IPA Component V, the multi-annual "Programme for agriculture and rural development" (IPARD) for Croatia was adopted by the Commission on 25 February 2008. Funds under this programme are mainly used to support investments on farms and in the processing sector to meet EU standards. Component V support is also used for the development of economic activities in rural areas and improve rural infrastructure. Croatia also used SAPARD funds, the predecessor programme of IPA component V, to support similar activities.

3.7.3. Sector Objectives for EU support over next three years

The objectives for EU support in this sector are consistent with the **Enlargement Strategy's** key challenge of overcoming the economic crisis and supporting growth, as well as with the **"Europe 2020"** priorities in terms of competitiveness.

Support will be provided to facilitate the preparation of the beneficiary country for the participation in the Common Agricultural Policy (CAP), including the systems for management and control of financial expenditures, while at the same time assisting the beneficiary country with getting ready to effectively implement EU rural development programmes upon accession, including to prepare for the adaptation of the effects of climate change.

Support will also be provided for alignment with the acquis in the area of food safety, veterinary and phyto-sanitary policy and for the reinforcement of administrative structure required for the implementation of Common Fisheries Policy, in particular regarding the fisheries resources management and the fisheries inspection and control services.

Indicators to assess the impact of EU support may include:

- Setting up of an Integrated Administration and Control System (IACS) including the Land Parcel Identification System (LPIS) to be fully operational by the date of accession;
- Setting up of the paying agency to be fully operational by the date of accession;
- Setting up of the single common market organisation (CMO) to be fully operational by the time of accession;
- Improve the absorption capacity for rural development funds;
- Complete transposition and implementation of the acquis;

- Complete the construction and equipment of border inspection posts to allow them to operate as EU Border inspection post as of the day of accession;
- Strengthen administrative capacity, in particular with regard to the implementation of the control of food and feed establishments, animal by-products;
- Complete the vessel monitoring system aligned with the acquis;
- Strengthen administrative capacity, in particular with regard to control at sea and at landing places;
- Improved employment opportunities, competitiveness and diversification of activities by beneficiaries in rural areas and increased income of the beneficiary farmers and private entrepreneurs from rural areas;
- Improved production conditions in terms of compliance with EU standards Increased added value of agricultural and fishery products through improved and rationalised processing and marketing of products;
- Decrease the number of agri food and animal by-product establishments not meeting the relevant EU standards;
- Improved processing and/or marketing of quality agricultural products as well as better preparation of the implementation of CMOs in the beneficiary sectors;
- Better protection of natural resources in the beneficiary areas and developed practical experience with regard to the implementation of agricultural production methods designed to protect the environment and maintain the country side;
- Better coordination and cooperation among institutions and improved participation of local actors in the development and implementation of rural development strategies.

3.7.4. EU assistance per IPA component

Under IPA Component I, acquis-related or institutional building projects may be supported within the various chapters/policy areas.

Under IPA Component V, support to the sector of "Rural Development" is provided through a single multi-annual Rural Development Programme covering the entire period of 2007-2013 and targeting interventions that contribute to the sustainable adaptation of the agricultural and fisheries sectors and the implementation of EU standards concerning the common agricultural policy and related policy areas like food safety, veterinary and phytosanitary matters, preparatory actions for the implementation of agri-environmental measures and Leader as well as interventions for the sustainable development of rural areas while supporting the development of the rural economy.

Assistance under the IPARD programme is mainly granted in the form of support for private investments undertaken by natural or legal persons like farmers, food processing and marketing enterprises, small and medium enterprises in rural areas etc.

List of abbreviations

CARDS	Community Assistance for Reconstruction, Development and Stabilisation
CBC	Cross-border Cooperation
CEFTA	Central European Free Trade Agreement
GDP	Gross Domestic Product
FDI	Foreign Direct Investment
IBM	Integrated Border Management
ICTY	International Criminal Tribunal for the former Yugoslavia
IFI(s)	International Financing Institutions
IPA	Instrument for Pre-accession Assistance
MIFF	Multi-Indicative Financial Framework
MIPD	Multi-Annual Indicative Planning Document
PAR	Public Administration Reform
PHARE	Poland and Hungary Assistance for the Restructuring of the Economy
SAA	Stabilisation and Association Agreement
SAPARD	Special accession programme for agriculture and rural development
SCF	Strategic Coherence Framework
SIGMA	Support for Improvement in Governance and Management
SME	Small and Medium-sized Enterprises
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VET	Vocational Education and Training
WB	World Bank