

Republic of Croatia



**STRATEGIC COHERENCE FRAMEWORK
2007-2013**

INSTRUMENT FOR PRE-ACCESSION ASSISTANCE

Zagreb, May 2007

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1 NATIONAL POLICY CONTEXT

1.1 NATIONAL PREPARATION PROCESS AND TIMETABLE

1.1.1 SCF preparation process and timetable

The Strategic Coherence Framework (SCF) represents one of the programming documents that serve as a reference point for the use of the EU assistance in Croatia.

Croatia, as a candidate country for EU membership, has access to the *Instrument for Pre-Accession Assistance* (IPA) launched in 2007. The IPA provides assistance to build institutional capacity for the efficient implementation of the *acquis communautaire* and to prepare for the management of Structural Funds on accession. The Strategic Coherence Framework is concerned with Component III (Regional Development) and Component IV of IPA (Human Resource Development). These Components are designed to assist the candidate countries in policy development and prepare them for the implementation and management of the Community's Cohesion policy: in particular the European Regional Development Fund and the Cohesion Fund (Component III) and the European Social Fund (Component IV).

The preparation of the SCF in Croatia is coordinated by the Central Office for Development Strategy and Coordination of EU Funds (CODEF). The work on the SCF commenced in November 2005 in cooperation with the state administration bodies responsible for policy areas relevant for this strategic document. This includes the Ministry of Finance, the Ministry of Economy, Labour and Entrepreneurship, the Ministry of Sea, Tourism, Transport and Development, the Ministry of Environment Protection, Physical Planning and Construction, the Ministry of Agriculture, Forestry and Water Management, the Ministry of Science, Education and Sports, the Ministry of Health and Social Welfare and the Central State Office for e-Croatia.

In addition, the European Commission services (DG Regional Policy and DG Employment, Social Affairs and Equal Opportunities) were consulted throughout the process. A detailed timetable is provided below:

November-December 2005	Development of the SCF concept Presentation of the SCF process to the members of the SCF Coordination Group (detailed composition of the group provided in Chapter 1.1.2.)
January 2006-April 2006	Preparation of the 1 st draft SCF by the Croatian state administration
April 2006	Consultations on the 1 st draft SCF with the SCF Co-ordination Group
May-June 2006	Consultations on the 1 st draft SCF with the European Commission
July-November 2006	Preparation of the 2 nd draft SCF by the Croatian state administration
November-December 2006	Consultations on the 2 nd draft SCF with the European Commission
January-February 2007	Preparation of the 3 rd draft SCF by the Croatian state administration
February 2007	Consultations on the 3 rd draft SCF with the SCF Co-ordination Group
March 2007	Consultations on the 3 rd draft within European Commission Services
April/May 2007	Finalisation of the document
May 2007	Adoption of the SCF by the Croatian Government
June 2007	Submission of the final version to the European Commission Services

Major policy priorities and objectives defined in the SCF are in accordance with the priorities and objectives set out in:

- a) national strategic documents (i.e. Strategic Development Framework for 2006-2013);
- b) strategic documents referring to the EU integration process of Croatia (Stabilization and Association Agreement, Accession Partnership, 2006 Progress Report, Multi-annual Indicative Planning Document for Croatia, Multi-annual Indicative Financial Framework for Croatia for 2007-2010);
- c) relevant sectoral documents defining broad policy-guidelines in particular areas with a view to adopting EU standards and best practices (e.g. priorities within the section on human resource development are aligned with Joint Memorandum on Social Inclusion of the Republic of Croatia and Joint Assessment Paper);
- d) documents establishing broad EU priorities linked to the Lisbon agenda and forming a reference point for member states' strategies and programmes (i.e. Community Strategic Guidelines).

1.1.2 Consultation with partners

In November 2005, the Croatian Government established an SCF Co-ordination Group (SCFCG) with the mandate to oversee the preparation of the Strategic Coherence Framework¹. The SCFCG includes senior representatives of the Ministry of Foreign Affairs and European Integration; the Ministry of Finance; the Ministry of Economy, Labour and Entrepreneurship; the Ministry of Sea, Tourism, Transport and Development; the Ministry of Environment Protection, Physical Planning and Construction; the Ministry of Agriculture, Forestry and Water Management; the Ministry of Science, Education and Sports; the Ministry of Health and Social Welfare; the Central State Office for e-Croatia as well as representatives of the Croatian Trade Unions Association and Croatian Employers' Association. The SCFCG is chaired by the State Secretary and Head of the Central Office for Development Strategy and Coordination of EU Funds.

So far there have been three rounds of consultations with members of the SCFCG on Strategic Coherence Framework, i.e. on 7 December 2005, 21 April 2006 and 27 February 2007. During the first round of consultations the members of the SCFCG were familiarised with the aim of the document, its planned structure and envisaged time dynamics of the preparation process. This served as a starting point for a series of operational inter-sectoral meetings, which resulted in structured sectoral inputs, summarising shortly current situation and development goals in the relevant sectors such as transport, environment, regional development, human resource development and macroeconomic framework.

The April 2006 meeting served the purpose to make the members of the SCFCG familiar with the 1st draft version of the SCF and receive their comments to the text. The comments received from the SCFCG members referred mostly to the further revision and elaboration of priorities to be financed under component III and IV of IPA programme. Representatives of the trade unions stressed the importance of the inland waterway as well as multi-modal transport and the significance of waste management. When it comes to particular measures within Regional Competitiveness programme, they also pointed out the necessity to train the entrepreneurs regarding access to the relevant financing instruments and producing good quality project proposals which could attract foreign and domestic investors. The same stakeholders also stressed the key role of social capital for the development of the country and real convergence with EU. Faced with the limited amounts of IPA funds and corresponding macroeconomic impact, representatives of the Ministry of Sea, Tourism, Transport and Development underlined the necessity to support competitiveness and balanced regional development through investments in infrastructure, research and development and its transfer to the commercial use as well as training of entrepreneurs regarding financing and doing business. Representatives of the same Ministry also contributed with more detailed information on the air and maritime transport in Croatia. Ministry of Science, Education and Sports added additional information regarding educational attainment of the Croatian population and the significant mismatch between labour

¹ Conclusion adopted by the Government of the Republic of Croatia at the session held on 24 November 2005.

supply and labour demand as well as information on future plans to rectify the situation. Moreover, the Ministry of Economy, Labour and Entrepreneurship further expanded the text with the information on the pivotal role of small and medium enterprises in the structure of the private sector in Croatia, providing also more detailed description of the institutional responsibilities in the field of SME promotion. On this occasion, the representatives of the same institution endorsed the priorities identified in the employment area within SCF. The Ministry of Environmental Protection, Physical Planning and Construction also contributed to the further development of the document by adding more detailed information on the situation in their sectors with particular focus on waste collection and treatment. The representatives of this Ministry also raised the issue of including the topics of improving energy efficiency and reducing green house gas emissions into the SCF and starting the dialogue with the European Commission in order to reach the consensus whether these topics should be reflected among the relevant priorities and measures within the SCF.

The 3rd version of the document was discussed in February 2007. The Ministry of Economy, Labour and Entrepreneurship together with the Ministry of Sea, Tourism, Transport and Development further elaborated the priorities to be financed under component III of the programme in order to make them sufficiently flexible to support development potential of lagging regions, as well as enhancing the competitiveness of the national economy through support services for existing enterprises and technology transfer and assistance services for knowledge-based start-ups. After a lengthy discussion among the stakeholders, the consensus was reached to define three priority axes i.e. improving development potential of lagging regions (reflected in the measures stimulating business related support systems and promoting business and investment climate), enhancing the competitiveness of national economy (reflected in the measures supporting services for SMEs with potential for growth and export as well as measures stimulating technology transfer and support services for knowledge based start-ups) and securing technical assistance for the management of operational programmes and the preparation of project pipe-line. Representatives of the trade unions used this opportunity to identify a series of project ideas related to the improvement of balance between education and labour market demands, transfer of scientific work and research into the economy as well as research into the various dimensions of regional disparities. These ideas will be taken up and discussed in the process of identifying project pipeline for IPA programme. Furthermore, representatives of the trade unions recommended restructuring the SCF chapter on social inclusion and corresponding OP from the two perspectives i.e. fight against poverty and sustainable social development. This comment was taken into consideration to a certain degree, due to the fact that HR development priorities were primarily defined taking into account the necessity for their concentration by reason of the limited IPA funds and the consequent potential of a particular priority (and corresponding measures) to prepare Croatia for the usage of the European Social Fund upon the accession. Although SCF and the HRD OP do not directly deal with the fight against poverty, one of their key priorities financed through IPA is integration of socially disadvantaged groups into the labour market through support to their access to education and employment. This should lead to their better living standard and further integration into the community, thus contributing to the fight against poverty of socially disadvantaged population. Comments received by the Ministry of Finance and the Ministry of Environmental Protection, Physical Planning and Construction were also taken on board. They were mostly technical by their nature and referred to the additional statistical and technical data within their scope of work.

1.2 CROATIA'S ACCESSION TO THE EUROPEAN UNION

1.2.1 Principles established under Stabilization and Association Agreement (SAA)

The contractual relations between Croatia and the European Union are governed by the Stabilisation and Association Agreement (SAA) in force since February 2005. The SAA provides a legal framework for political dialogue, regional cooperation, the establishment of a free trade area, alignment to the *acquis* in certain areas, the cooperation on Community policies, and the use of the Community financial assistance.

According to Article 107 of the SAA referring to the financial cooperation between the contracting parties (Title IX Financial Cooperation), financial assistance is provided in line with relevant Council regulations within a multi-annual indicative framework, as defined by the Community, after consultations with Croatia. Institutional-building and investment provided under financial assistance programmes, should, thus, contribute to the democratic, economic and institutional reforms of Croatia in the process of fulfilling its SAA obligations. Consequently, financial assistance may cover all areas of legal harmonisation and cooperation policies as stipulated by the SAA.

1.2.2 Accession Partnership – setting short and medium term priorities in the context of components III and IV

In April 2004, the Council of the European Union adopted the European Partnership with Croatia, which was updated to an Accession Partnership (AP) in February 2006 in order to reflect Croatia's new status as a candidate for EU membership. Accession Partnership defines medium term and short term priorities to be fulfilled by Croatia within the framework of the pre-accession process, based on the Copenhagen and Amsterdam criteria for membership, as well as Stabilisation and Association Agreement. The advancement of the negotiations will be determined by Croatia's capacity to prepare for accession, and measured, *inter alia*, against achievement of priorities defined by the AP. In this capacity, Accession Partnership also defines framework for EU assistance to Croatia in its efforts to fulfil requirements and obligations associated with the pre-accession process.

- Among economic criteria, key priorities to be fulfilled in the short to medium term period include implementation of stability-oriented macroeconomic policies through enhanced fiscal consolidation and permanent structural reforms (faster restructuring and privatisation of large state-owned enterprises, further improvement to the business environment through speedy registration procedures, improved conditions for the development of private enterprises and foreign direct investment, and improved administrative efficiency. Labour market and education reform, as well as a comprehensive restructuring of health-care and social spending sectors, are also pointed out).
- The section of the document referring to the ability to assume the obligations of the membership defines a series of relevant short to medium term priorities. In the area of regional policy it is important to ensure clear distribution of responsibilities of relevant actors in the process, strengthen institutional capacity and ensure coordination among all relevant stakeholders. The priorities in the environment sector include strengthening the administrative capacity at national and regional level to ensure efficient planning and preparation of relevant financial strategies. Continued work is needed on the transposition of the relevant EU legislation, with special focus on waste management, water quality, air quality, nature protection as well as integrated pollution prevention and control. Investments in the environment infrastructure should be increased, with emphasis on waste water collection and treatment, drinking water supply and waste management. With respect to the transport chapter, the AP stresses the importance of strengthening administrative capacity, especially in the railway sector. Relevant priorities within the sector of social policy and employment include strengthening administrative and *acquis*-enforcement structures; ensuring adequate analysis, implementation and assessment capacity in order to develop and implement comprehensive employment strategy, with a view of participating in the European Employment Strategy. Relevant authorities should increase their efforts to create modern vocational education and training system and ensure adequate implementation of Bologna criteria in higher education. It is also important to identify and train resources with the aim to prepare for European Social Fund. Furthermore, Croatia should also start designing and applying an integrated research policy.

1.2.3 2006 Progress Report

Since 2002, European Commission has been producing regular annual reports on Croatia for the Council and the Parliament, first in the framework of Stabilisation and Association Process and since 2006 also in the context of accession negotiations. Such reports measure annual progress of the country with respect to the political and economic criteria for membership as well as capacity to assume obligations of full membership. They highlight areas in which immediate and intensive efforts are needed to achieve readiness for full membership.

- Regarding the ability to fulfil economic criteria, according to the 2006 Progress Report, relatively high unemployment rates and limited job creation remain some of the most pressing economic problems which have to be dealt with. Although company registration procedures have started to improve, administrative inefficiencies should be eliminated and longer-term financing for SMEs should be strengthened in order to improve business environment. Reforms of the education system have continued, but further efforts are needed to increase efficiency and quality.

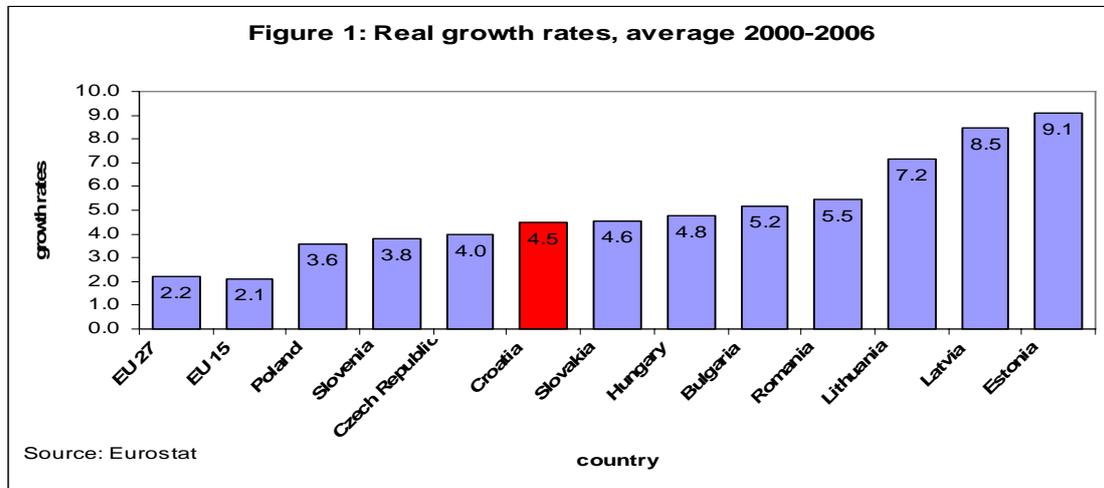
- Regarding the ability to assume the obligations of the membership, despite some progress further efforts are needed in various relevant sectors. Regarding regional policy, the Report points out the necessity to further strengthen administrative capacity of all the relevant stakeholders in order for Croatia to be able to benefit from EU funds, especially human resource development component of the IPA instrument. In the environment sector, efforts are still needed to limit the growth of green house emission in order to meet Croatia's Kyoto Protocol target for the period 2008-2012. Further revisions are necessary to bring national legislation in line with the *acquis* on Emissions Trading Directive, Environment Impact Assessment, Strategic Environmental Assessment as well as environment liability and reporting directives. Regarding waste management, an action plan for the implementation of the waste management strategy is required, and further efforts needed to mobilise financial resources for the implementation of the waste *acquis*. Despite good progress in the area of water quality, transposition of all the relevant directives needs to be completed. Further efforts should be undertaken in order to develop financing strategy for the implementation of the water *acquis*. In the area of Trans European Networks, it is necessary to develop a long term transport and energy infrastructure programme with clear timetables and financing strategies as well as further step up the efforts in the implementation of the relevant *acquis*. In the realm of social policy and employment, specific gaps have to be addressed with respect to weak administrative capacity. Although in March 2006 the Government adopted annual programme for the promotion of employment in accordance with the National Employment Action Plan for 2005-2008, more attention should be paid to undertaking active labour market measures, as well as to adult education and training in order to improve labour market indicators. Further efforts should be undertaken regarding the establishment of the management structures and implementation of the future Integrated Lifelong Learning Programme as well as the measures which guarantee non-discrimination between EU and Croatian nationals in the area of access to education. Enhanced efforts are also needed to improve the system of vocational education and training. Moreover, Croatia has to increase budgetary provisions, improve research facilities and develop human resources in order to ensure effective national participation in EU research programmes (e.g. FP7). Introduction of national peer reviews should contribute to greater allocation of substantial national funds for the purpose of research grants.

1.3 SOCIO-ECONOMIC CONTEXT

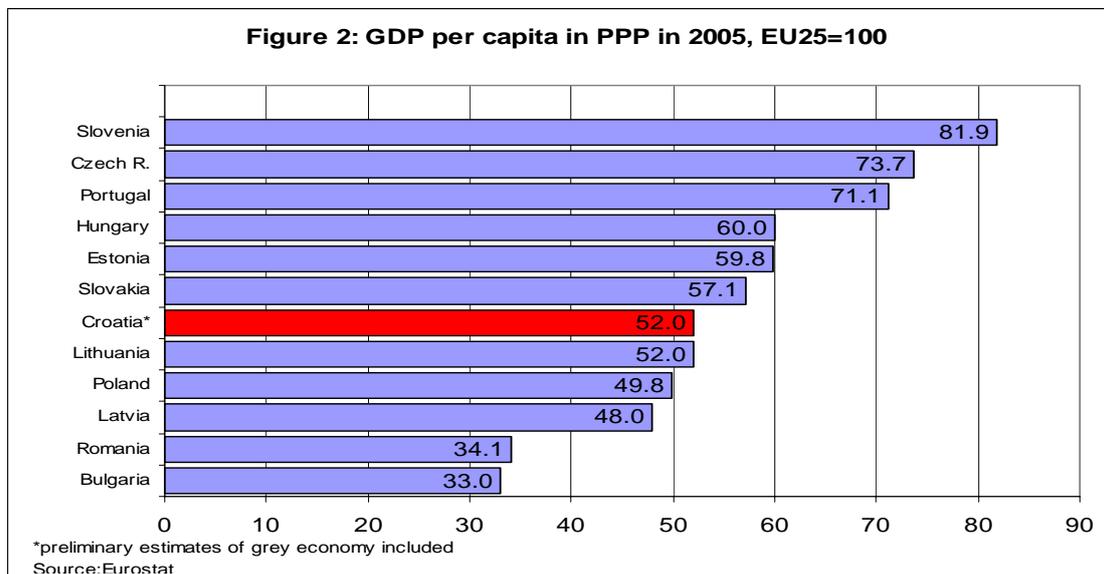
1.3.1 Economic growth

Following the implementation of the stabilization programme in October 1993, aimed primarily at stopping hyperinflationary trends, the Croatian economy has recorded relatively stable growth path accompanied by

a low inflation. The average growth rate in the period 1995-2006 amounted to 4.4%. After a 4.3% growth rate has been realised in 2005, in 2006 real GDP growth reached 4.8%. Figure 1 depicts the average growth rate in Croatia since 2000 compared to the growth in new member states.



Expressed in current prices, GDP per capita reached 7,037 EUR in 2005 and 7,704 EUR in 2006. According to Eurostat, in 2005, GDP measured by the PPP was close to 49% of the EU-25 average² while preliminary estimates with the grey economy included, point toward income gap of 52 percent. Figure 2 depicts income gap in PPP toward average income of EU-25 with preliminary estimate of grey economy included in the Croatian GDP figure.



The structure of gross value added shows that in 2006, the primary sector contributed approximately 7.4% to the gross value added, secondary sector 24.5%, while tertiary sector contributed 68.1%. Basic

² However, Croatian and EU statistics are not fully comparable since Croatia does not adjust GDP figures for the effects of grey economy. Preliminary estimates of grey economy suggest that the official GDP figures should be adjusted which would bring Croatian GDP per capita expressed in PPP approximately to 52% of EU average in 2005.

macroeconomic indicators for Croatia are presented in Annex 1, Table 1, while sector contribution to the total gross value added in Croatia is presented in Annex 2, Tables 2 and 3.

In recent years output growth has been driven by growth in domestic demand, in particular by growth in investments and personal consumption. Investments in fixed capital grew during the period between 2001 and 2006 by an average rate of 11.1% reaching the share of investments in GDP of 29.8% in 2006. During the same period the average growth of personal consumption was 4.8%. Similar trends continued in 2006 which recorded real growth of investments in fixed capital of 10.9%, while personal consumption increased by 3.5%.

Growth contribution of net exports during past several years has been mainly negative. Small positive contribution of net exports to growth was recorded in 2005 but its contribution to growth rate in 2006 was again negative. In spite of strong growth in the export of services (i.e. tourism and transport), the surplus in the service balance was not high enough to account for the negative effects of trade deficit.

In 2006 the export of goods amounted to 8.3 billion of euros while imports of goods amounted to 17.1 billion of euros. In 2006 exports of goods had been growing faster than imports of goods (in euro terms, exports grew by 16.7 percent and imports grew by 14.3 percent), but this has not been strong enough to significantly change the structural relationship between exports and imports. The trade deficit of Croatian economy reflects its growth path and import dependence of domestic economic activity since imports of capital and intermediate goods comprise 60 percent of total imports with additional 15 percent of imports related to the imports of energy. These categories of imports are also the main generators of its growth. On the other hand, in spite of the certain acceleration in exports growth during last several years the difficulties of export sector to realise stronger expansion in foreign markets are still present. The reasons are probably related to the competitiveness of exports sector, its ability to innovate but also to the fact that inflow of greenfield foreign direct investments has been very low. Because of that FDI related domestic production has not been established as important part of export sector, as it is the case in other new member states.

As a result, a persistent investment-savings gap has led to high current account deficits and a build-up of foreign debt. In the period 2000-2006 average current account deficit was 5.8 percent. At the end of 2006 current account deficit amounted to 7.6 percent of GDP. As a consequence gross foreign debt grew. Although during last three years the growth in foreign debt has been slowed down, the level of foreign indebtedness reached at the end of 2006, 29 billion EUR, accounted for 84,8% of GDP. Therefore, the reduction of the external vulnerability remains key macroeconomic challenge.

In order to prevent excessive credit activity, financed mainly through commercial banks borrowing abroad which fuelled into the growth of foreign debt, the Croatian National Bank has undertaken a number of measures aimed at discouraging banks from new external borrowing (i.e. in 2006 the measures included increased marginal reserve requirement on the increase in banks' foreign liabilities of 55% and wider base of liabilities on which the marginal reserve requirement is levied). However, further fiscal consolidation is seen as the most important tool to support the process of tackling external imbalances. The ongoing process of fiscal consolidation has allowed for the fiscal deficit of the consolidated general government to decrease from 6.2% of GDP in 2003 to 4.0% of GDP in 2005 and according to preliminary data to 3.0% in 2006. In 2007 the deficit of general government should decline to 2.8% of GDP³.

³ The above stated figures on fiscal deficit are consistent with modified accrual principle of accounting.

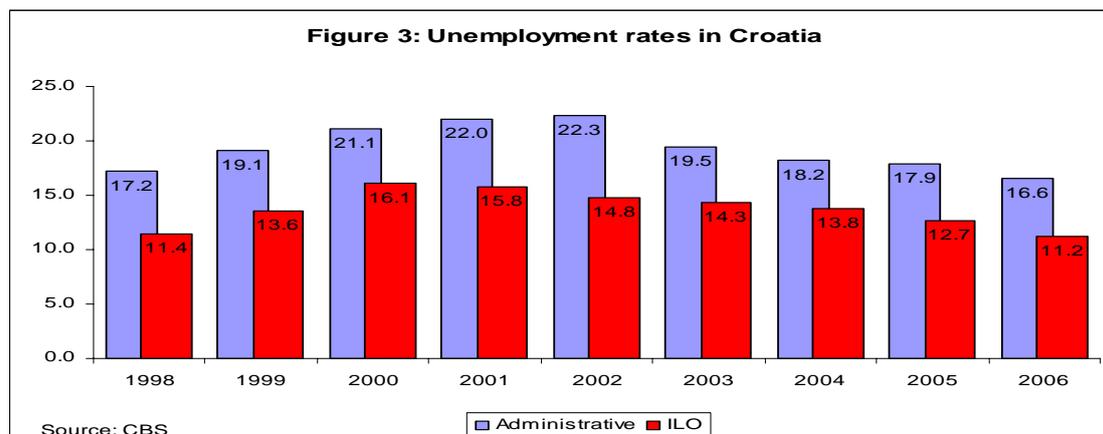
1.3.2 Inflation and exchange rate

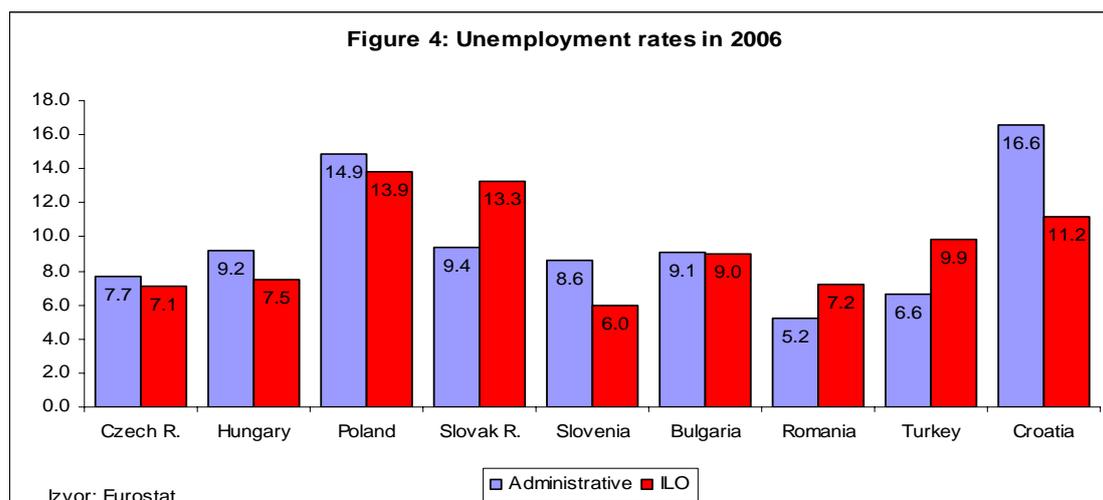
A low inflation environment has been maintained since 1994. The average annual inflation rate, measured by the consumer price index, was around 3.4% since the mid-1990s. In December 2006 CPI was 2% higher than in December 2005, while average inflation rate in 2006 amounted to 3.2 percent. Increase in inflation rate has been mainly driven by the growth in prices of services i.e. increase in the prices of water supply and utility services. In December 2006 prices of services were 4.2 percent higher than in December 2005 while prices of goods rose only by 1.4 percent. Producer prices measured by PPI rose by 1.9 percent in December 2006. Inflation was kept stable and relatively low due to appreciation of the HRK/EUR exchange rate, slow nominal wage increase, mild labour productivity growth, and intense competition in the retail trade.

Croatia is following a managed float regime. Measured by the average monthly HRK/EUR exchange rate, fluctuations have been within a narrow +/-4% band during the past five years (2001-06). Strong capital inflow in addition to tourism revenues builds up appreciation pressures that the central bank alleviates through interventions on the foreign exchange market.

1.3.3 Employment and labour market developments

Croatia recorded relatively strong growth during last ten years but unemployment rate (measured by administrative rate as well as ILO comparable rate) started to fall from 2003 and 2001 respectively. Unemployment rate in 2006 measured by ILO comparable rate amounted to 11.2 percent and it reached its lowest level since 1998. Figure 3 shows the developments in the unemployment rate in Croatia, while Figure 4 shows the comparison with the new member states.





Apart from relatively high unemployment rate Croatian labour market is also characterised by few important structural problems. The activity rate i.e. share of labour force between 15 and 64 in able-bodied population of the same age is relatively low (62.6 percent in 2006). Furthermore, the young people between 15 and 24 have the highest unemployment rate, i.e. 28.9% in comparison to the total unemployment rate of 11.2% in 2006.

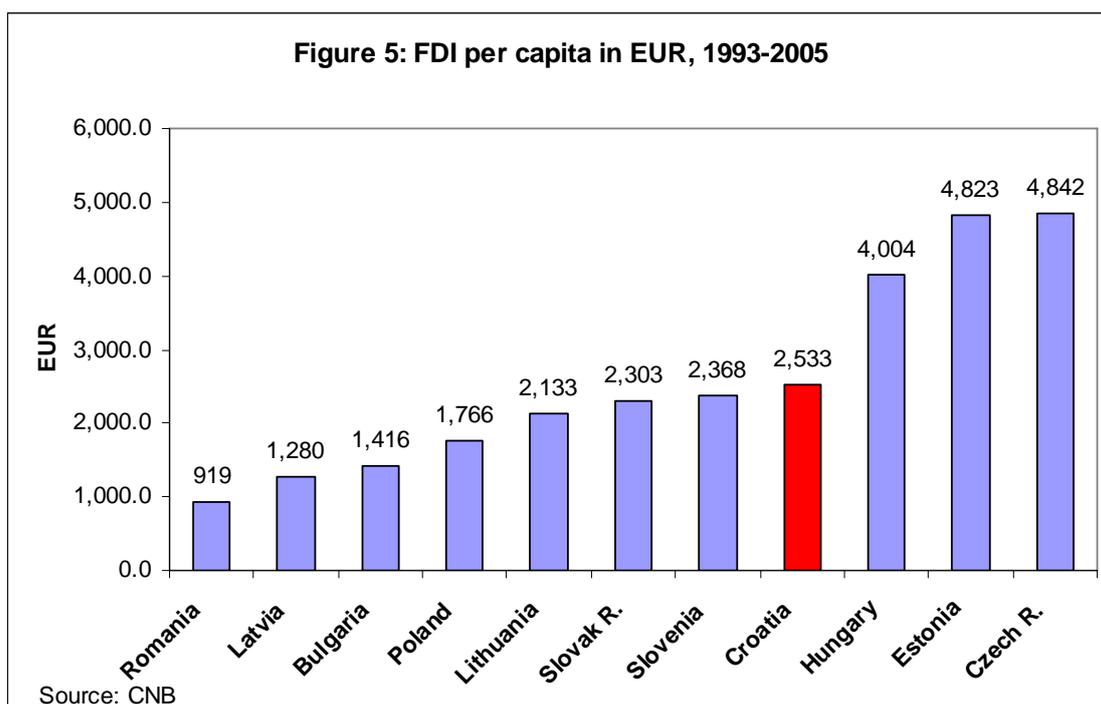
The structure of the labour market and slow spill-over from growth to labour market point toward the need for the combination of different measures which will improve the employability of unemployed persons, their access to the job opportunities as well as toward the need for higher efficiency of labour market institutions.

1.3.4 Financial system

Croatia has a well developed banking system but still underdeveloped non banking intermediaries as well as capital markets. The size of the banking system measured by the share of its assets in GDP was about 119.4% of GDP at the end of 2006 with the level of credits to domestic sectors amounting to 75.8% of GDP. On the other hand, the size of non-banking intermediaries (measured by net assets of pension funds, open end investment funds and insurance companies) was estimated to reach around 20 percent of GDP while turnover at the Zagreb stock exchange amounted to 18.3% of GDP in 2006. Non-banking intermediaries as well as capital markets have recorded strong growth during last two years – equity index of Zagreb stock exchange CROBEX grew 60.7% during 2006 - and it is expected that there exists important room for their further development particularly in the equity market. The merger of the Zagreb and Varaždin Stock Exchange executed at the beginning of 2007 should result in the increased efficiency of capital market, economies of scale and further opportunities for the development of non-banking sector within the financial system.

1.3.5 Foreign direct investments

Regarding foreign direct investments in Croatia, during 2006 Croatia received 2.8 billion EUR. Some of the largest FDI transactions took place in the last quarter of 2006 (e.g. Initial public offering regarding 15% of INA stocks, recapitalisation of foreign owned banks). Overall inflow of FDIs in Croatia since mid 1990 until the end of 2006 reached 14.2 billion EUR or 3,206 EUR per capita. As shown in Figure 5, Croatia compares well toward new member states in FDI flows measured in per capita terms.



However, contrary to the new member states, FDI inflows in Croatia have been concentrated in few sectors. Just five industries have received more than 65% of overall amount of FDI inflows: financial intermediation 31.1%, telecommunications 13.5%, chemical industry 14.9%, manufacture of coke and refined petroleum products 4.7 percent gas and wholesale trade 4.1 percent of total FDI inflows. Uneven flow of FDI and dominance of brownfield investments underline the need for improvements in the business and investment climate or generally the need for structural reforms which will increase the competitiveness of overall economy and its attractiveness for investors, in particular foreign investors.

1.4 ECONOMIC POLICY AND REFORM PROCESS

Brief socio economic analysis summarised above shows that Croatian economy is functioning in stable macroeconomic framework resulting from sustainable macroeconomic management performed in a manner suitable to market economy. However, long term sustainability of growth including the reduction in currently present macroeconomic risks, increase in competitiveness and faster reduction in income gap toward EU average, require more decisive structural and institutional reforms. Guided by such economic considerations and prospects for EU membership by the end of decade the Government of Croatia has adopted *Strategic Development Framework 2006-2013 (SDF)* as a main strategic document to guide the economic policy decision making and actions during the next seven years.

Instruments and actions defined in SDF are taken up by the *Pre-accession Economic Programme*, (drafted and submitted to European Commission every year), which on a three-year rolling basis gives a short inventory of the measures achieved so far, as well as the future three-year implementation agenda for the goals and actions indicated by the SDF, in the framework of structural reforms and macroeconomic policy.

In addition, *Economic and Fiscal Policy Guidelines* define key objectives, principles and directions of the Government's fiscal policy in the following three-year period.

The Strategic Development Framework 2006-2013, the Pre-accession Economic Programme and the Economic and Fiscal Policy Guidelines represent main pillars of economic policy making for the up-coming period in Croatia. They define the Croatian Government policy priorities, the sequencing of these priorities as well as measures for their implementation.

1.4.1 Strategic Development Framework 2006-2013 (SDF)

Strategic Development Framework 2006-2013 was approved by the Croatian Government in August 2006. The formal adoption of SDF followed after two rounds of public consultations with trade unions, non-governmental organizations, different associations of entrepreneurial sector and general public who had the opportunity to give their comments and suggestions.

SDF defines national economic goals and instruments for their implementation in the period between 2006 and 2013, with the overall aim to achieve economic growth through competitiveness and employment embedded in the modern state of social cohesion. Goals and instruments defined in the document are drafted in accordance with the determination of Croatia to become a full member of the EU and its obligations arising from this process.

The starting point of the Strategic Development Framework is that government driven growth is not sustainable in the long run; what is required is the strengthening of private sector, its competitiveness and its overall ability to become the main driver of the future economic growth. Since the economic growth should ultimately result in improved living standard for all the citizens, the elements of social inclusion and social justice are equally important for this process. These two pillars are integrated into the main strategic goal of Croatia – achievement of prosperity through the development of a competitive economy in a modern European welfare state.

In order to achieve this goal simultaneous and coordinated actions are required in 10 strategic areas. These strategic areas can be divided into three main groups which reflect their ability to influence growth and competitiveness. The first one refers to the completion of the transition process through comprehensive reform of judiciary and public service, i.e. building new role of government, strengthened entrepreneurial climate and decisive implementation of privatisation and restructuring. The first group of strategic areas focuses those problems that directly obstruct development, as their resolution is a precondition for an efficient use of available resources. These are called “the problems of uncompleted transition” because the analysis shows that Croatia has a developmental ‘reserve’ which is currently spent on unproductive subsidies to individual companies and inefficient administrative processes.

The second group of priority areas refers to the strengthening of development infrastructure i.e. education and efficient labour market, productive application of science and ICT in economy, further development of transport and energy infrastructure and last but not least social cohesion and justice. These are fundamentals of future growth and their effects on growth could be observed only after a certain period of time. However, the decisive actions toward the implementation of the measures identified in these areas are needed now, exactly because of the time lag needed to fuel the growth.

The third group of priority areas includes developmental links i.e. macroeconomic environment, efficient and integrated financial services and sustainable development visible through the constant care about environment, natural resources and regional development. These strategic areas by themselves can not be the sources of long-lasting growth, but sustainable growth is not possible without continued improvements in those strategic areas.

Seven of the above-mentioned strategic areas and related measures and instruments envisaged for their resolution are directly relevant for the SCF and more specifically components III and IV of the IPA programme. These areas are the following: new role of the government; entrepreneurial climate; efficient

labour and education; science and ICT; transport and energy infrastructure; spatial planning, protection of nature and environment, regional development, and social cohesion and justice.

1.4.2 Pre-Accession Economic Programme

Pre-accession Economic Programme (PEP) is a national strategic document, defining main economic policy guidelines on a three-year rolling basis. It sets the schedule for the implementation of measures necessary for the achievement of the goals set by the Strategic Development Framework 2006-2013 (SDF), in order to make Croatia developed and competitive economy in the context of its EU accession process. The document also follows Economic and Fiscal Policy Guidelines 2007-2009 defining fiscal space for the measures planned by the Government and the budget users. It is also aligned with the various documents defining Croatian economic relations with international community, with special focus on the obligations arising from the process of negotiations with the EU.

The latest PEP covering period between 2007 and 2009 was submitted to the European Commission in December 2006 resulting from work of various line ministries, government offices, Croatian National Bank, employers' association and trade unions. The document outlines macroeconomic and fiscal measures necessary to achieve reduction of external imbalances and further fiscal consolidation, and it also states the main structural reforms to be implemented in the following three years in order to result in the increased competitiveness and development.

Several of the above mentioned structural reform areas and associated measures are directly relevant for the SCF as well as components III and IV of the IPA programme. The following paragraphs give a short account of these areas.

The PEP identifies the ambition of the Government to continue its orientation towards development and improved competitiveness of national economy through privatization of public companies (primarily by means of capital markets) and further elimination of administrative barriers for business development. Apart from continuing with HITRO.HR and Administrative Guillotine incentives, which shall further simplify burdensome regulations. The Government is determined to continue with the education of entrepreneurs, boost cluster development, integrate SMEs and R&D institutions, and improve access to sources of SME financing through special credit-lines and venture capital.

Labour market reform shall stimulate employment by reducing mismatch between supply and demand on the labour market. The foreseen measures include continuous evaluation and refinement of active employment measures, strengthening institutional capacities of the employment policy delivery structures, as well as the creation of local partnerships between employers, education institutions, trade unions and other relevant stakeholders.

Reform of the education system is undertaken with the aim to create labour force that more adequately responds to labour market need. Measures include improvement of the outdated curricula, reduction of educational areas following with labour market analysis (VET in particular) and introduction of mandatory secondary education. Attention will be put to the implementation of Bologna process and the transfer of knowledge from education institutions and institutes to practical application in the production sector. Special focus will be put on the application of the life-long learning principles in education.

In the field of social cohesion, reform of social welfare and related social benefits should reduce the share of overall social welfare spending in the GDP, while the spending of social assistance benefits should increase and the whole system should become more beneficiary-oriented with improved quality and better social-benefits targeting.

When it comes to environmental policy measures, enforcement of various kinds of environment impact assessments should lead to the integration of environment protection principles into planning and implementation of sectoral policies. The upcoming three year period will witness the establishment of a comprehensive waste management system and strengthening of the integrated water management system, as well as continuous prevention of industrial contamination and use of dangerous substances.

Development of effective and fiscally sustainable public administration should be achieved through its rationalisation and simplification of administrative procedures. It is also planned to further expand *e-Croatia* –programme in order to improve public services for all citizens. These efforts, together with the continuous reform of judiciary and implementation of anti-corruption programmes, should lead to improved market entry and exit and enforcement of property and creditor rights.

1.4.3 Economic and Fiscal Policy Guidelines (2007-2009)

According the Economic and Fiscal Policy Guidelines, the key fiscal policy objectives in the period between 2007 and 2009 include reduction of budget deficit below 3% of GDP, stabilisation and further reduction of public debt to less than 60% of GDP, decrease of foreign debt to values around 80% of GDP and support to decisive implementation of structural reforms.

Due to improved budget management and strong fiscal adjustment (achieved on the revenue side through modernisation and strengthening of tax collection supported by institutional strengthening of tax administration, and on the expenditure side through improved control and spending of budget resources), Croatia should achieve further reduction of fiscal deficit⁴ from 2.8% of GDP in 2007 to 2.4% of GDP in 2009. According to ESA 95 methodology, net lending/borrowing will be reduced from 1.8% of GDP in 2007 to 1.5% of GDP in 2009. This should have a direct impact on the reduction of public debt from 45.9% of GDP in 2007 to 43.8% of GDP in 2009. Such results should be brought about through an increased institutional capacity for public debt management and the continuing government's orientation to finance its needs primarily on the domestic market and in domestic currency, thus, supporting the growth of domestic capital market and reducing the exchange rate risk exposure of the public debt. The role of the capital revenue (from privatisation and sale of non-financial assets) in financing government's needs should gradually decrease. Reduced fiscal deficit together with borrowing on the domestic market should also contribute to the reduction of the external debt from 84.1% of GDP in 2007 to 82.5% of GDP in 2009. Moreover, reduced fiscal deficit should contribute to the reduction of pressure on the growth of the interest rates, thus, contributing to the improvement of the investment conditions for private sector, creation of new added value and sustainable economic growth. In order to support these objectives Economic and Fiscal Policy Guidelines also contain spending limits for all the budgetary users.

⁴ Calculated according to modified accrual principle of accounting, which actually represents deficit according to GFS 1986 methodology based on cash principle (apart from data for Croatian Motorways and Croatian Roads calculated on the basis of accrual principle). This level of deficit is much wider in coverage than deficit calculated on the basis of ESA 95 methodology.

2 COMMUNITY STRATEGIC FRAMEWORK

2.1 COUNCIL REGULATION (EC) 1085/2006 ESTABLISHING AN INSTRUMENT FOR PRE-ACCESSION

2.1.1 Setting an overall framework for pre-accession assistance

On 17 July 2006, the European Council adopted a Regulation Establishing the Instrument for Pre-Accession Assistance that sets the overall framework for assistance to candidate and potential candidate countries covered by the Regulation, and identifies general principles of assistance under each of its components. In general terms, the assistance supports the strengthening of democratic institutions and rule of law, protection of human rights, minority rights and gender equality, public administration reform, economic reform, development of civil society, social inclusion, confidence-building measures and reconstruction and regional/cross-border co-operation. Since Croatia belongs to the group of candidate countries, and taken into account that accession negotiations with Croatia have commenced, support under the Instrument for Pre-Accession Assistance shall in addition finance progressive alignment with the *acquis communautaire* and social, economic and territorial development, including the investment in the areas of regional and human resource development. The latter shall enable the beneficiary country to gain experience with Structural Funds-type and Cohesion Fund-type interventions, and prepare for the management of the EU Cohesion Policy on accession.

The general policy framework for assistance under the Council Regulation 1085/2006 is defined by the Accession Partnership, the Commission reports on the progress made in the process of preparing for the EU accession, and the Strategy Paper contained in the Enlargement Package. Within the general framework, assistance is provided through multi-annual or annual programmes that are aligned with the Commission Multi-Annual Indicative Planning Document and Multi-Annual Financial Framework. The Strategic Coherence Framework, and the related operational programmes for specific sector areas, take due account of the priorities and principles established in the Commission documents (see section 2.2).

2.1.2 Regional development component

According to the Council Regulation 1085/2006, the Regional Development component will provide support in the policy development and implementation of the Community's Cohesion Policy, more specifically the European Regional Development Fund and the Cohesion Fund. In this context, the priorities eligible for financing under IPA programme are regulated by Article 147 of the Commission Regulation implementing Council Regulation (EC) No 1085/2006 establishing IPA instrument. Implementation of actions defined under the above mentioned Regulation should support Croatia in gaining experience in Structural Funds type interventions which will be taken over and followed up by the actions supported by the European Regional Development Fund and the Cohesion Fund (as defined under Regulation No 1080/2006 of 5 July on the European Regional Development Fund; Regulation No 1084/2006 of 11 July 2006 establishing a Cohesion Fund) upon accession to the EU.

2.1.3 Human resources development component

The Human Resource Development component shall also support the beneficiary country in policy development as well as in preparation for the implementation and management of the Cohesion Policy, more specifically the European Social Fund. In this context, the priorities eligible for financing under IPA programme are regulated by Article 151 of the Commission Regulation implementing Council Regulation (EC) No 1085/2006 establishing IPA instrument. Implementation of actions defined under the above mentioned Regulation should support Croatia in gaining experience in Structural Funds type interventions which will be taken over and followed up by the actions supported by the European Social Fund (as defined under the Council Regulation No 1081/2006 of 5 July 2006), upon accession to the EU.

2.2 MULTI-ANNUAL INDICATIVE PLANNING DOCUMENT (MIPD)

2.2.1 Summary of key policy challenges under component III (current situation)

The key policy challenges under component III, Regional Development, are to stimulate growth in the areas with growth potential, to ensure a more balanced development of the national and regional territories, to build the infrastructure network for the integration into the EU Single Market and ensure for sustainable development and environment protection, in line with the *acquis communautaire*.

More specifically, the challenges identified for Croatia in the field of regional competitiveness include an improvement of the productive capacity of the regions lagging behind in their development, and ensuring an appropriate framework conducive to the growth of small and medium-sized enterprises. That would include addressing the issue of a relatively low level of entrepreneurial activity and education of entrepreneurs, inadequate level of cooperation between the business sector and academic community, lack of financial instruments adapted to the SME needs and insufficient institutional support for their development.

In the field of transport, the MIPD identifies as key problems lack of investment into the railway network that was significantly damaged during the war, poor condition of the inland waterway ports, lack of investment into the modernisation of airports (especially regarding the passenger, plane and cargo handling techniques) and uncompetitive position of the sea ports.

The main challenges in the environment sector are to improve the reliability of the water supply system, ensure adequate treatment of wastewater in line with the EU standards, improve waste management in order to avoid detrimental impact on environment, and in the long term prevent air pollution that may increase beyond the current levels as a consequence of combustion processes and traffic increase.

2.2.2 Summary of key policy challenges under component IV (current situation)

The problems that the MIPD identifies in the field of employment related to the negative trends in the demographic profile of Croatia (ageing of the population) and the subsequent burden on social security transfer and health care system, the problem of youth unemployment and long-term unemployment, wide regional differences on the labour market, insufficient flexibility of the labour force and slow privatisation/restructuring process. Dialogue with social partners is also emphasised as one of the key themes.

The key challenges in the education sector include the improvement of the higher education system (including the need to develop human resources for RTD), the prevention of high “drop-out” rate in tertiary education as well as a system of vocational education and training which better responds to labour market requirements. The creation of an all-encompassing adult education system also represents a key challenge.

In the social inclusion sector, the issues to be addressed include better targeting of social benefits to ensure that those most in need of such benefits actually receive them, reducing the poverty risk for the unemployed and economically inactive groups and the Roma population, with special focus on wide regional disparities, and promotion of better quality of social services to facilitate greater labour market access.

2.2.3 Major areas of intervention and main priorities under component III

The major area of intervention under the regional competitiveness sub-component is the SME sector. The MIPD foresees to support them through productive investment, support to the research and technological development and establishment of firmer links between science and economy (especially through the creation of the clusters of excellence between business and research institutions), promotion of advisory services to the SMEs, stronger application of e-business and ICT in the companies, support to networking and clustering.

The major areas of intervention in the field of environment include drinking water, wastewater and waste management. Investments shall be made into wastewater collection and treatment facilities, drinking water supply systems, establishment of waste management centres at county and/or regional levels (including municipal waste landfills, facilities for separation and waste treatment), as well as remediation of sites highly polluted by waste (hot spots).

The major areas of intervention in the transport field include the railway and inland waterway sector; as per MIPD, the infrastructure in those sectors shall be upgraded through the modernisation of the railway and inland waterway network in line with the European standards, primarily along the Pan-European corridors X and VII.

2.2.4 Major areas of intervention and main priorities under component IV

The major areas of intervention are those identified in the Community Strategic Guidelines 2007-2013: employment and social protection, adaptability of enterprises, human capital creation and administrative capacity building. The main priorities include:

- in the field of **employment** - active and preventive labour market measures, promotion of occupational and geographical mobility, reduction in regional disparities in employment, enhanced access to employment for vulnerable groups;
- in the field of the **adaptability of workers and enterprises** – investment in competencies and qualifications of workers and enterprises, development of more innovative forms of work organisation, further reinforcement of social dialogue bipartite mechanism;
- in the field of **human capital creation** – better quality of education and training systems to promote greater employability, promotion of research and innovation, improvement of VET system and good-quality provision of adult education;
- in the field of **administrative capacity** – reinforcement of institutional capacity and efficiency of public administration active in the employment, education and social field.

2.3 COMMUNITY STRATEGIC GUIDELINES (2007-2013)

2.3.1 The renewed Lisbon agenda

The Lisbon Strategy represents the European answer to the challenges of globalisation, demographic change and shortage of traditional energy resources. It starts from the presumption that the globalisation is both a challenge and an opportunity, for which Europe has significant competitive advantages, but needs to adapt to retain and utilise them in the most optimum way. It also takes into account the recent developments in the field of demographics, and the fact that on the one hand, the Europeans live longer and more people depend on pensions and health care, but on the other hand, low birth rates mean that there are fewer people to finance them. That implies that more working population is needed to make Europe more productive and to finance welfare states, and that the employment rate needs to be increased. Finally, the Strategy recognises the problem of tight energy supplies and reserves, and the fact that the energy use contributes to climate changes, which implies the need for more efficient and more sustainable energy use.

In order to respond to the stated challenges, the EU has on the basis of the Lisbon Strategy identified a series of guidelines that the EU member states incorporate into their national policies and their national reform programmes. The priorities are grouped in three sets of guidelines as follows:

Guideline A: Making Europe and its regions more attractive places to invest and work

1. Expand and improve transport infrastructures
2. Strengthen the synergies between environmental protection and growth
3. Address Europe's intensive use of traditional energy sources

Guideline B: Improving knowledge and innovation for growth

1. Increase and improve investment in RTD
2. Facilitate innovation and promote entrepreneurship
3. Promote the information society for all
4. Improve access to finance

Guideline C: More and better jobs

1. Attract and retain more people in employment and modernise social protection systems
2. Improve adaptability of workers and enterprises and the flexibility of the labour market
3. Increase investment in human capital through better education and skills
4. Improve administrative capacity
5. Help maintain a healthy labour force

Contrary to the EU member states, Croatia does not have an obligation to prepare the National Reform Programme and translate the specified guidelines into the priority actions (the preparation of such a programme represents an obligation after the membership). Croatia will, however, consider them in the present Strategic Coherence Framework and adapt the actions under Component III and Component IV of the SCF to the Community Guidelines. Due to the limited volume of assistance under IPA instrument, the priorities cannot respond to all the above guidelines and the principle of concentration will apply in the definition of the actions to be implemented.

2.3.2 Adapting the policy guidelines to component III

Component III of IPA and the associated operational programmes for transport and regional competitiveness will address the priority actions A1, B1, B2 and B3 of Section 2.3.1. The Transport Operational Programme aims at improving transport infrastructure in the railway and waterway sectors, to provide for a more balanced development of transport network in Croatia and its better integration into the Pan-European transport routes. The Regional Competitiveness Operational Programme will promote the development of SMEs, and especially their linkages with the RTD and the use of e-technology in their operation.

2.3.3 Adapting the policy guidelines to component IV

Component IV of IPA and the associated Human Resources Development Operational Programme is structured around the priority actions C1, C2, C3 and C4 of Section 2.3.1. The programme will include measures that support active employment measures, investment in human capital through improvement of the education systems and reinforcement of the administrative capacity of actors involved in the implementation of employment, social inclusion and education policies.

2.4 THE JOINT ASSESSMENT PAPER (COMPONENT IV)

2.4.1 Key employment and labour market objectives

Joint Assessment Paper of Employment Priorities (JAP) represents a basis for actions in the area of employment policy in line with EU Employment Strategy. The main purpose of the document is to provide a comprehensive analysis of the economic situation and developments, labour market situation, and the related employment policy objectives. The following paragraphs give a short overview of the indicative policy objectives relevant in the context of the Strategic Coherence Framework, as defined in the current version of the JAP.

Within the area of the **upper secondary education**, it is important to prolong compulsory education and to further increase the share of graduates for the reasons of stronger social cohesion. However, specific steps have to be taken to reform vocational and educational training to improve its responsiveness to the labour market demand. Although data on the adult education and training are missing, the estimated overall participation of adults seems to be relatively low. In this context, recently established institutions have to be further strengthened with the aim of developing models of adult education which would correspond to the needs of the individuals and the needs of the labour market.

In order for Croatian Employment Service (CES) to become more effective labour instrument responding to changing labour market requirements, it is necessary to improve its mediation performance and upgrade its role through its reorganisation. Moreover, it is important to ensure higher participation of the unemployed in the active labour market measures, which should be followed by the detailed evaluation of their effects. Finally, measures aimed at the increase in the number of higher education graduates as well as the enlargement of the service sector should contribute to the rise in the employment and earnings of women, and consequently support the reduction of disparities between genders.

2.4.2 National Action Plan for Employment (NAPE)

National Action Plan for Employment for 2005-2008 (NAPE) was adopted by the Croatian Government in December 2004. The NAPE was elaborated according to the guidelines of the European Employment Strategy and recommended measures under each of its guidelines, including both active and preventative measures. In March 2006 the Government adopted an Annual Plan for Employment Promotion for 2006, listing specific measures for the implementation of NAPE.

The measures in the NAPE are intended to promote employment and social inclusion through various forms of training which shall increase employability and integration of the unemployed into the labour market. In addition to training, NAPE also identifies measures that aim at the promotion of entrepreneurship and more favourable business environment.

Draft JAP draws on the following priorities established in the NAPE: setting up a clear and integrated system for working effectively with unemployed people throughout their period of unemployment, including back-to-work plans, additional monitoring and in-depth interviews with the employed; targeting active labour market measures towards the long-term unemployed and those in danger of becoming long-term unemployed; shifting secondary education system away from premature specialization in narrow vocational subjects towards a stronger foundation in generic skills for greater occupational choice and flexibility; reforming vocational training and education system so that it can incorporate agreed occupational standards and curricula, and can consequently meet the needs of the labour market.

2.4.3 Strengthening institutional capacity (CES)

The CES is a state-owned but independent public institution. It consists of the Central Office, a network of 22 regional and 94 local offices with altogether 1191 employees. The Governing Council of CES consists of representatives from trade unions, employers and Government. The CES provides mediation and selection service to the unemployed and employers, and vocational guidance and career counselling to different target groups - from pupils and students who complete their basic or secondary school education, to different groups of adults - the unemployed persons and job seekers, as well as the employers. It also provides statistical and analytical reports on various labour market issues.

As highlighted in the (draft) JAP, the CES should develop a more pro-active role in reducing skill mismatch at the labour market, improve the mediation performance as well as upgrade its general functioning. In order to do that, there is a need to decentralise and reorganise the CES, which has already started under the CARDS 2003 project. The CES plans to increase its administrative capacities during the pre-accession period (see Table 1 below).

In compliance with that, the CES must strengthen its support service and delivery to job seekers as well as to the unemployed and disadvantaged. Therefore, the CES should develop and provide tailored services designed to promote occupational and geographical mobility including better 'matching' of labour supply and demand down to local level. Such an approach should facilitate the development of more effective anticipatory mechanisms in addressing skills shortages while alleviating bottlenecks across the sector and/or occupations concerned.

Table 1: Plans for strengthening of CES in the period between 2007 and 2009

CES	CURRENT STATE	NUMBER OF EMPLOYEES TO BE EMPLOYED IN DEPARTMENTS FOR INTERNATIONAL PROJECTS			TOTAL
		2007	2008	2009	
Central Office	4	6	5	4	19
Local Offices Osijek, Rijeka, Split i Zagreb	1	-	3	4	8
Local Offices – other 18	-	-	8	10	18
TOTAL	5	6	16	18	45

2.5 THE JOINT MEMORANDUM ON SOCIAL INCLUSION OF THE REPUBLIC OF CROATIA (COMPONENT IV)

2.5.1 Key policy challenges in combating social exclusion

The Joint Memorandum on Social Inclusion of the Republic of Croatia (JIM), signed on behalf of the European Commission and the Croatian Government on 5 March 2007, is a document which provides an assessment of the current situation and specifies policy priorities and measures related to social inclusion. Based on JIM analyses the Government of the Republic of Croatia and the European Commission identified the key policy challenges in the fight against poverty and social exclusion. Selected examples relevant for this SCF are given below.

The first among the challenges identified is the development of an inclusive labour market and promotion of employment as a right and opportunity for all the citizens. Since the most important causes of poverty and social exclusion are unemployment and a relatively high rate of economic inactivity, which result from mismatch in labour supply and demand, the misbalance at the labour market has to be eliminated through an active labour market policy developed towards those who have lower employability prospects.

The reform of the educational system is one of the key preconditions for reduction of poverty and social exclusion. The reform should result in better pre-school education coverage, increased the ratio of children enrolled in primary and secondary schools, lower number of drop-outs, improved match between the educational programmes and labour market needs and increased percentage of population with high education.

There is also a need to rationalise social welfare funds in order to avoid multiplication and accumulation of rights, with a view to achieve more just distribution of resources and better targeting of social benefits. It is necessary to establish links between different social rights at national and sub-national level.

As poverty and social exclusion have a clear gender dimension, all the activities that target their reduction have to be accompanied by the measures promoting gender equality.

Eventually, the JIM stresses the importance of maximising the administrative capacity of the institutions and other actors responsible for the delivery of policies and measures in order to ensure effective implementation of the reform measures.

2.5.2 Strengthening institutional capacity and network of delivery structures

Croatia has various institutional bodies charged with defining and implementing policy measures connected with social inclusion. The most important of these are the Ministry of Health and Social Welfare, the Ministry of the Economy, Labour and Entrepreneurship, the Ministry of the Family, Veterans' Affairs and Intergenerational Solidarity, the Ministry of Justice and the Ministry of Science, Education and Sports. There is also an Economic and Social Council (an advisory body to the Croatian Government), a Governmental Office for Social Partnership, economic and social councils at county level, and the social partners are represented in three working bodies at the Croatian Parliament. The Government of the Republic of Croatia considers that participation in the open method of coordination on poverty and social exclusion to be a high priority upon accession to the EU.

An example of good network of delivery structures and enhanced institutional capacity in Croatia is a working group which was tasked with drafting Joint Memorandum on Social Inclusion of the Republic of Croatia (JIM). It consisted of line ministries, local bodies, civil society organisations, trade unions and employers' associations. After the adoption of the document, JIM Implementation Committee was established and tasked with monitoring the implementation of JIM, identifying problems and suggesting measures for their elimination. It consists of institutional stakeholders involved in the drafting of JIM i.e. relevant line ministries, local authorities, civil society organizations, labour unions and employers' associations. The Ministry of Health and Social Welfare performs the role of coordinator in this context. The preparation of JIM was based on a consultation process involving governmental institutions and bodies, NGOs, social partners, academic institutions, etc. The same approach will be applied in the envisaged training activities.

Since the end of the 1990s great attention has been given to the development of partnership between national/local authorities and civil society organizations. This becomes especially obvious through the establishment of the Government Office for NGOs, the National Foundation for Civil Society Development,

the Council for Civil Society Development and through changes which affect many laws regulating the role of civil society.

Future activities in the framework of strengthening institutions charged with defining and implementing social inclusion policies include, *inter alia*:

1. Strengthening the cooperation between NGOs and Government through inclusion of the NGOs in all phases of decision making;
2. Greater inclusion of local authorities into prevention and alleviation of poverty and social exclusion and the transfer of monitoring and evaluation of those measures from the state structures to the independent academic institutions;
3. Development of a new model of organisation for social welfare centres, based on the „one-stop-shop“ principle;
4. Establishment of mobile expert teams on the county level. Their task would be to provide the necessary to children and young people with special education needs as well as their teachers and parents;
5. Creating preconditions for the inclusion of the Roma representatives into the bodies of local and regional self-government;
6. Modification of successful service performance criteria, development of good practice standards, introduction of the professional ethics code for social service providers.

3 ANALYSIS OF THE SOCIO-ECONOMIC SITUATION

3.1 PRINCIPLES FOR CONCENTRATION OF ASSISTANCE

The limited volume of financial support available from the IPA programme requires careful consideration of priorities and their concentration on a specific set of areas. All the priorities identified in this SCF represent an intersection between the objectives identified in the national and Community strategic documents (please refer to Sections 1 and 2) and they were selected on the basis of their compliance with national and Community policies. Within that framework, the following concentration principles were observed:

1. The fact that IPA will primarily serve an important goal of **building operational capacity** for the management of Cohesion policy post-accession, and that maximum resources need to be allocated to reinforcing institutional capacity of the management structures and the preparation of project pipeline for the future;
2. The fact that IPA serves as an instrument through which candidate countries are assisted in the implementation of the *acquis communautaire* and that the interventions need to be closely aligned with the priorities from the Accession Partnership;
3. The urgency of the measures to be implemented, based on the socio-economic analysis in a given sector areas, and their ability to provide a platform for subsequent Structural Funds-type interventions.

3.1.1 Regional development (component III)

Assistance to the transport sector will concentrate on the modernisation of network along the Pan-European transport corridors. This will include the rehabilitation of the railway network on Corridor X and the inland waterway network on Corridor VII. The selection of priority areas of intervention is based on the needs analysis in the transport sector, which shows that the investments into the transport infrastructure have to be structured in such a manner that will allow for a more balanced development and inter-connectedness of individual types of transport, whereby special attention is to be attributed exactly to the railways and waterways. This objective that has been fully acknowledged by the Strategic Development Framework 2006-2013. It is also in line with the principles of the EU transport policy, which promotes the development of transport modes alternative to the road transport to provide for a more economical and environmentally friendly transportation of goods and passengers.

Activities in the environment sector will be directly related to the implementation of heavy-investment environmental *acquis* that shall prepare Croatia for accession to the EU. The priority sectors will include preservation of drinking water quality, wastewater treatment and solid waste management already identified as key sectors in the Strategic Development Framework 2006-2013 and the Accession Partnership with Croatia. In the second phase of the IPA operation, issues of energy efficiency and air quality may be considered, provided that the socio-economic analysis identifies them as priority sectors from the environmental point of view.

The regional competitiveness operational programme will, in line with the objectives identified in the Strategic Development Framework, support entrepreneurship as one of the key development factors of the country's economic development and promote business and investment climate to increase its impact on efficiency of economy. The programme will provide cohesion-type support to the underdeveloped areas of Croatia and competitiveness-type support on a more general scale in order to prepare for effective management and use of both types of Cohesion policy interventions (cohesion and competitiveness) upon accession. The cohesion part of this programme will concentrate on Croatia's two less developed NUTS II regions – East (Panonian) Croatia and Adriatic Croatia regions. Investment into infrastructure associated with SME development and promotion of the business and investment climate will be geographically concentrated on counties that have more than 50% of their surface area categorised as an Area of Special State Concern. In order to ensure continuity of EU assistance, the project pipeline which has been prepared

under previous EU programmes will be taken into account in the project selection process. In its competitiveness segment, the programme will support the wider competitiveness agenda in line with the Lisbon objectives, focusing on advisory services for enterprises, use of new technologies, links between the research & technological development and economy, and creation of platforms for networking of businesses.

3.1.2 Human resources development (component IV)

The Human Resources Development Operational Programme foresees a wide range of operations which should be implemented on a pilot basis and roll out into the future management of the European Social Fund. This will include interventions in the fields of employment, social cohesion, vocational education and training as well as preparatory actions in relation to the adaptability of workers and enterprises. Moreover, a common underlying theme will be a focus on improving the effectiveness of the labour market complemented (where appropriate) by a strengthening of the human capital potential for research and innovation. The focus on the capacity building is in line with the priorities identified in the Accession Partnership with Croatia and the Strategic Development Framework.

In addition, the maximum available financial resources under a given operational programme will be allocated to building administrative capacity for the OP management and preparation of project pipeline under the Technical Assistance Component of each programme. This is in recognition of the need to develop such capacity as quickly as possible.

Despite a limited volume of the IPA funding compared to the future Structural Funds allocations, all the above states interventions should in its own contribute to a more efficient operation within the relevant sector area. Such developments will in the long run certainly produce a wider economic impact, in that they would reduce the burden on the state budget and the volume of Government fiscal intervention in a given area. As the volume of the contribution to the sector from the state budget goes down, the overall share of the Government expenditure in the GDP will also decrease. This will indirectly result in reduced tax collection requirement, and equally so open the niche for the private sector development in a given sector area, which will consequently contribute to the GDP growth.

3.2 SOCIO-ECONOMIC ANALYSIS

3.2.1 Employment and Human Capital Development⁵

Croatia is facing considerable demographic changes similar to the ones observable in the European Union. According to the projections of the Central Bureau of Statistics, Croatian population could drop by 700.000 (16%) by 2050 under *ceteris paribus*. At the same time, the share of the old persons (over 64 years) in the total population could grow from 17% in 2005 to 27% in 2050, while the share of young people (15-24 years) could decrease from 13% to 10%. In the same period, working age population (15-64 years) could shrink by 780.000, if everything else unchanged. Sixteen Croatian counties have over 15% of their population in the oldest group age. The highest share is recorded in the County of Lika-Senj, followed by Karlovac, Šibenik-Knin and Sisak-Moslavina counties (see Annex 2, Table 4). The main cause of these demographic trends is the negative natural population growth (e.g. -2.1 in 2005 corresponding to -9,298). They are also illustrated by a low total fertility rate data (1.35). The balance of migration has become positive (more people are migrating to the country than out of it) in Croatia but this can not compensate for the negative natural population growth. Life expectancy for men is 72 years of age, and for women 79, which is slightly below the EU average.

⁵ The present section is possibly subject to revision in the light of the ongoing preparation of the JIM and JAP documents.

Croatian economy is characterised by a relatively low population participation in the labour market and a low employment rate. In 2006, the activity rate for the working age population (aged 15-64) was 62.6%. There is a notable gender difference in the activity rate, which was 56.9% for women and around 68.5% for men. The activity rate in Croatia is one of the lowest when compared with the EU-25 Member States. The relatively low activity rate can be attributed to a number of factors; the “discouraged worker” effect due to stagnant flows in the labour market, the traditional role of women in family life, the relatively strong practice of early retirement in the 1990s, and significant disability retirements after the war. In 2006, the employment rate for the population aged 15-64 was 55.4% (the EU-25 average is estimated to reach around 64.7%; see Annex 2, Table 5), while the rate for females was around 49.4% and for males 61.6%. The employment rate for older workers (50-64 years of age) was 45.2%.

Despite declining trend in unemployment (the total ILO unemployment rate fell to 11.2% in 2006 from 16.1% in 2000; see Annex 1, Table 1), labour market still demonstrates a relatively high unemployment rate, especially among particular groups of population such as young people and long-term unemployed. The unemployment rate of young people (between 15-24 years old) stood at 28.9% in 2006, which is significantly higher than EU-25 average (17.1% for 2006). Young people are evidently faced with entry barriers and/or skill mismatch that prevent them from productive inclusion into the labour market. Moreover, limited labour flows and weak job creation have resulted in relatively high rates of long-term unemployment. In 2006, almost 42.1% of unemployed persons were out of job for more than two years. Long-term unemployed are exposed to a high risk of social exclusion. Many of them are also social assistance beneficiaries. Such a situation calls for special measures targeted towards this group and more active employment services, as well as for better coordination between employment services and social care centres. Other groups with poor employment prospects are persons with low education and those lacking work experience, disabled persons, mothers with children, and the Roma population.

Part-time workers, as well as workers with temporary contracts make a relatively low percentage of persons in employment (10.1% and 12.4% in 2005, respectively, according to Eurostat) suggesting that these flexible forms of employment are still of limited use.

There are notable regional variations in unemployment rates⁶ (see Annex 2, Table 6), which are partially results of historical events (such as uneven exposure to war), but also of limited mobility of businesses and workers, and possibly of the lack of local initiatives. On one hand, the most developed counties have relatively low registered unemployment levels in comparison with the Croatian national average (19% at the end of March 2005)⁷: the County of Istria has 8.8% unemployment rate and the City of Zagreb 10.0%. On the other hand, other counties have high unemployment levels: e.g. County of Vukovar-Srijem (33.6%), County of Brod-Posavina (30.9%), County of Virovitica-Podravina (30.5%) and County of Sisak-Moslavina (30.4%)

Education attainment levels of the population are generally below EU standards. According to the 2001 census, 18.6% of the population aged over 15 has not completed primary school education and 21.8% have completed only primary school. Only 11.9% of the population have received education beyond the secondary-school level. Conversely, the percentage of the population aged 20 to 24 having completed at least secondary education was almost 93.8% in 2005, an attainment higher than in any EU country (see

⁶ The only available data in this context refer to administrative unemployment rate, which is not comparable to ILO data.

⁷ Administrative unemployment rate in Croatia for 2005 (end of period) amounted to 17.8% (source: Central Bureau of Statistics). However, Table 6 gives an overview of administrative unemployment rate in 2005 per every county together with national average (19%). The discrepancy between the two values is the result of the two facts: a) administrative unemployment rate in counties and the resulting average given in Table 6 refer to 31 March 2005 b) Individual farmers were not included in the calculations of labour force at the county level, while they were taken into account in the calculation of the labour force at the national level.

Annex 2, Table 5). Such a high attainment is not achieved in tertiary education in spite of the high enrolment rate (over 70% of those who completed secondary education) due to the long duration of studies and a high drop out rate. It is also calculated that capacities and financial resources for tertiary education are limited, while the demand is high.

No thorough expert analyses have yet been undertaken to examine the responsiveness of the education system to the labour market needs, but it is widely considered that a significant mismatch exists. Comparison of educational attainment between employed and unemployed persons indicates that labour demand is strongly in favour of post-secondary education, and that recent vocational secondary education and training (VET) provisions in Croatia do not fully respond to labour market demand, especially for shorter programs (1- to 3-year duration). More than 40% of the unemployed have actually completed short VET programmes (see Annex 2, Table 7). Regular VET education in Croatia consists of 438 programmes in 28 areas, where some programmes with the highest enrolment rates educate for occupations with the highest number of unemployed persons (commercialist, salesperson, waiter, cook, hairdresser, electrician). In August 2004 the authorities introduced new integrated syllabus for 56 crafts occupational programmes instigated by the business community and their perception of deficiencies in labour market demand.

Reforms to the legal regulation of the labour market were initiated in 2002 with the Employment Mediation Law and concluded by mid-2003 with a new Labour Law. The reforms were aimed at increasing the flexibility of the labour market. In the area of employment mediation, more active approaches were introduced as were more strict criteria for registering with the Employment Service, and acceptance or rejection of job offers. The Law also allowed for private employment agencies to be established. The new Labour Law concentrated on liberalizing restrictions regarding the dismissal of workers. The Law also introduced universal workers' participation in supervisory boards in firms employing more than 200 workers, instead of only those with significant public ownership. In spite of the new regulations in place, international comparisons show that Croatia still has a relatively high degree of employment protection enshrined in its legislation. On the other hand, it has been calculated that unemployment benefits in Croatia are not excessively high, since they are of low coverage, and of short duration, meaning that they are unlikely to create labour supply disincentives.

Formal education and training of adults takes place in public and private schools, popular learning facilities and private firms providing vocational education and training, courses in foreign languages, informatics, job-related trainings etc, although there are no comprehensive data on them. The levels of provision of adult education and training, especially the application of long-life learning principle, are still below those in the EU. Adult participation in education and training of 2.3% in 2005 (compared to 11% in EU) should be considerably increased if initial education mismatch with labour market requirements is to be remedied, and if negative productivity implication of ageing societies is to be overcome. Strategy for Adult Education was drafted in 2004, followed by more operational annual action plans. Legal and institutional basis for their implementation was created by the Adult Education Act and the establishment of Agency for Adult Education, set up in July 2006.

3.2.2 Regional Development and Competitiveness

In administrative terms, Croatia is organised into 21 counties, (the City of Zagreb has the dual status of a county and a city), another 126 cities and 429 municipalities. The current administrative division of the Republic of Croatia fulfils Eurostat's criteria regarding the collection of statistics at the NUTS I level (the Republic of Croatia), the NUTS II level (East or Panonian Croatia, Adriatic Croatia, North-Western Croatia)⁸, the NUTS III level (counties) and the LAU 2 level (municipalities and towns).

⁸ The division is in accordance with the Regulation (EC) No 1059/2003 of the European Parliament and of the Council of 26 May 2003 on the establishment of a common classification of territorial units for statistics (NUTS).

Although Croatia is a relatively small economy, there are significant socio-economic differences between counties (NUTS III level) in terms of demographic trends, economic activity and growth rates. Croatia is characterized by a significant concentration of population in a few macro-regional and regional centres. The highest population density is in the City of Zagreb, 7.5 times higher than the county which comes second (Međimurje), and 15.5 times higher than the Croatian average (78.4 inhabitants/km²). With the exception of the City of Zagreb, the ratio of population density between the least populated county (Lika-Senj) and the most populated county (Međimurje) is 1:16.2.

Data on the location of registered business entities for 2004⁹ show that economic activity is to a great extent based in major urban centres (Zagreb, Split and Rijeka) and their surrounding areas. Again, the lead is taken by the City of Zagreb whose share in the year 2004 amounted to 34.01%. At the other extreme is Lika-Senj County where this share was slightly higher than 6%. Fairly low presence of registered business activity has been also recorded in Virovitica-Podravina County and Požega-Slavonija County. As explained in Section 3.2.1, Croatia is characterized by significant differences in regional administrative unemployment rates, from County of Istria 8.8% to County of Vukovar-Srijem 33.6% (see Annex 2, Table 6).

In 2004 the most developed Croatian county had 3.2 times higher GDP per capita than the least developed one.¹⁰ The three most developed locations in terms of GDP per capita are the City of Zagreb, the County of Istria and the County of Lika-Senj (see Annex 2, Table 6). Beyond these, only the County of Primorje-Gorski Kotar has reached the GDP per capita level above the Croatian average. The least developed counties are Vukovar-Srijem and Slavonski Brod-Posavina, where the GDP per capita levels are less than 60% of the national average. According to Central Bureau of Statistics, in 2003 Croatian levels of GDP per capita (in PPP) compared to the average GDP per capita in EU 25 ranged from 82% in the City of Zagreb to 26% in the counties of Vukovar-Srijem and Brod-Posavina.

The above mentioned differences among regions are due, *inter alia*, to geographic characteristics, the legacy of wide variations in socio-economic development at the time of independence in 1991 and the effects of the homeland war in the form of economic and social devastation of many parts of the country. The war had especially significant impact on the difference of GDP and unemployment levels amongst the counties (see Annex 2 – Tables 6 and 8). The areas lagging behind the national development average face the problems of poor basic infrastructure, mine contamination, lack of social and human capital caused by depopulation trends and long-term unemployment.

In order to address the above mentioned problems and disparities, it is important to secure increased growth and balanced development of counties. One of the key preconditions for this is the development of private sector. Nowadays, the majority of private companies in Croatia are small and medium enterprises (SMEs). Out of the total number of registered business entities in Croatia 99% are SMEs, which compares with EU-15 where SMEs account for 99.6% of the enterprises. Most SMEs are micro-enterprises and they have significant potential to contribute to increased competitiveness and employment over the coming years. In the period between 2002 and 2004, the number of entrepreneurs in Croatia has increased by almost 8%, while, in the same period, the number of employees in the entrepreneurial sector has increased by 6%, i.e. from 771.135 to 820.219 employees.¹¹ The sector's contribution to the GDP has been continuously increasing, up to some 44% by the end of 2005, while its contribution to export reached 60% of total exports.

⁹ Source: Croatian Financial Agency. The data cover the business entities which are subject to the profit tax, thus excluding a significant share of crafts and self-employed people.

¹⁰ Source: CBS (see Annex 2 – Table 6)

¹¹ The Accounting Act defines categories of companies belonging to SMEs in Croatia. This definition differs to the EU one in terms of max. revenues and assets values. In addition, whereas EU defines micro companies up to 10 employees, in Croatia the category of micro-enterprises is within small enterprises, providing their sufficient revenue and assets values, and thus increasing the total number of SMEs.

Despite those positive trends, SMEs in Croatia face many challenges. Some of the internal problems of the SME sector include insufficient entrepreneurship (especially in sectors with considerable growth potential, including technologically based entrepreneurship) and low levels of education among entrepreneurs. External problems faced by the SMEs include administrative barriers and underdevelopment of financial products specifically for the SMEs. The SME sector in general suffers from insufficient cooperation and networking, both with business and other institutions (for example the research and tertiary educational sectors). SMEs located in disadvantaged areas face additional problems such as lack of adequate communal and business support infrastructure, and insufficient number of programmes encouraging investments into the productive sector.

Croatian Government started a series of incentives with a view to tackling some of these challenges. Business-related services are currently provided by MELE and Croatian Agency for SMEs (HAMAG). Building entrepreneurial infrastructure also stays as one of the top Government priorities in the SME sector. Currently, the entrepreneurial infrastructure comprises 27 business centres, 16 business incubators and 6 regional development agencies. In addition, there are 15 economic free zones and 235 entrepreneurial zones, of which 140 are fully functioning. Furthermore, in 2005 MELE continued to support new and existing clusters.¹²

Essential part of supporting private sector and improving business climate is the creation of transparent and efficient institutional framework for business activities, where public administration primarily serves the interests of entrepreneurs and citizens. Consequently, in summer 2006 the Croatian Government has launched a project called "Regulatory Guillotine" (HITROrez) in order to remove unnecessary and obsolete laws and regulations which represent obstacles to entrepreneurship. Furthermore, the Government has also undertaken an initiative (*e-Croatia 2007*) with the objective of transforming Croatia into a modern information society by simplifying administrative procedures and creating improved access for all citizens to public administration services. This initiative entails a series of activities including the launch of a one-stop-shop programme named HITRO.HR (launched in May 2005). Among electronic HITRO.HR services are the establishment of e-REGOS, e-Pension Registration, e-Cadastre, e-Nautica, e-VAT, e-CUSTOMS, e-Judiciary, e-Craft and e-Court Registry, services aimed to facilitate entrepreneurship (e.g. registering companies and conducting business activities) and communication with public administration by cutting red tape and reducing corruption.

In order to strengthen entrepreneurial sector and thus contribute to the enhanced growth and balanced development, it is essential to use modern technologies in business. An important part of this process is further development of the R&D sector. According to the Annual Competitiveness Report of Croatia 2002, Croatia came out 43rd (out of 80) in technology index, 50th in innovation sub-index and 52nd in its common research and technology position. Such data point to a significant underdevelopment of the country's R&D sector. The public sector thus employs 90% of all researchers, allocates almost 90% of total investments into science and research, whereas only 10% of the institutes' revenues and 6% of the faculties' revenues come from research done for the business sector. At the same time, the public sector invests mostly in isolation from the private sector, meaning that R&D is insufficiently related to market needs. Moreover, World Economic Forum Report ranks technology transfers from universities and research institutions to business particularly low in Croatia. Selected economic indicators for knowledge-based society are given in Annex 2, Table 9.

¹² It was done by providing finance and training for cluster managers, specifically in the field of shoe production, ICT, boat building, tourism and catering, and wood processing. In 2005, the programme „Common Product“ resulted in opening 10 clusters, including 186 companies with a total of 7,348 employees. Continuing that kind of support and building on the existing achievements is envisaged for 2007.

3.2.3 Environment

The general state of environment in Croatia is good compared to the situation in the EU, mainly due to the relatively low level of heavy industrial production over the past decades and its correspondingly low detrimental impact on the environment; however, level of environmental protection is also lower than in the developed EU countries. That especially relates to the waste and wastewater management, along with the establishment and maintenance of a sustainable water supply system.

The total amount of municipal waste produced in Croatia in 2005 is estimated at 1.45 mil. t (average 0.90kg/person/day or 327 kg/person/year). It is assessed that 66.5% of municipal waste refers to biodegradable waste. Most municipal waste is finally deposited in landfills. Quantity of municipal waste permanently increases, primarily due to increase of waste generation and insufficient level of biological and other types of treatment and recycling. In relation to the separation and recycling of waste, the state has been improved by adoption of new legislation for management of specific waste stream (packaging waste, waste tyres, waste oil, end-of-life vehicles, waste batteries and accumulators) in compliance with EU requirements and beginning of their implementation in 2006. The estimated quantity of construction waste amounts to 1,254,152 tonnes. Most of the construction waste is deposited on landfills, most often in an uncontrolled manner on dumpsites.

Little more than 50% of non-hazardous industrial waste generated is sent to licensed landfills or separated. Almost the same amount of waste is deposited in illegal dumpsites which are assessed at 3000. There are 281 controlled municipal waste landfills with an active capacity of 69 402 670 m³. However, only 25 are totally in compliance with relevant plans / legal provisions and have all necessary permits and they constitute only 37% of this active capacity¹³. The state has been significantly improved by remediation and closure of 229 municipal landfills initiated in 2004 and co-financed by the Environmental Protection and Energy Efficiency Fund. There is also an ongoing process of a gradual remediation of illegal dumpsites and sites highly polluted by waste (hot spots). Thermal treatment of individual waste types is carried out within determined industrial facilities and hospitals. There are currently no regulated sites for hazardous waste landfilling. Croatia has until now received support from the ISPA programme for the construction of the Regional Waste Management Centre at Bikarac, near Šibenik.

Croatia has relatively high quantities of good quality fresh water. According to the UN FAO database the renewable resources of freshwater per capita amount to 23.7 m³ which places Croatia 4th in Europe, after Iceland, Norway and the Netherlands (see Annex 2, Table 10). Approximately 76% of population has access to the public water supply system but this varies considerably from location to another; the number of connections is generally lower in central and eastern Croatia. There is also a problem in relation to the timing of demand for water particularly in tourist areas (i.e. the islands and coastal regions) during the summer. The main source of public water supply is groundwater (about 90%). Drinking water supply sources are protected through legally defined zones of sanitary protection. Those so far declared cover about 18% of the Croatian territory and include approximately 80% of waters used for public water supply. Due to age and lack of network maintenance the system has become very permeable resulting in losses of around 46% of the total abstracted water.

Only 12% of wastewater is treated, with as little as 4.4% undergoing biological treatment in 82 wastewater treatment plants. Regarding industrial wastewater, around 20% is being treated in independent industrial WWTPs and then discharged; around 50% is discharged into public sewerage after preliminary treatment that is not always at the level of municipal wastewater quality; and, 30% is being discharged directly with little or no pre-treatment.

¹³ Source: Cadastre of landfills, Final report, CEA, January 2005

Moreover, it is estimated that only 40% of the population is connected to the public sewage network, whose length is 6 000 km with 333 530 connections (data from 2002). The levels of connection to sewerage systems are in overall quite low, and they vary significantly depending on the size of settlement. The largest share of the population – 76% - connected to the sewerage system can be found in large towns (larger than 50 000 inhabitants with 29% of total population, whereas that percentage is almost negligible (about 5%) in settlements of under 2,000 inhabitants, despite the fact that 40% of the total Croatian population lives in such settlements. In view of the age of the sewerage systems in the cities it can be assumed that most of sewerage system is highly permeable. Croatia is currently using the ISPA funds to implement a project of water-supply and wastewater treatment in the town of Karlovac.

In relation to the air quality, so far 8 monitoring stations have been installed in industrial/urban areas as a part of state network for monitoring air-quality, while 108 measuring stations have been operating in 32 towns or settlements as a part of air quality monitoring network at local level. The major sources of atmospheric pollution are combustion processes in energy production, industry and transport. Croatia still has low emission levels of greenhouse gasses compared to the EU. Because of specific circumstances in Croatia regarding greenhouse gas (GHG) emissions before and after 1990 and the structure of the electricity generation sector within the former state, Croatia asked for flexibility under Article 4.6 of the UNFCCC. At the UNFCCC meeting in December 2005, an agreement was reached according to which Croatia would be allowed a certain degree of flexibility regarding the level of greenhouse gas emissions for the base year. In November 2006, at the 12th Conference of the parties to the UNFCCC, in Nairobi, the Decision was adopted allowing Croatia to add 3.5 Mt CO₂ eq to its 1990 level of greenhouse gas emissions for the purpose of establishing the level of emissions for the base year. Consequently, Croatian Parliament ratified the Kyoto Protocol on 27th April 2007.

3.2.4 Transport

The geographical shape of the Republic of Croatia and its territorial connection to the northern lowland transport routes as well as to the eastern coast of the Adriatic Sea represent major determinants of transport infrastructure for national development. The Republic of Croatia is highly significant for the establishment of proper links between the Western Europe and the Balkans, and for the connection between the Central Europe and the Adriatic Sea and the Mediterranean.

Transport infrastructure in Croatia includes 29,016 kilometres of roads, 2,720 kilometres of railway (out of which 2,465 km are railways with a single track, and only 254 are railways with double track), 8 sea ports, two of which are predominantly for freight transport and three predominantly for passengers, 7 airports and 2 airfields, 804.1 kilometres of inland waterways with 4 inland ports as well as 2 terminals for combined transport. Geographical position of the country is favourable. There are several Pan-European corridors running through Croatia (2 land corridors - X/Xa and Vb/Vc and one inland waterway corridor – VII and motorways of the sea).

Transport infrastructure in Croatia is unevenly developed; good-quality motorway network coexists with sub-optimal national, county and local roads. In 2005 Croatia had 24 km of motorways per 100,000 inhabitants, exceeding the EU-15 average (14 km of motorways per 100,000 inhabitants; see Annex 2, Table 11) due to considerable efforts to improve its motorway network. At the same time, only 35% of national roads have a good quality asphalt surface. Improvement work is currently under way on more than 400 km of sections which belong to the national road network. The total density of the road and motorway network is 51.32 km/100 km² and 1.88 km/100 km² respectively.

Although Croatia exceeds the EU average regarding the length of the railway network per 100,000 inhabitants (with 62 km of railway versus the EU-25's 45 km of railway; see Annex 2, Table 11), only 9% of Croatian railways have been fitted with double tracks, and only 36% of the total has been electrified. Lack of investment in modernisation of the system often leads to inappropriate travelling times. Infrastructure

modernisation can help create an efficient and environmentally friendly mode of transport, and at the same time make it commercially attractive. Specific EU-funded projects (Rehabilitation of railway section Vinkovci-Tovarnik-state border financed under ISPA programme) contribute to the modernization of the railway sector. There is a significant potential for the increase in urban and suburban railway sector in Croatia as well as in railway transport activities i.e. in 2005 railway transport made up only 12.7% of the total merchandise transport as opposed to road (with 52.1%) and sea transport (26.5%).

The most significant inland waterways in Croatia are the Danube waterway (137.5 km) and the Sava river (447.7 km). The main inland waterway ports are Osijek, Sisak, Slavonski Brod and Vukovar. Inland waterway resources are relatively underused in Croatia and the share of river transport in total goods transport amounts to just 0.4%. River ports suffered heavy damage during the war and their infrastructure is in a poor state, which in combination with low safety standards in some areas, does not provide for the quality services in the sector. Inland waterways might be used in combination with railway transport as an alternative to currently dominant road transport.

In the maritime sector, there are two main cargo ports in Croatia (Rijeka and Ploče), while Zadar, Split and Dubrovnik represent major passenger ports in the country. In spite of recent investments, port infrastructure and equipment are still below EU standards, although faced with increase in the volume of passenger and freight traffic illustrated by the rise in the overall maritime freight traffic from 17,810,035.50 t in 2001 to 26,177,340.0 t in 2005 as well as in the rise regarding the number of passengers using maritime transport from 16,108,165.00 to 22,077,270.00 in the same period. Development of tourism and economic growth in the neighbouring countries also contribute to the projected increase in the volume of passenger and freight traffic. According to Central Bureau of Statistics, in 2005 sea water and coastal transport accounted for 9.7% of passenger transport and 26.5% of goods transport.

Regarding aviation sector, Croatia has several major airports such as Zagreb, Rijeka, Pula, Zadar, Split and Dubrovnik. Airports are limited companies owned by the state, county and cities acting as shareholders. Looking at the statistics regarding air transport it is possible to note a trend growth from 2,348,000 passengers in 2001 to 3,916,000 in 2005; as well as the increase from 8,997 t of goods transported via air in 2001 to 18,109 t in 2005. The analysis of the Croatian airports demonstrates a great lag behind EU standards, especially with respect to the handling procedures of passengers and cargo at arrival and departure. Moreover, airports currently operate according to existing safety standards, however they should be modernised and better equipped in order to be competitive at the international level. According to Central Bureau of Statistics, in 2005 air traffic accounted for 1.8% of passenger transport, and 0.005% of goods transport.

3.3 SWOT ANALYSIS

Strengths:	Weaknesses:
<p>Stable macroeconomic framework (low inflation and stable nominal exchange rate)</p> <p>Significant GDP growth rate and increasing productivity</p> <p>Well developed banking system</p> <p>Fiscal consolidation is progressing</p> <p>No significant disincentive effects from unemployment benefits or taxation</p> <p>Active Government policy on reducing administrative barriers for investment and entrepreneurship development</p> <p>Increasing number of entrepreneurs over the past years</p> <p>Preserved environment and nature, landscape diversity, as well as rich cultural and historical heritage</p> <p>Relatively high quantities of good quality fresh water</p> <p>Low emission levels of greenhouse gases</p> <p>Improving quality of waste management</p> <p>Improving quality of distribution infrastructure, especially highway network and telecommunication infrastructure</p> <p>Favourable geographical position of the country</p>	<p>High level of external debt and public debt</p> <p>Underdeveloped capital markets</p> <p>High unemployment rate combined with a high share of long-term unemployment (particularly among females) and a high level of youth unemployment</p> <p>Social exclusion of long-term unemployed</p> <p>Mismatch between labour market requirements and education system provisions</p> <p>Life-long education neglected as a part of education system, especially adult learning</p> <p>Unbalanced regional growth and development due to lack of basic infrastructure, as well as social and human capital in underdeveloped regions</p> <p>Aging population in general and strong depopulation trends in underdeveloped areas</p> <p>Low level of education among entrepreneurs</p> <p>Insufficient cooperation between the business sector and research institutions; lack of usage of IT technology in the business operations</p> <p>Insufficient level of environment protection</p> <p>Underdeveloped management of waste and waste water</p> <p>Insufficient financial resources for more efficient solution of waste management problems</p> <p>Levels of connection to the water supply and sewage network uneven; permeability of networks</p> <p>Poor railway infrastructure causing low commercial speed and delays</p> <p>Rolling stock in need of further modernisation</p> <p>Underutilised transport potential of inland waterways (poor infrastructure and uneven navigation standards)</p>
Opportunities:	Threats:
<p>Liberalised access to the EU market (SAA)</p> <p>Increased attractiveness of domestic market due to the EU accession</p> <p>Continuation of the stable growth pace</p> <p>EU integration process strengthens linkages to the European research and innovation area</p> <p>Vibrant SME sector with high potential to create new jobs</p> <p>Historical and natural characteristics provide long-term sustainable potential for tourism</p> <p>Encouraging trends regarding the development of energy efficiency</p> <p>Potential for use of renewable energy sources</p> <p>Croatia as important transit route traversed by two pan-European corridors/connection of Adriatic ports with great transport nodes</p> <p>Attracting external development financing in the form of FDI</p>	<p>Political instability in the region</p> <p>Growing regional disparities</p> <p>Aging population could lead to the productivity slowdown if life-long learning principles are not implemented swiftly</p> <p>External debt servicing may lead to confidence crisis</p> <p>High dependence on tourism revenue</p> <p>Rising oil prices and insecurity of gas supply</p> <p>High dependence of balance of payments on tourism revenues</p>

4 OBJECTIVES OF THE STRATEGIC COHERENCE FRAMEWORK

Within *the overall aim of ensuring that the relevant institutions of the Republic of Croatia achieve readiness for EU membership and develop institutional capacity and practical experience with the management of Structural Funds-type interventions*, the following objectives are proposed under IPA Components III & IV in Croatia.

1. To improve accessibility and promote the free movement of goods and persons within Croatia and between Croatia and the European Union by establishing a balanced transport network that meets international standards and is coherent with emerging European priorities in the field of transport.
2. To protect and improve Croatia's natural and living environment and environmental potential as a key element for future development, at the same time enhancing sustainability of energy systems especially by increasing energy efficiency and promoting renewable energy solutions.
3. To achieve higher competitiveness and a balanced regional development by encouraging research and technological development, small and medium-sized enterprises, development of the information society and e-Croatia, alongside with improving overall social and economic conditions in underdeveloped areas.
4. To create more and better jobs. More immediately, to attract and retain more people in employment by increasing human capital investment, reinforcing social inclusion and promoting adaptability of enterprises and workers.
5. To improve the capacity and efficiency of those Croatian public institutions that has responsibilities for the promotion of the four preceding objectives, at both the national and sub-national level.

The above priorities will be implemented by four Operational Programmes. The main priority axes under each of the Operational Programmes for the period 2007-2009 are listed below.

5 OPERATIONAL PROGRAMMES

5.1 THE REGIONAL COMPETITIVENESS OPERATIONAL PROGRAMME

Croatia is at a disadvantage on two levels in relation to "regional competitiveness": first, as a still relatively less developed economy within the European context; and, second, as a country wherein some regions are lagging behind the national average level of development. While it is proposed to concentrate IPA resources under this Operational Programme both geographically and sectorally, one cannot ignore either the support to Croatia's overall competitiveness in the wider European context or the need to ensure a balanced approach to socio-economic cohesion between the regions of Croatia. In addition, the Operational Programme needs to address support for OP management and for preparation of mature projects for both, IPA funds and the Structural Funds in the future.

Geographical concentration will be achieved through focusing on the ten counties that have more than 50% of their surface area categorised as an Area of Special State Concern. This approach is consistent with the existing Act on the Areas of Special State Concern, in line with the draft National Strategy for Regional Development and referred to in the Multi-Annual Indicative Programme. Moreover, all ten counties are within the two NUTS II regions whose GDP is below the national average (East /Panonian/ Croatia and Adriatic Croatia). It is envisaged to focus roughly half of the funding under the Operational Programme on these lagging areas. Priority Axis 1 will concentrate exclusively on these counties while Priority Axis 2 will aim to target a significant portion of funding on these counties. In these areas there is also a significant project pipeline developed (through previous EU assistance) which is eligible under IPA.

Priority Axis 1: Improving development potential of lagging regions

Measure 1a. Business-related infrastructure

The measure envisages support for establishing and improving public business-related infrastructure in ten counties which are least developed within the two NUTS II (East /Panonian/ and Adriatic) regions targeted by this Priority. The measure will operate as a grant scheme supporting regional and municipal authorities and institutions with the development of business-related support systems, i.e. capital and infrastructure investments as well as investments into the accompanying services. It will primarily support investment in the development of new and existing business and related infrastructure in support of the region's perspective economy branches. The component will focus on investments which improve the efficiency, capacity, quality and attractiveness of the business support infrastructure in question.

Measure 1b. Promotion of business and investment climate

In order to address the unequal distribution of investments within Croatia, the measure proposes to support county staff with gaining the skills and improving the information necessary for investment promotion. The measure envisages certification of professional regional structures that will enable regional authorities and other organizations relevant to local and regional economic development to match their investment requirements with regional strengths and opportunities. The measure will entail training, consultancy and other TA for a number of counties within the two NUTS II regions targeted by this Priority.

Measure 1c. Project preparation

This measure will support the preparation of project pipeline and support relevant institutions and potential beneficiaries in the preparation of tender documentation in the field of this and future Operational programmes. This includes the generation of project ideas and their elaboration into mature and high-quality proposals.

Priority Axis 2: Enhancing the competitiveness of Croatian economy

Measure 2a. Support services for existing enterprises

The measure focuses on services to existing SMEs, particularly those with potential for growth and export. Assistance will be extended in areas underpinning SME competitiveness – use of ICT in business (e-business), scope for clustering and enhancement of general business advisory skills and services. Assistance will target individual SMEs as well as the relevant institutional infrastructure in order to enhance the business services and make them more accessible to SMEs.

Measure 2b. Technology transfer and support services for knowledge-based start-ups

The measure will contribute to building technology transfer and commercialization capacities of higher education institutions and public research organizations in order to contribute to knowledge-based economic development. The measure will also reinforce clustering of SMEs and start-ups in high value added sectors and public research centres and universities. The measure envisages assistance through both grant schemes and single tenders.

Measure 2c. Project preparation

This measure will support the preparation of project pipeline and support relevant institutions and potential beneficiaries in the preparation of tender documentation in the field of this and future Operational programmes. This includes the generation of project ideas and their elaboration into mature and high-quality proposals.

Priority Axis 3: Technical assistance

Measure 3a. TA for OP management

The objective of this measure is to ensure efficient and effective OP management, and to develop the institutional capacity for managing and absorbing IPA and the future Structural Funds. The measure envisages several types of TA and training for the relevant national and regional level bodies: support to OP coordination and management including programming, project preparation, monitoring, information, evaluation, financial management and control; and aid to enhance the specification, collection and use of statistics, which will be necessary for effective monitoring and evaluation under IPA and, subsequently, the Structural Funds.

5.2 THE TRANSPORT OPERATIONAL PROGRAMME

Although it could benefit from further investment in infrastructure, the existing network of air and sea ports in Croatia provides good coverage of the national territory and is relatively well connected with the road network. While local roads require further development, the core highway system is rather well developed. For this reason, it has been decided to concentrate IPA assistance to the transport sector on helping to modernise the rail network and, later to also help develop the inland waterway system.

Priority Axis 1: Upgrading Croatia's rail transport system.

This priority axis will promote the rehabilitation and development of a railway network in Croatia to respond to the expected increase in demand for railway transport, especially on the Pan-European corridor X.

Measure 1a. Line up-grading and modernisation

The objective of this measure is to gradually increase and improve interoperability along Corridor X, in accordance with UIC standards and railway interoperability requirements based on Directive 2001/16/EC. This measure will encompass projects concerning permanent way, fixed structures, installations and equipment.

Measure 1b. Improvement of safety and efficiency of railway operations

This measure will improve the quality, reliability and efficiency of railway services along Corridor X. This will concern mainly signalling and communications improvements and adjustment to technical parameters of Trans-European network requirements.

Measure 1c. Project preparation

This measure will support the preparation of project pipeline and support relevant institutions and potential beneficiaries in the preparation of tender documentation in the field of this and future Operational programmes. This includes the generation of project ideas and their elaboration into mature and high-quality proposals with all the supporting technical documentation (such as feasibility studies, cost-benefit analyses, environmental impact assessments, technical design).

Priority Axis 2: Upgrading Croatia's inland waterway system.

Measure 2a. This priority axis will assist in the preparation of the infrastructure projects in the field of inland waterways, for the second multi-annual period of the Strategic Coherence Framework (2010-2013). The specific objective of this measure is to provide technical assistance to support the generation of a project pipeline in the field of inland waterways, for the second multi-annual period of the IPA programme and the Cohesion Fund on accession. This includes the generation of project ideas and their elaboration into mature and high-quality proposals with all the supporting technical documentation (such as feasibility studies, cost-benefit analyses, environmental impact assessments, technical design),

Priority Axis 3: Technical Assistance

Measure 3a. TA for OP management

The objective of this measure is to ensure efficient and effective OP management, and to develop the institutional capacity for managing and absorbing IPA and the future Structural Funds. The measure envisages several types of TA and training for the relevant national and regional level bodies: support to OP coordination and management including programming, project preparation, monitoring, information, evaluation, financial management and control; and aid to enhance the specification, collection and use of statistics, which will be necessary for effective monitoring and evaluation under IPA and, subsequently, the Structural Funds.

5.3 THE ENVIRONMENT PROTECTION OPERATIONAL PROGRAMME

It is proposed to concentrate IPA assistance from Component III for development of environmental protection infrastructure on two „investment-heavy“ areas related to the adoption of the *acquis* and in line with the medium-term priorities of the Accession Partnership. These two areas are: waste management infrastructure and water supply and waste-water treatment infrastructure. All investments in these areas should be in line with the National Waste Management Implementation Plan and the National Water Master Plan.

Priority Axis 1: Developing waste management infrastructure for establishing an integrated waste management system in Croatia

Measure 1a. Establishment of new waste management centres at county/ regional levels

The key element of new integrated waste management system which will fully conform to Croatian and EU environmental legislation governing the treatment and disposal of waste is the establishment of new waste management centres, which will be covered under this measure. The establishment of those centres *inter alia* includes: construction of new municipal landfills, facilities for separation of waste by categories and waste treatment with aim to reduce biological component of waste.

Measure 1b. Remediation of sites highly polluted by waste (hot spots)

In order to establish a new integrated waste management system which will fully conform to Croatian and EU environmental legislation, and in addition to the establishment of new waste centres, is it necessary to take care of the sites highly polluted by waste-hot spots, also named burdens from the past, which are a result of long-lasting period of inappropriate industrial waste management and which in some cases pose a threat to health and environment. This measure refers to the remediation and closure of such highly polluted locations (hot spots).

Measure 1c. Project preparation

This measure will support the preparation of project pipeline and support relevant institutions and potential beneficiaries in the preparation of tender documentation in the field of this and future Operational programmes. This includes the generation of project ideas and their elaboration into mature and high-quality proposals with all the supporting technical documentation (such as feasibility studies, cost-benefit analyses, environmental impact assessments, technical design).

Priority Axis 2: Protecting Croatia's water resources through improved water supply and integrated wastewater management systems

Measure 2a. Establishment of modern water supply systems and networks

This measure will contribute to the protection of water resources and provision of sufficient water of good quality through enhancement of the existing water supply system, protection of drinking water sources, rational use of water resources including reduction of losses, and improving the connectivity to the water-supply network.

Measure 2b. Construction of WWTP for domestic and industrial wastewaters and upgrading of sewerage network

Establishment of wastewater management system that is compliant with the EU requirements is a necessary prerequisite for protection of water resources. Therefore this measure will cover investments in the collection and treatment of wastewater i.e. construction of the wastewater treatment plants, construction of new sewerage networks and modernisation of the existing sewerage networks in order to reduce leakage.

Measure 2c. Project preparation

This measure will support the preparation of project pipeline and support relevant institutions and potential beneficiaries in the preparation of tender documentation in the field of this and future Operational programmes. This includes the generation of project ideas and their elaboration into mature and high-quality proposals with all the supporting technical documentation (such as feasibility studies, cost-benefit analyses, environmental impact assessments, technical design).

Priority Axis 3: Technical assistance

Measure 3a. TA for OP management

The objective of this measure is to ensure efficient and effective OP management, and to develop the institutional capacity for managing and absorbing IPA and the future Structural Funds. The measure envisages several types of TA and training for the relevant national and regional level bodies: support to OP coordination and management including programming, project preparation, monitoring, information, evaluation, financial management and control; and aid to enhance the specification, collection and use of statistics, which will be necessary for effective monitoring and evaluation under IPA and, subsequently, the Structural Funds.

5.4 THE HUMAN RESOURCES DEVELOPMENT OPERATIONAL PROGRAMME

It is proposed to concentrate IPA assistance from Component IV on the measures that will improve systems and administrative capacity in the field of employment, education and social inclusion as well as networking with partners from non-governmental sector in line with the medium-term priorities of the Accession Partnership.

Priority Axis 1 and Priority Axis 3, described hereunder, include both an "operational" as well as an institution-building measure. In addition to the four Priority Axes listed, an additional priority axis on *Improving adaptability of enterprises and workers* will be further developed during the latter stages of the programming process. In the intervening period, the development of adult learning as part of a more flexible approach to life-long learning (priority axis 3) will form a key element of strengthening overall adaptability and will be complemented by preparatory technical assistance and capacity building through Priority Axis 4.

For its part, Priority Axis 4 will focus exclusively on technical assistance for the preparation and delivery of the activities supported by this OP. Moreover, assistance with a longer term orientation towards preparation for the management and implementation of activities supported by the European Social Fund (as referred to under Article 147(2) of the IPA Implementing Regulation) will be financed through the more general institution-building activities supported under the first three Priority Axes.

Priority Axis 1 – Enhancing access to employment and labour market re-integration

In order to prevent unemployment and promote the reintegration of the unemployed, the public employment services will be assisted to provide targeted and efficient help for job seekers, including job brokering, guidance and counseling and specific active labour market schemes. Support will be provided to the state administration and other stakeholders to enhance the range and content of training and counseling services that they offer so that they better meet the particular demands of the Croatian economy.

Measure 1a. Supporting the design and implementation of active and preventative labour market policy. Assistance under this measure will be directly allocated to support and develop the active and preventative labour market programmes implemented by the public employment services in Croatia. These programmes should target both the unemployed and those facing the likelihood of unemployment. It will also promote the development of partnerships between public employment services, other public bodies, and representatives of business and labour and the community, and make use of these in the design and delivery of employment activities.

Measure 1b. Supporting the improvement of the effectiveness and quality of Croatia's public employment services.

Croatia's public employment services will need to be strengthened if they are to meet the challenges of EU accession. Although many elements of an effective policy framework are in place, both the Ministry of Economy, Labour and Entrepreneurship (MELE) and Croatian Employment Service (CES) need to acquire more professional capacity, in relation to: (i) accelerated harmonisation with EU labour legislation; (ii) absorption capacity of expected major influx of pre-ESF funds in Croatia's run-up to accession and corresponding effective regional structures who are able to monitor and evaluate relevant HRD measures; (iii) efficient implementation the National Reform Programmes and Integrated Annual Employment Action Plans. This measure will focus on supporting the further development of both the MELE and the CES (on both the national and local levels).

Priority Axis 2 – Reinforcing social inclusion of disadvantaged

Measure 2a. Supporting access to employment by disadvantaged groups.

Certain groups (such as young people, women and the disabled) experience particular difficulties in entering to the labour market and accessing employment. Supporting integration into the labour market by these groups requires: strengthening motivation to take part in education and employment programmes; and, providing psychological and social support services, and personal development and training programmes adjusted to individual needs. It demands the engagement of both employment and social services, in an integrated fashion, and one which is targeted on and customised to identified specific needs. Such an approach is best delivered in close partnership with local actors. In view of the significantly higher rate of youth unemployment in Croatia than in the EU-25 it is intended to have specific activities that are targeted exclusively on this problem and that build on both formal and informal learning experiences to develop personalised pathways to qualification and employment.

Measure 2b Supporting access to education by disadvantaged groups

This measure is intended to promote equal opportunities in education by the development and introduction of inclusive educational and teaching methods, and by promoting the elimination of segregation and

discriminatory practices. It should promote the educational success (by activities targeted on reducing school-failure and drop-outs) and also improve the labour-market prospects and social integration of, disadvantaged youth and youth with special educational needs.

Priority Axis 3 – Enhancing human capital and employability

This priority will support the establishment of closer links between the education sector and enterprises both in regard to equipping students with skills that will better prepare them for the world of work and to carrying out research that promotes economic and social development and is more likely to attract external funding support. It will improve the labour-market relevance of initial and vocational education and training. The implementation of long-life learning principles and practice will be supported and, within that context, assistance will be provided to support continuing education and training. A very important element of the support provided through this priority will be to assist the relevant Croatian authorities to establish standards and apply quality assurance in relation to many of the initiatives that have been taken in recent years (e.g. VET curricula and qualifications).

Measure 3a. Improving the content and delivery of vocational education and training for all age groups.

This measure is intended to develop Croatia's vocational education and training (VET) system to make it more flexible and responsive to labour market needs and to prepare people of all ages for employment and lifelong learning. It is intended to establish a core network of vocational education and training establishments that deliver new, high-quality curricula and are suitably equipped and to enable adults to acquire skills and competencies that enable them to better respond to labour market needs. It will build on the experience of previous EU assisted projects, the Act on Adult Education, as well as the National Strategy for Adult Education and its respective yearly action plans. The strengthening of the Croatian adult education system will proceed in co-ordination with the development of the Croatian National Qualification Framework. Insofar as polytechnics are the institutions that offer professional study programmes related to (adult) VET education, they may also be covered by this measure.

Measure 3b. Supporting the development of institutions and their partners responsible for the provision of vocational education and training, and adult education, in Croatia.

Providers of vocational education and training in Croatia will need to be strengthened if they are to meet the challenges of EU accession. Although many elements of an effective policy framework are in place, the Agency for Vocational Education and Training, Agency for Adult Education, the Education and Teacher Training Agency and the teaching establishments themselves all need to reinforce their institutional capacity.

Priority Axis 4 – Technical assistance

Measure 4a. Project preparation.

The measure will support the preparation of project pipeline and support relevant institutions and potential beneficiaries in the preparation of tender documentation in the field of this Operational Programme. This includes the generation of project ideas and their elaboration into mature and high-quality proposals with all the supporting technical documentation.

Measure 4b. Programme management and capacity-building

The objective of this measure is to ensure the efficient and effective management of this OP, and thus to develop the institutional capacity for managing and absorbing IPA. The measure envisages several types of TA and training for the relevant national and regional level bodies: support to OP coordination and management including programming, monitoring, information, evaluation, financial management and

control; and aid to enhance the specification, collection and use of statistics, which will be necessary for effective monitoring and evaluation under IPA and, subsequently, the Structural Funds.

6 PROPOSED INDICATIVE FINANCIAL BREAKDOWN OF THE FINANCIAL ALLOCATIONS BETWEEN THE UNDERLYING OPERATIONAL PROGRAMMES

The following distribution of is proposed under the Components III and IV of IPA programme:

YEAR	Total public	EU	National	IPA co-fin	For information	
-2007	eligible cost	IPA	public	rate	Private	IFI
	(x+y)	X	Y	x/(x+y)		
OP Regional Competitiveness	14,733,000	11,050,000	3,683,000	75%		
OP Transport	22,667,000	17,000,000	5,667,000	75%		
OP Environment Protection	22,667,000	17,000,000	5,667,000	75%		
OP Human Resource Development	13,385,000	11,377,000	2,008,000	85%		
TOTAL YEAR 2007	73,452,000	56,427,000	17,025,000	77%		
YEAR	Total public	EU	National	IPA co-fin	For information	
-2008	eligible cost	IPA	public	Rate	Private	IFI
	(x+y)	X	Y	x/(x+y)		
OP Regional Competitiveness	15,467,000	11,600,000	3,867,000	75%		
OP Transport	24,000,000	18,000,000	6,000,000	75%		
OP Environment Protection	24,000,000	18,000,000	6,000,000	75%		
OP Human Resource Development	14,941,000	12,700,000	2,241,000	85%		
TOTAL YEAR 2008	78,408,000	60,300,000	18,108,000	77%		
YEAR	Total public	EU	National	IPA co-fin	For information	
-2009	eligible cost	IPA	public	Rate	Private	IFI
	(x+y)	X	Y	x/(x+y)		
OP Regional Competitiveness	16,933,000	12,700,000	4,233,000	75%		
OP Transport	24,667,000	18,500,000	6,167,000	75%		
OP Environment Protection	24,667,000	18,500,000	6,167,000	75%		
OP Human Resource Development	16,706,000	14,200,000	2,506,000	85%		
TOTAL YEAR 2009	82,973,000	63,900,000	19,073,000	77%		
TOTAL YEARS 2007-2009	234,833,000	180,627,000	54,206,000	77%		

Expressed in euros

As regards the Regional Development component, without prejudice of the financial allocations to be proposed in future MIPD and MIFFs, the indicative balance between operational programmes during the period 2010-2013 will aim to respect the following ceilings: Regional Competitiveness (20-30%), Environment (35-40%) and Transport (35-40%).

7 COORDINATION

7.1 COORDINATION WITH OTHER NATIONAL PROGRAMMES (SUPPORTED BY INTERNATIONAL FINANCIAL INSTITUTIONS OR OTHER RELEVANT EXTERNAL ASSISTANCE)

Within its mandate as the National IPA Co-ordinator, the State Secretary of the Central Office for Development Strategy and Coordination of EU Funds, closely cooperates with the a) the Ministry of Finance in charge of cooperation with the international financing institutions and b) the Ministry of Foreign Affairs and European Integration responsible for coordination of bilateral donors.

The following international financing institutions are, among others, active in Croatia:

The International Bank for Reconstruction and Development (IBRD) finances interventions within the framework of its County Assistance Strategy (CAS) for Croatia. The areas highlighted in the CAS include post-privatisation restructuring in tourism, agribusiness, retail, construction and construction materials sectors; support to companies in improving their competitiveness domestically and in the region; promotion of private sector investments in infrastructure (private-public partnerships) and further improvements in the banking sector through structured finance products, leasing and cooperation with non-bank financial institutions.

A number of projects planned for the period 2007-2008 are relevant for IPA components III and IV:

1. *Neretva and Trebišnjica River Basin Management* that aims to improve water resources management at the basins of two rivers;
2. *Inland Waters*, a loan that would support the water and wastewater investments in the Sava-Drava Basin;
3. *Environment*, a loan to support administrative capacity building for environmental management and assist in building an environmental pipeline for EU funds;
4. *Agriculture Pollution Control*, a project that aims to reduce the discharge of nutrients into surface and groundwater in watershed that drains into the Danube River and Black Sea.

The priorities of the European Bank for Reconstruction and Development (EBRD) for Croatia, over the coming three years, include:

1. *Enterprise Sector* – assistance in privatisation and restructuring of sensitive industries (shipyards, heavy industry, tourism), equity finance to SMEs, promotion of investment opportunities in the Croatian regions that were affected by the war;
2. *Infrastructure and Environment* – support will focus on projects that promote energy efficiency, security and diversity of energy supply, and include support in the preparation of IPA projects;
3. *Financial Sector* – this priority includes SME finance facility, and support to leasing mechanisms. The EBRD shall also promote new products (such as securitisation) to assist banks in managing their balance sheets, and consider equity participation in the privatisation of state-owned postal bank and insurance company.

The activities of the European Investment Bank in Croatia have so far focused on the rehabilitation and construction of transport and energy infrastructure. Moreover, the Bank supports the development of small and medium enterprises through local financing institutions. In the medium term, transport infrastructure is likely to remain one of the key priorities of the Bank (motorways, railways, air and sea transport), while other important priority areas will include environmental sector (waste water treatment, incinerators, air quality, supply of the drinking water) and the health sector (hospitals).

The United Nations Development Programme for the period 2007-2011 focuses on several areas: fight against social exclusion through capacity building measures for the institutions active in the social sector

and assistance to socially vulnerable groups; financial support for the improvement of socio-economic conditions in the areas of special state concern and underdeveloped island areas; environment protection in the specific fields of climate change and biodiversity; economic competitiveness through promotion of corporate social responsibility; and justice and security through anti-corruption measures, control of small arms, justice reform and support to the State Election Commission.

The major value added of the Council of Europe Development Bank (CEB) is financing investments in what can generically be called the “social sectors”. In the period 2005-2009, the financial assistance provided by the CEB primarily focuses on refugee issues, health, education, social housing, Roma issues, historic and cultural heritage. In addition, the CEB finances environment protection projects and modernisation of rural areas through provision of local infrastructure networks.

The assistance provided by a number of bilateral donors in Croatia as a rule focuses on the priorities that are directly linked to Croatia’s EU accession process. It is usually provided in the form of small scale technical assistance in response to the Accession Partnership requirements, or those resulting from the screening and negotiations process.

A number of donors active in Croatia calls for strong coordination of interventions financed from various sources. Coordination between the EU-financed activities and those supported through the loans of international financing institutions is of major significance when it comes to large infrastructure projects.

The Croatian authorities will ensure that the interventions of different donors are coordinated all along the programme cycle. In the programming phase, both the CODEF and the Ministry of Finance will coordinate the preparation of strategies and projects financed EU and international financing institutions, in order to avoid duplication and achieve maximum synergies.

In the implementation phase, the representatives of the Ministry of Finance will be included in the IPA Monitoring Committees in case of those projects financed by the international financing institutions. CODEF representatives will participate in progress monitoring meetings organised by the Ministry of Finance for the projects financed through foreign loans and credits, as well as audit missions undertaken by the international financing institutions.

In case of any audit or evaluation mission organised by the European Commission for a specific projects, the Ministry of Finance representatives will be at the disposal to the auditors/evaluators if the latter consider that their contribution to the project assessment would be of value.

Co-ordination with bilateral donors will be ensures along the same lines, through the participation of CODEF members in the programming missions of bilateral donors and regular monthly meetings between the two institutions on a progress of specific project or programme. This will help avoid duplication of interventions and ensure better complementarity of different sources of external assistance.

It needs to be emphasised that the State Secretary of the CODEF permanently participates in the weekly Government meetings and has the mandate to propose the priorities to be financed from the EU-funded programmes to the respective Cabinet members, as well as to act as a mediator in case of any diverging sectoral views on the use of the EU assistance programmes. This part of her mandate shall have significant impact in the context of the overall aid coordination.

In addition, the State Secretary also performs the function of the Deputy Chief Negotiator for EU Accession, whereas the Sectoral Coordinator for Components III and IV is a member of the working group for preparation of negotiations for Chapter 22 (Regional Policy and Coordination of Structural Instruments). This

shall ensure a close coordination between the Community funding and the priorities identified in the course of negotiations on Croatia's accession to the European Union.

7.2 COORDINATION WITH OTHER IPA COMPONENTS

IPA Component I

Component I of the IPA programme primarily addresses the institution building needs and supports Croatia in meeting the criteria for EU accession. It focuses on the priorities identified in the Accession Partnership, screening reports and negotiations under specific chapters of the *Acquis*.

Since the Operational Programmes under this Strategic Coherence Framework are intended to finance the implementation of specific projects that shall prepare Croatia for the management of Structural and Cohesion Funds on accession, Component I will not be used for the same type of structural interventions with socio-economic impact. It may complement the preparations for the management of Cohesion instruments by supporting the capacity building needs of relevant institutional structures (future managing authorities, intermediate bodies, certifying authority, coordinating authority, audit authority). Component I will however not support direct management of Operational Programmes under this Strategic Coherence Framework, as this will be covered through their Technical Assistance priority axes.

IPA Component II

Component II of the IPA instrument supports programmes related to cross-border cooperation between the Croatian border regions and the neighbouring EU Member States, as well as the CBC programmes with potential candidate countries. It also supports Croatian participation in ERDF transnational and interregional programmes.

The CBC Adriatic programme, under which Croatia cooperates with coastal regions of Italy, Slovenia, Greece and (potential) candidate countries along the Adriatic coast, defines four priority areas. Priority 1 supports the development of Adriatic area through economic, social and institutional cooperation. Related measures include cooperation between businesses and higher education/research institutions, development of innovative enterprises and commercialisation of innovation, support to the creation and implementation of public policies as well as the creation of partnership networks in the area of social, labour and health policies. Priority 2 focuses on the protection of natural and cultural resources through the measures concentrating on the protection of natural and cultural heritage, development of renewable energy resources and improved competitiveness of tourist destinations. Priority 3 supports upgrading of transport, information and communication services through the measures focusing on improvement of harbour and airport facilities, creation of sustainable transport in urban areas and use of ICT in public administration. Priority 4 covers technical assistance.

The CBC programme with Hungary envisages three priority areas. Priority 1 refers to promotion of sustainable environment and tourism through measures such as responsible environmental planning and land usage, as well as creation of regional tourism plans, ecotourism infrastructure and tourism promotion activities in the Mura-Drava-Danube area. Priority 2 focuses on facilitation of cross-border socio-economic ties through measures that support business networking, promote labour market mobility, joint research and development efforts, development of educational cooperation, and organisation of cultural and sports events. Priority 3 covers technical assistance.

Draft programming document for the CBC cooperation with Slovenia defines three main priority areas. Priority 1 promotes economic and social growth through the measures that support the development of tourism and rural areas, as well as the development of entrepreneurship. Priority 2 relates to the sustainable

management of environment through the measures focused on the protection of natural resources and creation of cross-border networks for their preservation. Priority 3 covers technical assistance.

CBC initiatives between Croatia and potential candidate countries include cooperation with Bosnia and Herzegovina, Serbia and Montenegro. Joint programming documents are currently being drafted in a series of joint operative meetings between all the relevant stakeholders.

The programming documents for cross-border cooperation appear to be closely related to the four Operational Programmes covered by this Strategic Coherence Framework. Not only do they (together) potentially cover Croatia's whole national territory due to its geographical layout, but the measures that they support will often be very similar to those supported by RCOP and HRDOP in particular.

IPA Component V

Component V of the IPA programme supports Croatia in policy development and preparation for the implementation and management of the Community's Common Agricultural Policy.

Draft IPA-RD Programme gives the overview of three indicative priorities and related measures. Priority 1 focuses on the improvement of market efficiency and implementation of Community *acquis* (investment into the restructuring and upgrading of the agricultural holdings according to the Community standards, investment in the processing and marketing of agriculture and fishery products). Priority 2 supports preparatory actions for implementation of the agri-environmental measures and local rural development strategies. Priority 3 concentrates on the development of rural economy by means of (re)construction of local unclassified roads and fire prevention roads, sewage systems and heating plants, as well as support to rural tourism, traditional craft establishment, construction of processing plants for dairy and meat farms and use of renewable energy resources.

The risk of overlap with IPA Component V appears to be relatively small, as the main focus of IPARD priorities is on support to food production and rural development.

Coordination with IPA multi-beneficiary programmes

In the period between 2007 and 2009, € 401.4 million will be allocated through IPA Multi-Beneficiary Programmes to support beneficiary countries in the efforts towards EU accession, where there is a clear comparative advantage to be gained through multi-lateral cooperation in the region of the South-Eastern Europe and EU. Based on the consultations with various institutional stakeholders (i.e. national authorities, EC services, international financing institutions, civil society organisations etc.), following intervention areas were identified to complement intervention areas financed through national IPA programmes: (i) regional cooperation, (ii) infrastructure development, (iii) justice and home affairs, (iv) internal market, (v) public administration reform, (vi) support to civil society, (vii) education, youth and research, (viii) market economy, (ix) nuclear safety and radiation protection, (x) interim civilian administration and (xi) administration. Initiatives in the framework of the IPA multi-beneficiary programmes will be undertaken through joint projects tackling cross-border problems, achieving efficiencies through harmonised approaches, stimulating the implementation of established instruments or facilitating the work of expert groups.

Particular attention will be given to the coordination between all the five IPA components funded through national IPA programmes on the one side and the IPA multi-beneficiary programmes based on the Multi-Beneficiary Multi-Annual Indicative Planning Document on the other side. To ensure complementarity and avoid overlapping with national IPA programmes or overstraining of beneficiaries' absorption capacity, the programming and the implementation phase of the project cycle will be undertaken through regular

communication channels and events between relevant DG Enlargement Services, EC Delegations and National Authorities.

In the context of SCF, interventions in the area of human resource development under national IPA programme will be closely coordinated with the activities undertaken under the Tempus IV programme (funded through Multi-Beneficiary IPA Programme), which supports the reform and modernisation of higher education in the countries of the South Eastern Europe. In this way, complementarity will be achieved and synergies can be created. The same degree of attention will be paid to the coordination between national and multi-beneficiary IPA programmes in the area of infrastructure development.

Means of coordination

Coordination of activities among different IPA components will be ensured through the function of National IPA Coordinator who bears the overall responsibility for the coordination of IPA programme in Croatia.

The National IPA Coordinator is assisted in the performance of her task by the staff of the Central Office for Development Strategies and Coordination of EU Funds, where individual task managers bear sectoral responsibilities and are accountable for coordination of projects from different components of the IPA programme within the area of their sectoral expertise.

In addition, due care will be taken to include the representatives of CODEF and state institutions responsible for the management of specific a Operational Programme under this Strategic Coherence Framework in those monitoring committees where there is a potential for any overlap with the interventions funded from another IPA component.

7.3 CROSS-CUTTING THEMES

As preparation for the eventual management of Structural & Cohesion Funds, the programming and implementation of IPA Components III and IV in Croatia will embody the guiding principles followed by the European Union, including those related to the following cross-cutting themes:

- Partnership with civil society – Croatia will prepare, implement, monitor and evaluate its Operational Programmes through a partnership of appropriate public authorities at the national, regional and local levels with economic, social & environmental partners, and representatives of civil society, non-governmental organisations (NGOs), and bodies responsible for promoting equality between men and women.
- Equality and non-discrimination – Croatia will ensure that equality and the gender perspective is promoted and integrated into the various stages of programme implementation, where appropriate, and will take the necessary steps to prevent any discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation, including taking account of accessibility for disabled persons in defining and selecting operations
- Sustainable development – the programming and implementation of IPA funds will pursue the goal of sustainable development and protecting and improving the environment, including requirements for Environmental Impact Assessments where appropriate.

ANNEX 1 – BASIC MACROECONOMIC INDICATORS FOR CROATIA

Table 1: Basic macroeconomic indicators for Croatia

	2000	2001	2002	2003	2004	2005	2006
Gross domestic product, % annual change (real)	2.9	4.4	5.6	5.3	4.3	4.3	4.8
Gross domestic product, market prices (current), mln kunas	152,519	165,639	181,231	198,422	214,983	231,349	250,590
Gross domestic product, market prices (current)*, mln euros	19,976	22,170	24,467	26,230	28,677	31,260	34,220
Gross domestic product per capita in euros	4,560	4,997	5,507	5,905	6,460	7,037	7,704
Consumer price index, annual change, %	4.6	3.8	1.7	1.8	2.1	3.3	3.2
Average net monthly salary (in kunas)	3,326	3,541	3,720	3,940	4,173	4,376	4,603
ILO Unemployment rate, annual average, %	16.1	15.8	14.8	14.3	13.8	12.7	11.2
General government debt % GDP (ep)	-	-	40.0	41.0	43.2	43.7	40.8
Average exchange rate EUR/HRK	7.63	7.47	7.41	7.56	7.50	7.40	7.32
Current account deficit (% of GDP) ^e	-2.4	-3.7	-8.6	-7.1	-4.9	-6.3	-7.6
External debt (% of GDP) (ep)	60.6	60.7	61.5	75.5	79.4	81.7	84.8
Tourist nights, annual change, %	47.0	11.0	3.0	4.0	2.0	7.6	3.1
Growth rate of construction works	9.1	3.6	12.8	22.8	2.0	-0.8	9.3
Industrial production, annual change, %	1.7	6.0	5.4	4.1	3.7	5.1	4.5
Retail trade, annual change (real), %	14.4	10.0	12.5	3.7	2.6	2.8	2.1

Sources: Central Bureau of Statistics
Ministry of Finance
Croatian National Bank

ep - end period

* Calculated by applying the average annual exchange rate (HRK/1 EUR) to the GDP in kuna terms.

ANNEX 2 – CONTEXT INDICATORS

Table 2: Structure of gross value added per economic sector

Year	Primary sector (% of GVA)	Secondary (% of GVA)	Tertiary (% of GVA)
2000	9.1	25.5	65.4
2001	9.3	25.2	65.5
2002	9.0	23.8	67.2
2003	7.3	23.7	69.0
2004	7.8	24.3	67.9
2005	7.6	24.8	67.6
2006	7.4	24.5	68.1

Source: Central Bureau of Statistics

Note: The economic activities have been separated according to NACE Classification of Economic Activities in the EU into a) the primary sector (activities A and B); b) the secondary sector (activities C, D and E); and the tertiary sector, consisting of public sector (activities L, M and N) and other service sector (activities F, G, H, I, J, K, O and P):

Primary sector: A – Agriculture, hunting, forestry
B – Fishing

Secondary sector: C – Mining and quarrying
D – Manufacturing
E – Electricity, gas and water supply

Tertiary sector: F – Construction
G – Wholesale and retail trade; repair of motor vehicles, motorcycles, personal and household goods
H – Hotels and restaurants
I – Transport, storage and communication
J – Financial intermediation
K – Real estate, renting and business activities
L – Public administration and defence; compulsory social security
M – Education
N – Health and social work
O – Other community, social and personal services activities
P – Activities of households

Table 3: Structure of gross value added per economic sector, by the NKD¹ 2002, and gross domestic product, at current prices (in million kunas)

Year	Agriculture, hunting, forestry and fishing A, B	Mining, quarrying, manufacturing, electricity, gas and water supply C, D, E	Construction F	Wholesale and retail trade, repair of motor vehicles, motorcycles, personal and household goods G	Hotels and restaurants H	Transport, storage and communication I	Financial intermediation, real estate, renting and business activities J, K	Public administration and defence, compulsory social security, education, health and social work, other community, social and personal activities, private households with employed persons L, M, N, O, P	FISIM	Gross value added (basic prices)	Taxes on products less subsidies on products	GDP (market prices)
2000	11,240	31,539	5,876	13,160	4,217	12,425	18,863	30,340	-3,991	123,669	28,550	152,519
2001	12,482	33,858	6,832	15,955	4,761	13,821	21,260	30,090	-4,779	134,281	31,358	165,639
2002	13,293	35,195	8,094	19,792	5,529	14,991	24,351	32,032	-5,503	147,774	33,457	181,231
2003	11,880	38,607	10,621	23,319	6,389	16,248	28,673	33,601	-6,472	162,866	35,556	198,422
2004	13,992	43,402	12,246	23,178	6,668	18,616	31,862	35,843	-6,990	178,815	36,168	214,983
2005	14,650	47,798	13,036	24,954	7,316	20,100	35,023	37,785	-7,945	192,718	38,631	231,349
2006	15,603	51,420	14,900	26,707	7,954	22,015	39,996	40,336	-9,277	209,653	40,937	250,590

Source: Central Bureau of Statistics

¹ NKD stands for Nacionalna klasifikacija djelatnosti; it represents standardised national classification of various economic activities, done for statistical purposes; and in conformity with NACE Classification. For additional methodological explanation please refer to Table 2.

Table 4: Demographic structure on the country level

County	Children % (0-14)	Labour force % (F 15-59, M 15-64)	Senior population % (F above 60, M above 65)
County of Zagreb	17.5	65.7	16.9
County of Krapina-Zagorje	17.1	63.1	19.8
County of Sisak-Moslavina	16.2	62.0	21.8
County of Karlovac	14.6	61.7	23.8
County of Varaždin	17.3	64.2	18.5
County of Koprivnica-Križevci	17.0	63.2	19.8
County of Bjelovar-Bilogora	17.2	62.0	20.8
County of Primorje-Gorski Kotar	14.1	66.3	19.6
County of Lika-Senj	15.4	57.8	26.8
County of Virovitica-Podravina	18.3	62.3	19.5
County of Požega-Slavonia	19.8	60.9	19.2
County of Brod-Posavina	19.8	61.8	18.4
County of Zadar	18.3	62.9	18.8
County of Osijek-Baranja	17.8	64.0	18.2
County of Šibenik-Knin	16.9	59.9	23.2
County of Vukovar-Srijem	19.3	63.0	17.7
County of Split-Dalmatia	18.5	64.2	17.2
County of Istria	15.2	65.9	19.0
County of Dubrovnik-Neretva	18.4	62.6	19.0
County of Međimurje	18.6	64.9	16.5
City of Zagreb	15.8	66.1	18.1
TOTAL	17.1	64.0	18.9

Source: Central Bureau of Statistics (Census 2001)

Table 5: Economic indicators for employment and education

	Total employment rate (% of the labour force) (2005)	Total unemployment rate (as % of labour force) (2005) ¹	Employment in knowledge-intensive service sectors (% of total employment) (2005)	Unemployment rate of population aged less than 25 years, annual average (%) (2005) ²	Total population (aged 25-64) having completed at least upper secondary education (2005)	Percentage of population (aged 20 – 24) having completed at least upper secondary education (2005)	Total public expenditure on education as a % of GDP (2003)
EU 25	63.8	8.8	5.55 ^(e)	18.5	69.1	77.5	5.21
EU 15	65.2	7.9	5.60 ^(e)	16.7	66.2	74.6	5.20
Croatia	55.0	12.7	3.29	32.6	72.8	93.8	4.53
Slovenia	66.0	6.5	8.43	15.9	80.3	90.5	6.02
Slovakia	57.7	16.3	7.65	30.1	87.9	91.8	4.34
Hungary	56.9	7.2	5.76	19.4	76.4	83.4	5.85
Bulgaria	55.8	10.1	4.20	22.3	72.5	76.5	4.24
Romania	57.6	7.2	5.10	20.2	73.1	76.0	3.44

Source: Eurostat

¹ Source: Eurostat, for Croatia: Central Bureau of Statistics

² Unemployment rates represent unemployed persons as percentage of the labour force.

The labour force is the total number of people employed and unemployed.

Source: Eurostat, for Croatia: Central Bureau of Statistics

^(e) Eurostat estimate

Table 6: Economic indicators on the county level

County	GDP per capita in current prices, 2004 (RoC=100)	Administrative unemployment rate (%) (end March 2005)
County of Zagreb	74.8	15.4
County of Krapina-Zagorje	68.5	14.9
County of Sisak-Moslavina	74.5	30.4
County of Karlovac	73.9	27.2
County of Varaždin	85.7	15.0
County of Koprivnica-Križevci	90.6	18.5
County of Bjelovar-Bilogora	74.0	26.1
County of Primorje-Gorski Kotar	113.7	14.6
County of Lika-Senj	126.9	22.5
County of Virovitica-Podravina	72.8	30.5
County of Požega-Slavonia	71.1	21.8
County of Brod-Posavina	58.2	30.9
County of Zadar	78.7	22.4
County of Osijek-Baranja	76.9	28.0
County of Šibenik-Knin	71.8	28.8
County of Vukovar-Srijem	56.8	33.6
County of Split-Dalmatia	79.3	23.7
County of Istria	136.9	8.8
County of Dubrovnik-Neretva	94.5	20.0
County of Međimurje	77.7	17.0
City of Zagreb	180.5	10.0
TOTAL	100.0	19.0

Source: Central Bureau of Statistics, Croatian Employment Service

Table 7: Composition of labour force by educational attainment, 2006

Educational Attainment	Employed	Unemployed
	<i>in % of total</i>	
Unfinished primary school	3.9	3.3
Primary school (8 years)	15.1	17.9
1 to 3-year vocational secondary school	32.6	38.1
4-year vocational secondary school	25.9	26.8
General secondary school	3.4	4.2
2-year non university degree	7.0	4.2
University and postgraduate degree	12.2	5.6

Source: Central Bureau of Statistics (Labour Force Survey in Croatia, first semester, 2006)

Table 8: Infrastructure indicators on the county level

County	Population/ km roads	Density of road network in km/km ²	Total water supply per capita (m ³ /capita)	Waste water from public sewage system (m ³ /inhab.)	Number of inhab. per one telephone connection
County of Zagreb	160.4	0.6	59.5	113.3	3.9
County of Krapina-Zagorje	151.2	0.8	32.9	10.7	3.1
County of Sisak-Moslavina	90.7	0.5	43.7	34.8	3.2
County of Karlovac	86.6	0.4	50.5	34.0	2.9
County of Varaždin	166.0	0.9	59.3	54.8	3.1
County of Koprivnica-Križevci	112.9	0.6	38.6	52.2	3.1
County of Bjelovar-Bilogora	90.7	0.5	25.4	26.4	3.1
County of Primorje-Gorski Kotar	199.1	0.4	110.3	75.0	2.1
County of Lika-Senj	28.3	0.3	93.8	18.3	2.4
County of Virovitica-Podravina	102.4	0.4	34.7	26.0	3.2
County of Požega-Slavonia	116.6	0.4	37.3	30.0	3.3
County of Brod-Posavina	192.0	0.4	29.1	23.2	3.2
County of Zadar	95.9	0.5	74.2	34.5	2.4
County of Osijek-Baranja	200.0	0.4	43.6	37.3	3.0
County of Šibenik-Knin	92.7	0.4	80.2	38.1	2.5
County of Vukovar-Srijem	195.7	0.4	39.3	18.4	3.5
County of Split-Dalmatia	185.2	0.5	93.8	63.7	2.6
County of Istria	110.8	0.7	121.1	52.8	2.2
County of Dubrovnik-Neretva	124.9	0.5	89.7	32.9	2.5
County of Međimurje	212.9	0.7	39.9	16.0	3.3
City of Zagreb	1039.2	1.2	105.5	112.5	2.1
CROATIA	155.8	0.5	71.7	-	2.7

Source: Central Bureau of Statistics

Table 9: Economic indicators for knowledge-based society

	Share of individuals regularly using the Internet (2005) ^{1,2}	Level of Internet access-% of households (2005) ^{2,3}	Domestic ICT market value (in million €) per capita (# per million) (2004) ⁴	EPO Patent applications per million inhabitants (2003)	Gross domestic expenditure on R&D (GERD) as a % of GDP (2004)
EU 25	43	48	1,316.0	136.114	1.85 ^(e)
EU 15	46	53	1,490.4	160.65	1.91 ^(e)
Croatia	35	44	109.4	18.185	1.22
Slovenia	40	48	681.2	50.43	1.45
Slovakia	43	23	425.6	8.137	0.51
Hungary	34	22	588.0	18.892	0.88
Bulgaria	13	10	225.2	4.306	0.51
Romania	10	6	175.3	1.172	0.39

Source: Eurostat

¹ Source: Eurostat, BMI Research, IDC Adriatics (October 2006), percentage of individuals who accessed the Internet, on average at least once a week

² Indicator for Bulgaria and Romania taken from Eurostat for year 2004

³ Source: Eurostat, GFK (Centre for Market Research), IDC Adriatics (October 2006)

⁴ Source: EITO, 2006

^(e) Eurostat estimate

Table 10: Economic indicators for environmental protection

	Water resources: total renewable per capita (actual) (000 m ³ /inhab/yr) (1998-2002) (mean) ¹	Total greenhouse gas emissions (2004) ³	Emissions of carbon monoxide (1000 t) per capita (# per million) (2003)	Emissions of acidifying pollutants-acid equivalent (1000 t) per capita (# per million) (2003)	Municipal waste generated kg/person (2005)	Energy intensity of the economy (2004) ²
EU 25	7.13	92.7	69.80	1.55	526	204.89
EU 15	7.10	99.1	67.90	1.47	567	187.48
Croatia	23.77	94.6	69.46	1.48	504 ^{(e),4}	436.79
Slovenia	16.05	99.2	40.46	2.20	423	329.16
Slovakia	9.28	69.7	57.28	1.34	289	854.32
Hungary	10.48	68.0	59.30	1.85	459	534.05
Bulgaria	2.67	51.0	91.74	4.86	463	1,628.16
Romania	9.47	59.0	54.99	2.00	382 ^(e)	1,226.95

Source: Eurostat

¹ Values are taken from UN, FAO (Aquastat)

² Gross inland consumption of energy divided by GDP (at constant prices, 1995=100) kgoe (kilogram of oil equivalent) per 1000 Euro.

³ Index of greenhouse gas emissions and targets – in CO₂ equivalents (Actual base year=100)

⁴ According to the draft National Waste Management Implementation Plan, municipal waste generated in 2005 amounts to 327 kg/person

^(e) Eurostat estimate

Table 11: Economic indicators for transport

	Passenger cars per 1000 inhabitants (2002) ¹	Motorway (km)/100000 inhabitants (2002) ^{1,2}	Railway (km)/100000 inhabitants (2002) ¹
EU 25	463		45.02
EU 15	495	14.00	41.11
Croatia	280	24.00	62.00
Slovenia	459	22.92	61.61
Slovakia	247	5.61	67.99
Hungary	259	5.24	75.44
Bulgaria	276	4.16	54.71
Romania	136	0.52	50.39

Source: Eurostat

¹ Indicator for Croatia taken from Central Bureau of Statistics

² Indicator for EU 15 and Croatia taken from Central Bureau of Statistics for year 2005 due to intensive motorway construction over the past three years

ANNEX 3 – MAP OF CROATIAN COUNTIES

Map 1: Counties in Croatia



LIST OF ABBREVIATIONS

AP	Accession Partnership
BMI	Business Monitor International
CARDS	Community Assistance for Reconstruction, Development and Stabilisation
CBS	Central Bureau of Statistics
CEA	Croatian Environment Agency
CES	Croatian Employment Service
CNB	Croatian National Bank
CO ₂	Carbon dioxide
CODEF	Central Office for Development Strategy and Coordination of EU Funds
CPI	Consumer Price Index
CROBEX	Croatian Bourse Equity Index
DG	Directorate-General
e.g.	Latin - <i>exempli gratia</i> – for example
EC	European Commission
EIB	European Investment Bank
EITO	European Information Technology Observatory
eq	equivalent
ep	end period
EPO	European Patent Office
ESA	European System of Accounts
EU	European Union
EUR	Euro
F	female
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FISIM	financial intermediation services indirectly measured
FP7	Seventh Framework Programme for Research and Technological Development
GDP	Gross Domestic Product
GERD	Gross Domestic Expenditure on Research and Development
GFK	Croatia Market Research Institute
GFS	Government Financial Statistics
GHG	Greenhouse gas
GVA	Gross Value Added
HAMAG	Croatian Agency for Small Business (Croatian - <i>Hrvatska agencija za malo gospodarstvo</i>)
HRDOP	Human Resources Development Operational Programme
HRK	Croatian kuna
i.e.	Latin - <i>id est</i> – that is
ICT	Information Communication Technology
IFI	International financial institution
ILO	International Labour Organization
inhab.	inhabitant
IPA	Instrument for Pre-Accession Assistance
IPARD	Instrument for Pre-Accession Assistance for Rural Development
IT	Information Technology
JAP	Joint Assessment Paper of Employment Priorities
JIM	Joint Memorandum on Social Inclusion of the Republic of Croatia
kg	kilogram
kgoe	kilogram of oil equivalent
km	kilometre

km ²	square kilometre
LAU	Local Administrative Unit
M	male
m ³	cubic metre
max.	maximum
MELE	Ministry of Education, Labour and Entrepreneurship
mil.	million
MIPD	Multi-Annual Indicative Planning Document
Mt	mega tonnes
Mt CO ₂ eq	mega tonnes of carbon dioxide equivalent
NACE	Classification of Economic Activities in the European Community
NAPE	National Action Plan for Employment for 2005-2008
NGO	Non-Governmental Organisation
NKD	National Classification of Activities (Croatian - <i>Nacionalna klasifikacija djelatnosti</i>)
No	Number
NUTS	French - <i>nomenclature des unités territoriales statistiques</i> - Nomenclature of Territorial Units for Statistics
OP	Operational Programme
PEP	Pre-accession Economic Programme
PPI	Producer Price Index
PPP	Purchasing Power Parity
R&D	Research and Development
RCOP	Regional Competitiveness Operational Programme
RoC	Republic of Croatia
RTD	Research and Technology Development
SAA	Stabilisation and Association Agreement
SCF	Strategic Coherence Framework
SCFCG	Strategic Coherence Framework Co-ordination Group
SDF	Strategic Development Framework for 2006-2013
SME	Small and Medium Enterprises
SWOT	Strengths-Weaknesses-Opportunities-Threats
t	tone
TA	Technical Assistance
TBC	To Be Confirmed
UIC	International Union of Railways
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
VET	Vocational Education Training
WWTP	Waste Water Treatment Plan
yr	year

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