



REPUBLIC OF CROATIA

NATIONAL STRATEGIC REFERENCE FRAMEWORK 2013



ZAGREB, JUNE 2013

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LIST OF ABBREVIATIONS

ALMM	Active labour market measures
ARPA	Agency for the Audit of European Union Programmes Implementation System
BSI	Business support institution
CBS	Croatian Bureau of Statistics
CES	Croatian Employment Service
CF	Cohesion Fund
CNB	Croatian National Bank
CPI	Consumer price index
CROQF	Croatian qualifications framework
CSO	Civil society organisation
EC	European Commission
EFF	European Fisheries Fund
EIB	European Investment Bank
EPEEF	Environmental Protection and Energy Efficiency Fund
EU	European Union
EUR	Euro
ERDF	European Regional Development Fund
ESC	Croatian Economic and Social Council
ESF	European Social Fund
FDI	Foreign direct investment
GCI	Global competitiveness index
GCR	Global competitiveness report
GDP	Gross domestic product
GERD	Gross domestic expenditures on R&D
GVA	Gross value added
HRK	Croatian kuna
ICT	Information and communication technologies
IPA	Instrument of Pre-Accession Assistance
IPARD	Instrument of Pre-Accession Assistance for Rural Development
JAP	Joint assessment of employment policy
LLL	Life long learning
MEC	Ministry of Entrepreneurship and Crafts
MENP	Ministry of Environment and Nature Protection
MIS	Management information system
MRDEUF	Ministry of Regional Development and EU Funds
MSES	Ministry of Science, Education and Sport
NEPP	National employment promotion plan
NGO	Non-government organisation
NSRF	National Strategic Reference Framework
NUTS	Nomenclature of Territorial Units for Statistics
OP	Operational Programme
R&D	Research and development
RDI	Research, development and innovation
RfP	Request for payment
SCF	Strategic Coherence Framework
SDF	Strategic Development Framework
SEE	South-East Europe
SEETO	South-East Europe Transport Observatory
SME	Small and medium-sized enterprise
STFIS	State Treasury financial information system
SWOT	Strengths, weaknesses, opportunities, threats
TEN-T	Trans-European Transport Networks
VET	Vocational education training
WEEE	Waste of electrical and electrical equipment

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1. INTRODUCTION

Purpose of the document

The National Strategic Reference Framework (NSRF) covers the period from the date of accession to 31st December 2013. It provides a framework for the use of European Union (EU) Cohesion policy instruments post-accession. Its aim is to ensure that the assistance provided is consistent with both EU and national objectives and guidelines. It is a reference document for preparing the Operational Programmes 2007-2013, setting out priorities to be jointly financed through EU and national resources.

Context

The NSRF was designed in way to accommodate the specific situation of Croatia, namely the accession at the end of the EU financial perspective 2007-2013 and the combination of the funds available upon accession with those available under the Instrument for Pre-Accession Assistance (IPA) from 2007 until 30th June 2013 in one document.

Preparation

The work on the preparation of the NSRF started in October 2008. The Ministry of Regional Development and EU Funds (MRDEUF) is the body responsible for initiating, organizing and monitoring of the programming process compliant with the requirements of the Council Regulation laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund (No 1083/2006) and as the main contact point for all communication between Croatian authorities and relevant services of the European Commission (EC). Its mandate includes defining the timetable for the implementation of programming related activities, ensuring the partnership with relevant authorities and bodies during the preparation of programming documents, setting up a working structure consisting of all the relevant authorities and bodies with a clear distribution of their tasks and responsibilities, defining the content of the NSRF and the Guidelines for the preparation of the NSRF.

The process continued with the establishment of the NSRF Coordination Body responsible to provide strategic guidelines and oversee the preparation of the NSRF (Government Decision adopted by the Government of the Republic of Croatia on 27th November 2008) and the NSRF Working Group. The work of both, NSRF Coordination Body and NSRF Working Group was organized and managed by MRDEUF.

Following the intensive work of the MRDEUF and the NSRF Working Group, the document was negotiated on several occasions at the level of the NSRF Coordination Body and presented to the EC. After several rounds of consultations with the EC, the draft NSRF was presented to the wider public on 18th June 2010 during the conference entitled "*Together towards the EU Structural Funds*" organized by MRDEUF. The debate on the scope and the content of the NSRF was pursued during the public debate on the Operational Programmes (OP). The conference participants¹ were representatives from a wide range of partners at national, regional and local level and in the economic, social, and environmental and other spheres, actively participating in debates on the NSRF and the related OPs during the plenary session and thematic panels corresponding to the thematic priorities of the NSRF.

¹ More than 250 representatives of the government authorities, regional and local authorities, social and economic partners and other groupings, such as regional planning teams incorporating a number of different organisations of sectoral and/or regional interest, business community representatives. The conference was also attended by representatives of the International Financing Institutions (IFIs) active in Croatia, and was open to the media and the wider public.

The discussions resulted in several proposals, which were subsequently incorporated in the NSRF and relevant OPs.

In addition, the draft NSRF was made available to the public via the MRDEUF website and the opportunity was announced to all interested parties to provide further suggestions. Comments were received from various organizations (ministries, local government units, regional development agencies, scientific organizations, associations and individuals). Apart from expressing appreciation for preparation of the document and carrying out comprehensive public consultations, most of the comments were OP specific.

The elaboration of the document benefited from the results of an intensive process of interaction with ministerial and regional representatives, as well as numerous economic and social partners and civil society who were involved in the process from the very beginning, through the NSRF Working Group and public consultation process. The programming process required mobilisation of significant efforts and commitment from the sides of all involved actors, through several rounds of drafting and redrafting, intensive coordination with the process of the preparation of related OPs.

The work on the NSRF was continued throughout 2012 and run in parallel with further elaboration of the OPs. Its scope and content were redefined in order to reflect the state of affairs in relation to the date of accession, the negotiated scope and content of the OPs, related financial allocations and designated management structures. This work also included the preparation of the methodology on the calculation of public or equivalent structural spending for the purposes of additionality, as required per Article 15 of Council Regulation No 1083/2006 and carrying out an ex ante evaluation of the NSRF.

The NSRF was prepared in line with the relevant national sectoral strategic documents and other available strategic documents of national importance. In addition, it built upon the achievements and experience of the programming and implementation of pre-accession assistance, namely IPA, available in the period 2007-2013. This link ensures that developmental needs identified and policy directions taken in the process of EU integration in the pre-accession period are adequately addressed in particular sectors and areas of intervention also in the post-accession period with a view to promote real convergence between Croatia and the EU.

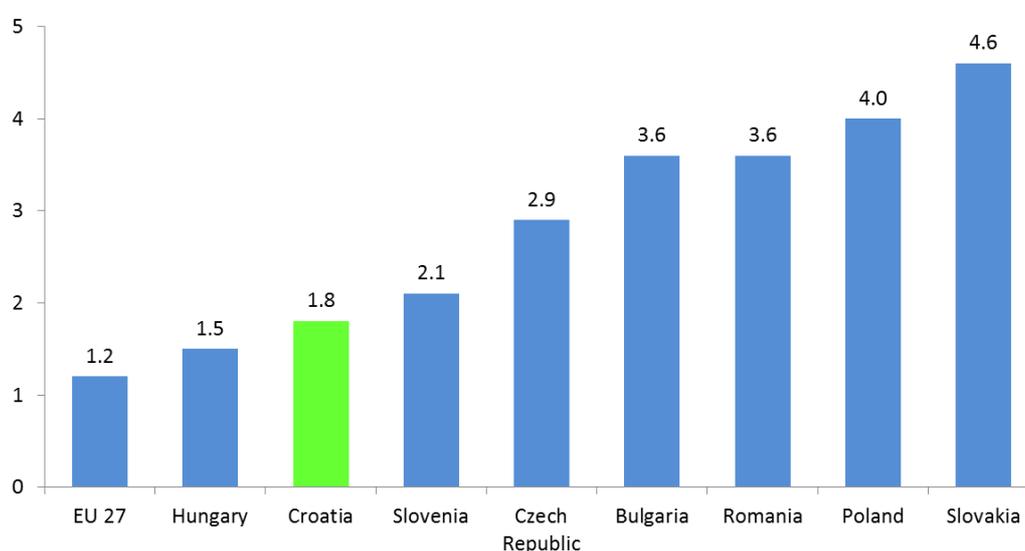
In 2013, the Republic of Croatia is facing the challenge of simultaneous implementation of IPA programme, preparation of the first generation of Structural and Cohesion Funding in Croatia and the preparations of ESI funds strategic documents for the new EU financial perspective 2014-2020. Timely start of the implementation of investments planned under the NSRF 2013 including the proper functioning of management and control systems, will be crucial for smooth finalization of programming exercise 2014-2020, setting up the implementation arrangements for the future Operational Programmes but also for planning the measures that will ensure the availability of sufficient and mature project pipeline.

2. MACROECONOMIC CONTEXT

2.1. ECONOMIC GROWTH

The Croatian economy is considered to be small, with 4.3 million inhabitants and gross domestic product in current prices of EUR 44 billion². In the period 2000-2008 it recorded a relatively stable growth path accompanied by low inflation; the average growth rate of real gross domestic product (GDP) amounted to 4.2%. However, after a 5.1% growth rate in 2007 and 2.4% in 2008, real GDP declined by 6.9% in 2009, as a result of the economic crisis. The weakening of the economic activities was significant and the recovery rather sluggish; in 2010 and 2011 the real GDP growth rate amounted to -2.3% and 0.0%, while in 2012 it declined again by 2.0%³. Therefore, the average growth rate in the period 2002-2012 amounted to 1.8%, which was relatively modest compared to the other selected member states (see Figure 2-1).

Figure 2-1: Real GDP growth rates in selected countries (averages 2002–2012)



Source: Eurostat

The structure of the gross value added (GVA) by sectors showed that Croatian economy is changing in the direction of the average structure in the developed countries⁴. In the period 2000-2012, the primary and secondary sector both recorded a decrease in the share of total GVA; the primary sector from 6.48% to 4.89% and the secondary sector from 29.20% to 25.72% of total GVA in 2012. In the same period the tertiary sector increased from 34.26% to 37.41%, and the quaternary has not changed significantly, as it fluctuated around 29% of the total GVA.

In the recent years, output growth has been driven by growth in domestic demand, in particular by growth in investments and personal consumption. During the period between 2000 and 2008, investments in fixed capital grew by an average rate of 8.7% reaching the share of gross fixed capital formation of 8.7% in 2008. However, reflecting the contraction pattern, from 2009 investments in fixed capital recorded a significant decrease: -14.2% (2009), -15.0% (2010), -6.4% (2011) and -4.6% (2012). Stable economic growth followed by

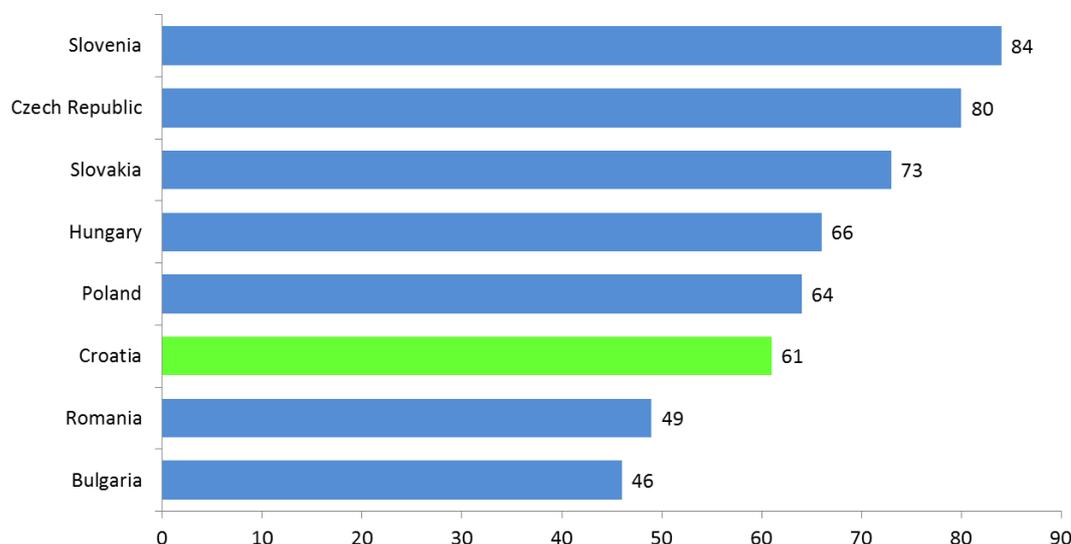
² Basic macroeconomic indicators are presented in Annex 1, Table 1.

³ Preliminary data for 2011 and 2012

⁴ The structure of each sector along with its share in total gross value added is presented in Annex 1, Table 2 and Table 3.

the persistent crisis period led to the decreasing of the income gap in relation to EU-27 (see Figure 2-2).

Figure 2-2: GDP per capita in PPS, in selected countries (2011), EU-27=100



Source: Eurostat

The trade deficit of the Croatian economy (the average current account deficit in the period 2001-2011 amounted to 5.0%) reflects its growth path and import dependence of the domestic economic activities. The main categories of imports are capital, intermediate goods and energy, which are also the main generators of its growth. Growth contribution of net exports during the past several years has been mainly negative because the Croatian economy is highly dependent on imports. The contribution of total exports fell from 1.7% in 2008 to -16.2% in 2009, just to increase again to 2.0% in 2011. The contribution of total imports also fell from 4.0% in 2008 to -21.4% in 2009, and then rose again to 1.2% in 2011. In spite of a strong growth in the export of services, the surplus in the service balance was not high enough to account for the negative effects of trade deficit. In 2011 the export of goods amounted to EUR 9.6 billion while imports of goods amounted to EUR 16.3 billion (both recorded an annual increase of 7.6%). On the other hand, in spite of certain acceleration in exports and growth during last several years before the onset of the global crisis, the difficulties of the export sector to realise stronger expansion in the foreign markets are still present. The reasons are related to the competitiveness of the export sector, its ability to innovate, but also to the fact that the inflow of greenfield foreign direct investments has been very low.

As a result, a persistent investment-savings gap has led to the high current account deficit and a build-up of a foreign debt. In the period 2000-2007, the average current account deficit was 5.1% of GDP. At the end of 2008, current account deficit reached its highest point of 9.0% of GDP and at the end of 2009 it dropped to 5.1% of GDP. In the following two years it stabilized at -1.0% (2010) and -0.9% (2011). Consequently, foreign debt grew; at the end of 2009 it 101.0% of GDP and at the end of 2011 it reached 101.8% of GDP. 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 (CNB) has undertaken a number of measures aimed at discouraging banks from additional external borrowing.

However, further fiscal consolidation is seen as the most important tool to support the process of tackling external imbalances. Since 2004, fiscal policy is in the on-going process

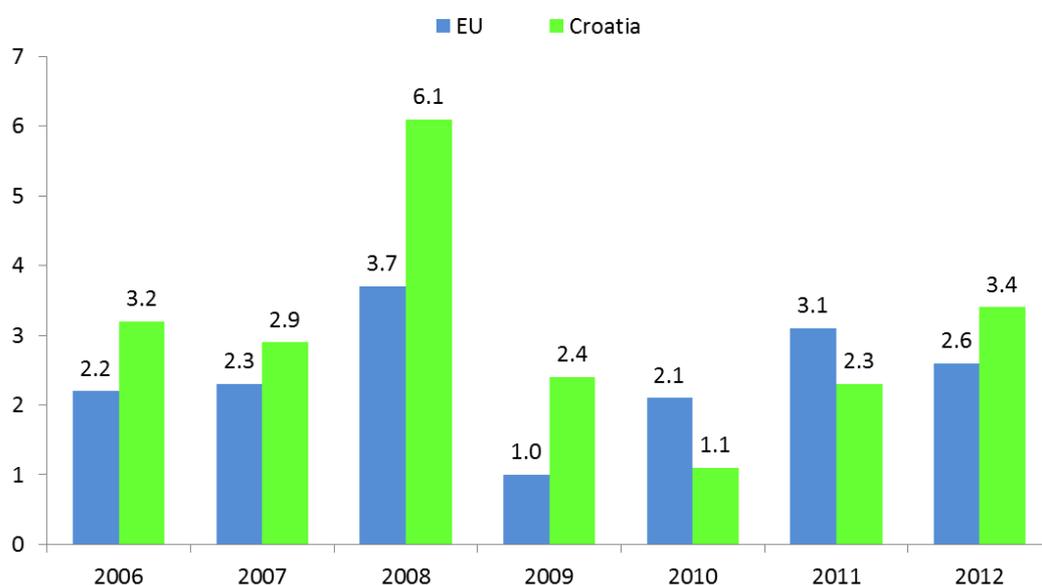
of fiscal consolidation, which has allowed for the consolidated general government balance to decrease from -4.1% of GDP in 2002 to -1.4% in 2008⁵. In 2009, caused by the negative effects of the crisis, it recorded a new decrease of -4.1% of GDP, which has continued in the recent period, as it amounted to -5.1% of GDP in 2011. In 2012, the negative trend stopped as the general government budget balance amounted to -3.8%.

2.2. INFLATION AND EXCHANGE RATE

Inflation in Croatia, measured by the consumer price index (CPI) in the period 2000-2007, was moderate, mainly due to the appreciation of the HRK/EUR exchange rate, slow nominal wage increase, mild labour productivity growth and intense competition in the retail trade. Continued increase in the prices of food products and energy on the world market caused considerable growth of the consumer price index of 6.1% in 2008. However, in 2010 the CPI decreased to 1.1%, but in the following period (2011-2012) it increased again as it amounted to 2.3% and 3.4%, respectively (see Figure 2-3).

Croatia is following a managed float regime. The Croatian National Bank is maintaining a stable exchange rate by direct foreign exchange interventions and by regulating bank system liquidity. A relatively strong inflow of a foreign capital and productivity growth is conditioned by a gradual real appreciation of the exchange rate. In the period 2001-2012, the average exchange rate HRK/EUR floated between 7.22 and 7.56.

Figure 2-3: Inflation in Croatia (CPI) and EU (HICP) (2006–2012)



Source: Eurostat

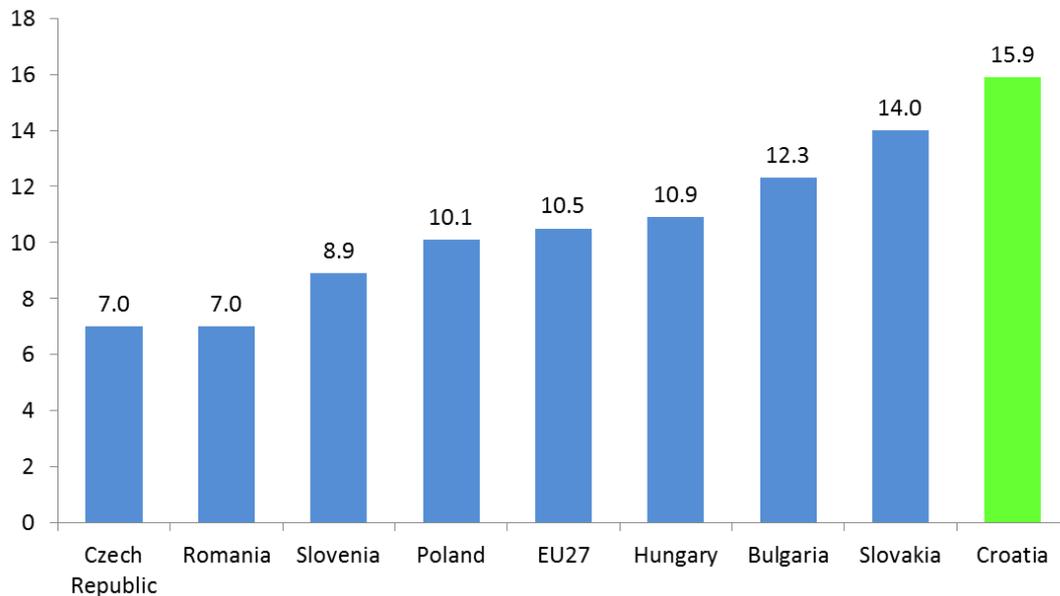
2.3. EMPLOYMENT AND LABOUR MARKET DEVELOPMENTS

Due to a relatively stable economic growth before the crisis period, the labour market recorded positive trends and the number of employed persons increased, while the unemployment rate has been constantly decreasing since 2000, when it had reached the

⁵ According to the ESA 95 methodology.

maximum of 16.1% (measured by ILO comparable rate). Favourable labour market developments continued into 2008, when the unemployment rate amounted to 8.4% and reached its lowest level in the last 15 years. However, in 2009 the long-term trend of decreasing unemployment was interrupted by the crisis. The ILO comparable unemployment rate first increased to 9.1% in 2009 and continued its rise to 13.5% in 2011 and 15.9% in 2012, which is the highest unemployment rate compared to the other selected member states (see Figure 2-4). The crisis most strongly hit the male-dominated manufacturing and construction industries.

Figure 2-4: Unemployment rate (ILO) in selected countries (2012)



Source: Eurostat

Apart from currently high cyclical unemployment, the Croatian labour market is also characterized by several long-term structural problems. The overall employment rate of 55.3% in 2012 is still relatively low, reflecting insufficient activity despite positive developments in the last several years. The unemployment rate of the youth and women is relatively high, partly due to obstacles in their access to employment. The long-term unemployment rate (persons unemployed for 12 months and more) in 2012 amounted to 10.3%, reflecting a lack of employability, generally decreased activity and limited access to employment.

2.4. FINANCIAL SYSTEM

Banks play a dominant role in the Croatian financial system, as the size of the banking system measured by the share of its assets was 122% of GDP at the end of 2011, which makes it one of the largest banking systems among the countries in transition. The banking sector has been adequately capitalized and has remained stable during the crisis, although mainly large and medium-sized banks remained profitable. Compared to the pre-crisis period, in 2011 the rate of banks' assets growth amounted to a relatively low 2.6%, which was the reflection of unsecure environment and continuation of the increase of losses in the loan portfolio. In 2009, the banks' corporate loans significantly decreased, as the annual (end of year) rate of change fell from 26.1% in 2006 to 1.95%. In the following period (2010-2011), it recovered to 9.84%, which had a key impact on the growth of total amount of loans. The majority of new loans were issued for the purpose of working capital financing and refinance

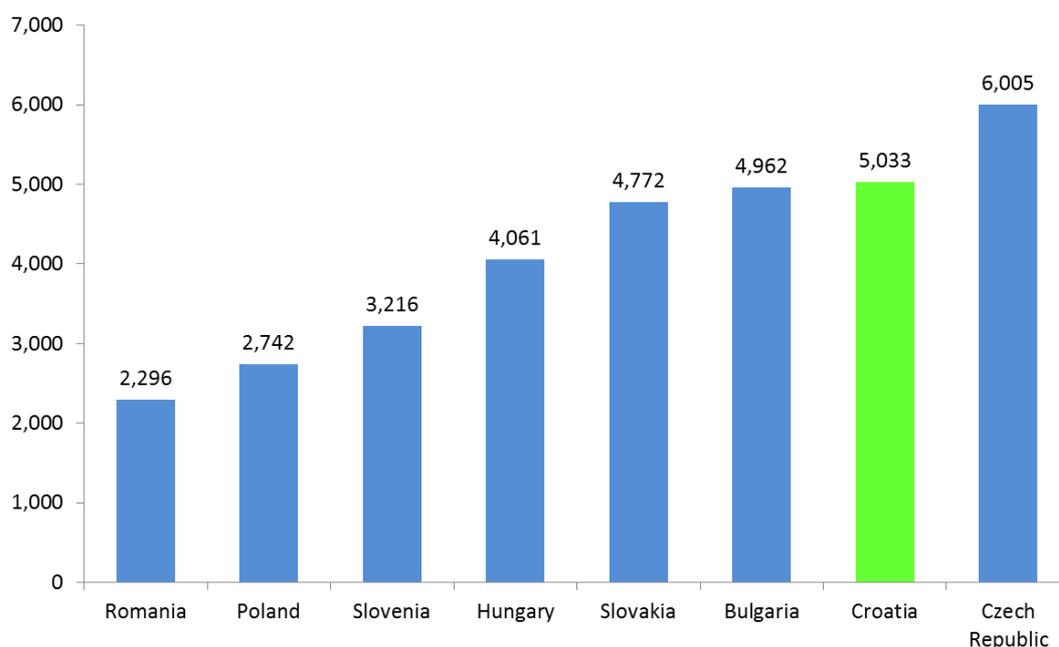
of existing liabilities. However, the quality of loans worsened, so the banks significantly increased loans to government units, public companies and other large and safe clients.

In the Croatian financial market, securities (stocks and bonds) are traded on the Zagreb Stock Exchange, which had a total market capitalisation of EUR 25.8 billion⁶ in 2011. Before the global financial crisis, the annual stocks turnover in 2007 reached historical high of EUR 3.02 billion⁷, the number of transactions doubled and the stock exchange index, CROBEX, reached the highest recorded value. During 2008, as a consequence of the crisis, CROBEX lost 67.1% of its value in comparison to the end of the previous year and the annual share turnover decreased by 23.4%. The negative trend continued in 2009, when the annual stock turnover rate further decreased by 55.9% but with the recovery of CROBEX, which increased by 16.4%. In the period 2011–2012, the market has not recorded significant recovery, as the annual share turnover decreased by 9.4% (2011) and again by 44.3% (2012). In the same period CROBEX decreased by 17.6% (2011) but in 2012 it remained at the same level compared to 2011.

2.5. FOREIGN DIRECT INVESTMENTS

Foreign direct investments (FDI) are considered as the main source of foreign financing and it finances a large part of the current account deficit. Overall inflow of FDI in Croatia, in the period 2000-2011, reached EUR 22.3 billion or EUR 5,033 per capita (see Figure 2-5). During 2008, Croatia received EUR 4.2 billion of FDI, which was the highest annual inflow in the last 15 years. The crisis brought the decrease in 2009 and 2010, when the annual FDI inflow amounted to EUR 2.4 billion and EUR 0.3 billion, respectively. In 2011, the inflow has risen again to EUR 1.1 billion.

Figure 2-5: FDI per capita in selected countries (2000 – 2011)



Source: Croatian National Bank

⁶ Calculated by applying the average annual exchange rate HRK/EUR of 7.434204 in 2011, on the value of HRK 191,574.3 million.

⁷ Calculated by applying average annual exchange rate HRK/EUR of 7.434204 in 2011, on the value of HRK 22,496.5 million.

In the case of Croatia, FDI investors were largely driven by strategic investments during the process of privatisation and were not attracted by low labour costs. Contrary to the new member states, FDI inflows in Croatia mainly represent brownfield investments. More than 56% of the overall amount of FDI inflows in the period 2000-2011 was accomplished in the sectors of financial intermediation, wholesale and commission trade, and real estate business. The need for improvements in the business and investment climate, together with the need for structural reforms is recognized, which will increase the competitiveness of overall economy.

3. ANALYSIS OF SOCIO-ECONOMIC SITUATION

3.1. SOCIO-ECONOMIC SITUATION IN RELEVANT SECTORS

3.1.1. Transport

Croatia has a specific geographical position as it is situated on the important Pan-European transport corridors as well as on the Adriatic Sea. Due to this particular location, the development of transport and its supporting activities has a great potential for being a relevant driver of the economic growth.

The following main transport corridors and their branches traverse Croatia:

- Corridor X (Salzburg – Villach – Ljubljana – Zagreb – Belgrade – Skopje – Thessaloniki)
- Corridor VII (the river Danube with its tributaries / the river Sava)
- Corridor Xa branch (Graz – Maribor – Zagreb)
- Corridor Vb branch (Rijeka – Zagreb – Budapest)
- Corridor Vc branch (Ploče – Sarajevo – Osijek – Budapest)

The Croatian transport network can be briefly described using the following data⁸:

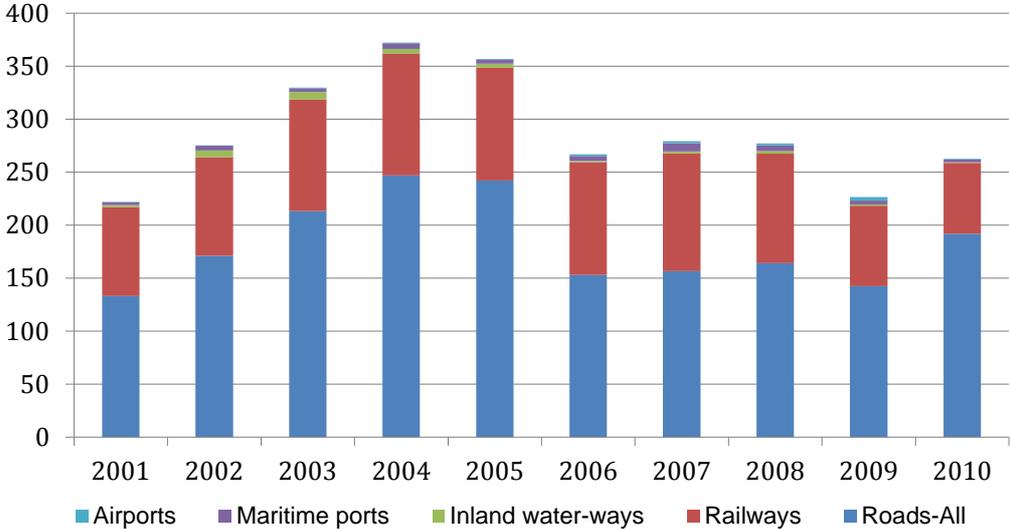
- Public road network with a total length of 29,410 km
- Railway network with a total length of 2,722 km of tracks
- Inland waterway network with the total length of 1,017 km, including four ports (Sisak, Slavonski Brod, Vukovar and Osijek)
- Six major seaports (Rijeka, Zadar, Šibenik, Split, Ploče and Dubrovnik)
- Air transport system – nine airports, of which seven are international airports (Zagreb, Rijeka, Split, Dubrovnik, Osijek, Pula and Zadar) and two are air-fields (Brač and Mali Lošinj)

Since 2001, major public sector investments amounting to EUR 1.150 million annually, on average, have been made in transport infrastructure. The road sub-sector has received the major share of public investment in transport in period 2001-2010 with, on average, around 63% of total amount per year (see Figure 3-1). By contrast, the railway and waterways sub-sectors received a modest 34% and 1% of total amount respectively, in 2001-2010 period.

⁸ Source: Eurostat, CBS; 2011 data

These amounts have been sufficient for basic maintenance and minor infrastructure modifications, but no major investments have been undertaken during this period.

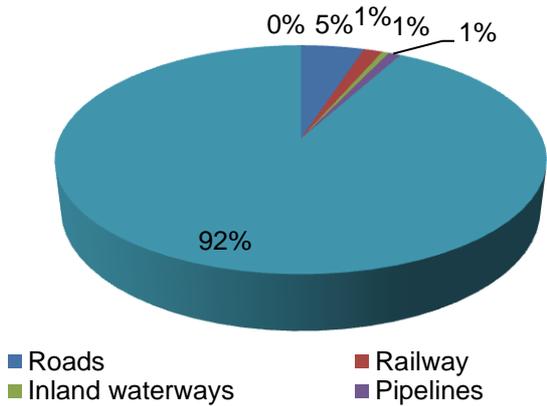
FIGURE 3-1: Public sector investment into transport in Croatia (in million EUR)



Source: CBS

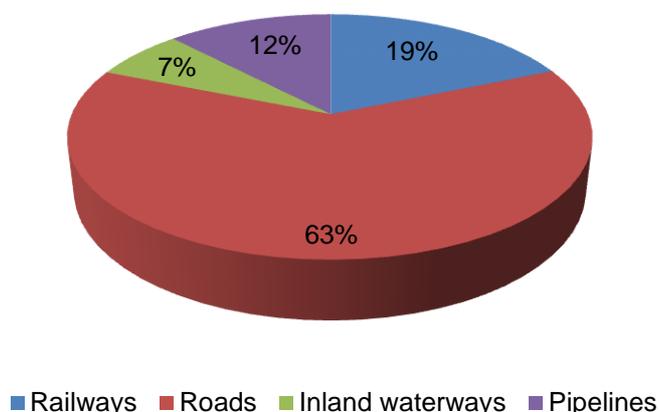
Analysing the transport of freight by modes in 2010 (in tonne kilometres), in EU-27 there was a dominance of road transport in carrying freight (46%), while in Croatia it amounted only 5%. In Croatia, the share of rail transport amounted to 1%, and 10% in the EU. While in Croatia sea transport of freight enjoyed a modal share of 92% (see Figure 3-2), in the EU the same category took up a share of 37%. Inland waterways and airfreight transport constituted rather small shares in both Croatia and in the EU. Analysing transport of freight by modes by land in 2010 (see Figure 3-3), there is a significant dominance in transport by road (63%). 19% of goods are transported by railroad, while pipelines and inland waterways contribute with 12% and 7%, respectively.

FIGURE 3-2: Transport of freight by modes in Croatia in 2010 (in tonne kilometres)



Source: DG Mobility and Transport, CBS

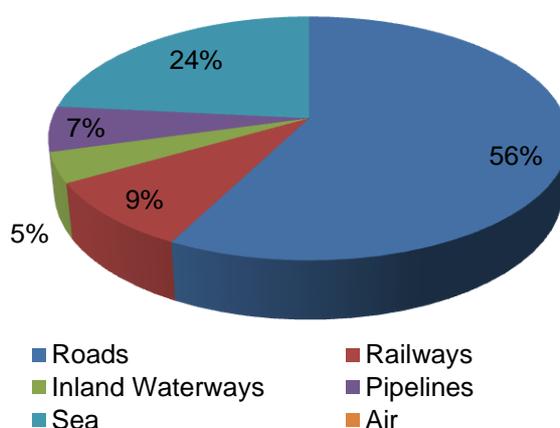
FIGURE 3-3: Transport of freight by modes by land in Croatia in 2010 (in tonne kilometres)



Source: CBS

Analysing the transport of freight by modes in 2010 (in thousands of tonnes), road transport is still dominant with 56%, while sea transport contributes with 24%. Railroad contributes with 9%, pipelines with 7% and inland waterways with 5%. Air transport of goods is negligible, as shown in the Figure 3-4.

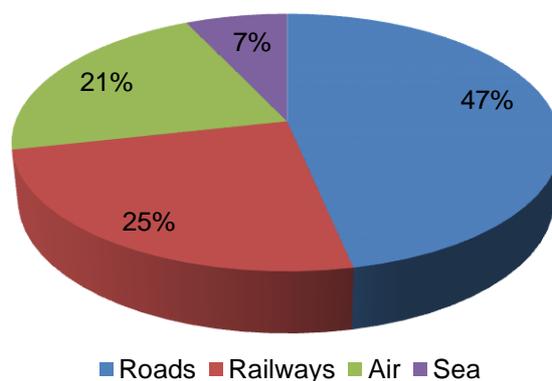
FIGURE 3-4: Transport of freight by modes in Croatia in 2010 (in 000 tonnes)



Source: CBS

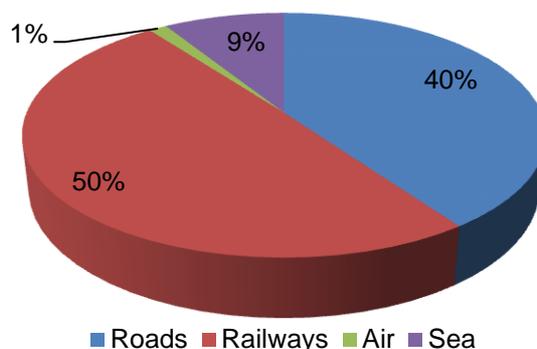
Analysing the transport of passengers by modes in 2010 (in passenger kilometres), road transport had a significant share in total transport in the EU of 85%, while in Croatia was 47% (see Figure 3-5). While rail transport covered 25% of all passengers transported in Croatia, in the EU its share amounted to only 6%. Further, on, while air transport of passengers in Croatia amounted to 21%, in the EU the share was smaller and accounted for 8% of total transport. Sea transport in Croatia carried 7% and in the EU only 1% of passengers. Analysing the transport of passengers by modes 2010 (in thousands of passengers) 90% of passengers travel by road or railway. Railway transport takes 50% and road 40% of all passenger transport. Sea transport contributes with 9% and air transport with 1%, as seen in the Figure 3-6.

FIGURE 3-5: Transport of passengers by modes in Croatia in 2010 (in passenger kilometres)



Source: DG Mobility and Transport, CBS

FIGURE 3-6: Transport of passengers by modes in Croatia in 2010 (in 000 of passengers)



Source: CBS

With 1,254 km of motorways in 2011, Croatia qualifies as a country with the longest motorway network, in comparison with EU-12 (see Table 3-1). On EU-27 level it ranks 12th. In addition, it is among the leading countries in EU-27 regarding the level of motorway construction in relation to its size and population. In 2011, the motorway density in Croatia amounted to 29.3 km per 100,000 inhabitants, which is more than twice as much as the motorway density in the EU-27, in 2011. The motorways have been built along the Pan-European transport corridors and their side roads, X, Xa, Vb, Vc, core network of the South-East Europe (SEE).

On the other hand, in 2011, out of 29,410 km of public road network in Croatia, the length of state roads was 6,843 km, while county and local roads covered 21,313 km. Out of the total length, 2,058 km are classified as e-roads, and mostly follow state roads instead of motorways (Table 3-1). The road core network consists of six major axes with links to inland waterway ports, seaports and road network in neighbouring countries. Due to limited investments in the modernisation of roads of other categories, besides motorways, they are often disconnected from the European transport corridors, their quality remained rather unsatisfactory (in case of state roads 40.8% of them are considered to be in good condition) while the improvement of safety conditions on the roads did not follow the increase of 58% in the transport of goods which was registered in the period 2000-2010.

TABLE 3-1: Length of roads and railway lines in selected EU countries and Croatia in 2011 (in kilometres)

	Motor-ways	E-roads	State roads	Other roads*	Railways (in use)	Railways electrified
Bulgaria	458	2.977	19.054	0	5.661	67,36%
Croatia	1.254	2.058	6.843	21.313	2.722	36,15%
Czech Republic**	734	2,636	6,255	123,682	9,568	33,57%
Estonia	115	995	16.397	41.975	2.164	6,10%
Latvia	0	202	20.112	38.684	2.202	29,43%
Lithuania	309	1.642	20.949	61.653	2.184	11,09%
Poland	1.070	5.500	18.801	393.463	38.053	66,11%
Romania	350	6.188	16.690	66.663	20.129	42,29%
Slovenia	768 ^p	624 ^{***}	5.962	32.314	2.177	59,16%

Source: Eurostat, CBS

Note:

* Includes regional and community roads; the definition of road types varies from country to country

** 2010

*** 2008

p – provisional

In 2011, the Croatian railway network comprised, in total 2,722 km of track, of which 9.3% is double track and 90.7% km is single track; 984 km or 36.15% is electrified. Croatia has the second largest portion (26%) of the SEE Core Rail Network, which in total is 4,264 km long. Railway Corridor X, again on the SEE Core Network, is 1,058 km in length and accounts for about 50% of the overall length of the Corridor X. The Croatian part of Railway Corridor X on the SEE Core Network passes from Savski Marof on the western border via Zagreb and Vinkovci to Tovarnik on the eastern border and is 317 km long. The part of Corridor Vb passes from Botovo via Zagreb to Rijeka, while Corridor Vc passes from Beli Manastir to Slavonski Šamac, and then from Metković to Ploče. Currently, the core railway network consists of five major axes with links to inland waterway ports, seaports and rail links to the transport network of neighbouring countries. In terms of the density of the rail network, Croatia exceeds the EU average with 63.53 km per 100,000 inhabitants, as against 42.4 km per 100,000 inhabitants in the EU-27 in 2010. In addition, Croatia has 48 km of lines per 1,000 km² of its territory. The extent of improvement of the railway infrastructure during the last 40 years was very small, the only works being overhauling and regular maintenance. In 2011, the rail transport of passengers amounted 1,486 million of passenger-km while the goods transport by rail amounted 2,438 millions of tonne-km⁹. Commercial speed of freight trains is around 26 km/h and an average delay is 1 hour per each 100 kilometres. An illustrative indicator of the poor condition of the railway network is the permanent speed limitation. The problem of reduced operating speeds is rather severe:

- Operating speeds along the Corridor X Croatian railway section, currently ranging from 60 km/h to 120 km/h, are below the envisaged standard of 160 km/h, based on AGC and AGTC Agreements;
- Speed is lowest on the sections: Savski Marof - Zaprešić - Zagreb and Dugo Selo – Novska.

The total length of inland waterways within Croatia's border is 1,017 km. Croatian water routes included in the European inland waterway network by AGN are 601.2 km long and include:

- VIc - Danube from Batina to Ilok (137.5km)

⁹ Source: CBS

- IV - Drava to Osijek (22km)
- Vb - Future multi-functional Danube-Sava canal from Vukovar to Šamac (61.5km)
- IV - Sava from Račinovci to Sisak (380.2km).

The most significant inland waterways in Croatia are the Danube and the Sava rivers, but as transport resources, they are relatively under-utilised. The Danube waterway is a part of Pan-European Corridor VII, which links the North Sea and the Black Sea, and it is one of the main European cargo transport routes with a considerable growth potential. The main river ports situated along these inland waterways are Osijek, Sisak, Slavonski Brod and Vukovar. All four of these ports are classified as TEN-T and international ports. The Croatian internal waterway network also includes the Visovac and Kozjak lakes, which are located in the Krka and Plitvička Jezera national parks and are open to tourist navigation. Although the total network density amounts to 18 km per 1,000 km², which is relatively dense compared to the average density of the EU inland waterway network of 9.4 km to 1,000 km², rivers in Croatia have been rather underused as transport corridors. The share of inland waterway freight transport in total inland transport amounted to 0.53% tonne-kilometres in 2011, which is considerably low in regards to 3.85% tonne-kilometres in EU-27¹⁰. Furthermore, the transport on the Sava is restricted due to low navigation safety caused by war-damaged debris and locally high sedimentation levels. In addition to low navigation conditions, the infrastructure of inland ports, which sustained extensive damage during the war, is in a poor state and therefore inadequate to provide quality services. Croatia has two international inland waterway ports, Port of Vukovar, on Corridor VII, and the Port of Slavonski Brod, which is located at the intersection of two Pan-European Corridors (X and Vc). Under unchanged conditions, the potential of the inland waterways to be used in combination with railway transport as an alternative to the currently dominant road transport network, as well as in combined transport operations remains unlocked.

With a 1,400 km-long coastline and a maritime system with six major ports (Rijeka, Zadar, Šibenik, Split, Ploče and Dubrovnik) which represent an important part of the TEN-T network in the country, the development of maritime transport and seaports is of major importance for the country. Between 2000 and 2011, maritime transport of goods was rather volatile. The share of maritime services in the total structure of transport of goods varied from 34.6% in 2001 to 23.7% in 2011. One of the reasons for the drop in the transport of goods in the period 2001-2011 was most probably the accession of Slovenia, Hungary, Slovakia and Czech Republic into the EU in 2004, which resulted in favouring of the EU ports. However, continuous efforts are invested in creating better connections of the seaports with the railway and road network, which would direct a significant part of the freight transportation from roads towards other modes of transport. At the same time, between 2000 and 2011 passenger transport registered continuous growth, from 140,085 tonne-kilometres in 2000 to 155,437 tonne-kilometres in 2011.

The statistics on air transport displays a noticeable trend of growth from 2,348,000 passengers in 2001 to 5,578,771 in 2011. Between 2001 and 2011, air transport of passengers increased 2.4 times. The Republic of Croatia has seven international airports (Zagreb, Rijeka, Split, Dubrovnik, Osijek, Pula and Zadar) and two landing places (Brač and Mali Lošinj). The seven biggest airports are of 4E ICAO category, fitted with devices and equipment corresponding to international safety and security standards, but still it remains challenging to accommodate the increase in passenger transport in terms of security level, quality of services, and efficiency of operations with available infrastructures.

Continental Croatia is intersected by European railway Corridor X (Savski Marof – Zagreb – Tovarnik). Length of Croatian part of Corridor X is 317 km. The speed on this section 60-120km/h) is below envisaged standard of 160 km/h. This region has a great potential in the

¹⁰ Source: Eurostat, CBS

inland waterways traffic due to considerable density of the inland waterway network in comparison to the EU Member States. Rivers Sava, Drava and Danube make a European network of waterways, while the ports of Vukovar, Slavonski Brod, Sisak and Osijek are part of ports-network open for international traffic. Road infrastructure is also significant. 58% of all road and 51% of motorways in Croatia are in this region. There are two international airports located in Continental Croatia (Zagreb and Osijek).

Branches of railway corridors Vb and Vc intersect Adriatic Croatia. Corridor Vb is an important cargo route connected to the Port of Rijeka, and Vc to the Port of Ploče. In the period 2005-2008, almost 80% of total investments in motorways took place in this region. Due to these investments, 49% of total Croatian motorways are located in Adriatic Croatia¹¹. Two main cargo ports in this region (Rijeka and Ploče) record significant traffics, as well as three main passenger ports (Zadar, Split and Dubrovnik). Five out of seven international Airports are located in this region (Rijeka, Split, Dubrovnik, Pula and Zadar).

3.1.2. Environment

Croatia is situated at the Southeast of the European continent, in between the Mediterranean, Middle Europe and Balkans. Croatia's geophysical location determines the environmental characteristics of the country, with the long coastal region, littoral highlands and the central plains. The rich natural diversity in Croatia has substantial impact on the development of tourism¹² and at the same time on the overall economic growth of the country. It is essential for sustainable development and general progress of Croatia to invest in preservation of the environment.

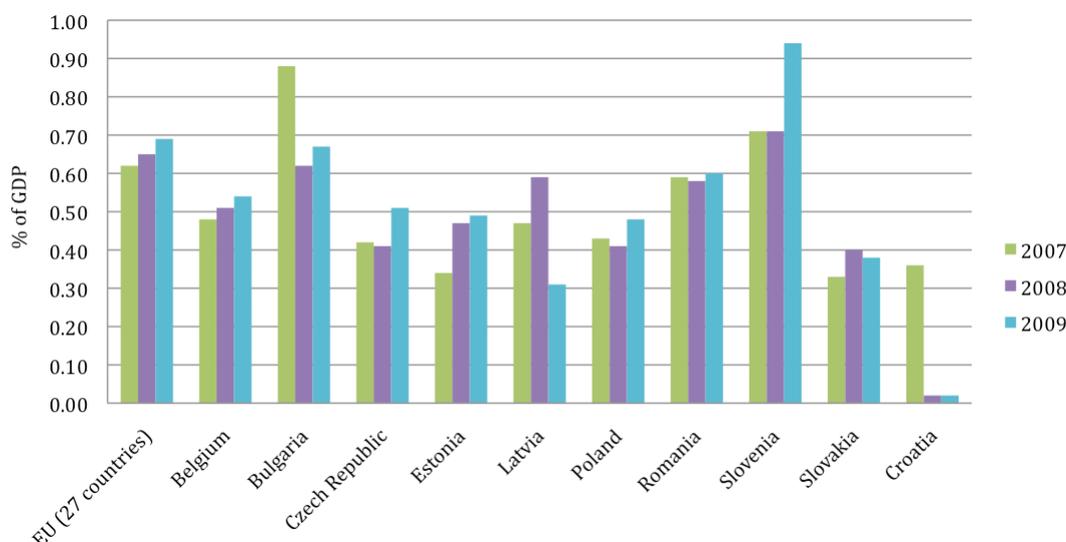
Environmental issues are not just of high importance for economic growth, but also for human health and well-being. The main tasks of the Croatian environmental policy are to protect Croatia's natural heritage and natural resources, as well as foster resource-efficiency and integrate environmental concerns in other policy areas.

These are serious tasks as the degree of environmental protection is still lower in Croatia than in other developed European countries. Environmental protection investments and current expenditure made by the public sector accounted for an EU-27 average between 0.6%-0.7% of GDP during the period 2007-2009. As shown in Figure 3-7, Croatia is far below this average.

¹¹ According to data from 2011.

¹² Croatia is among the countries that attract visitors by high quality of its natural resources and a wealth of cultural and historical heritage rather than the quality, availability and/or a variety of man-built tourist attractions.

FIGURE 3-7: Environmental expenditure by the public sector



Source: Eurostat

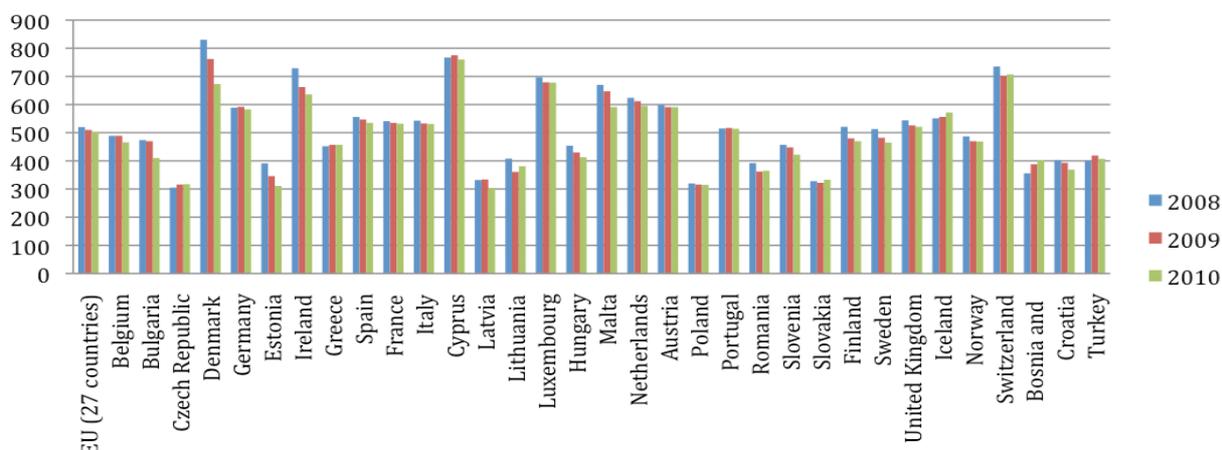
Expansion of transport and tourism, increased energy consumption, social and physical processes are interconnected and correlated factors that put increasing demands on the environmental structure in Croatia, particularly high quality and reliable environmental services, such as water supply and the disposal of waste water, the management of solid waste, maintaining of clean air environment, clean sea and preserving the natural habitat. Over the past years, the environmental protection system in Croatia has been continuously improving. However, considerable investments into the environmental infrastructure are still needed in order to reach adequate levels of environmental services and standards and to be fully in line with the *acquis*.

In general, it can be stated that environment is well preserved, but still, the level of environmental protection needs to be increased to reach the EU level. The adequate environmental infrastructure is one of the prerequisites for further social and economic development of the country but also present indicator of the living standard of the population. To improve environmental infrastructure it is necessary to address the main problems in the environmental sub-sectors, mainly waste and water. According to the environmental issues of waste and water, there are several crucial problems detected and described in the text below.

Waste

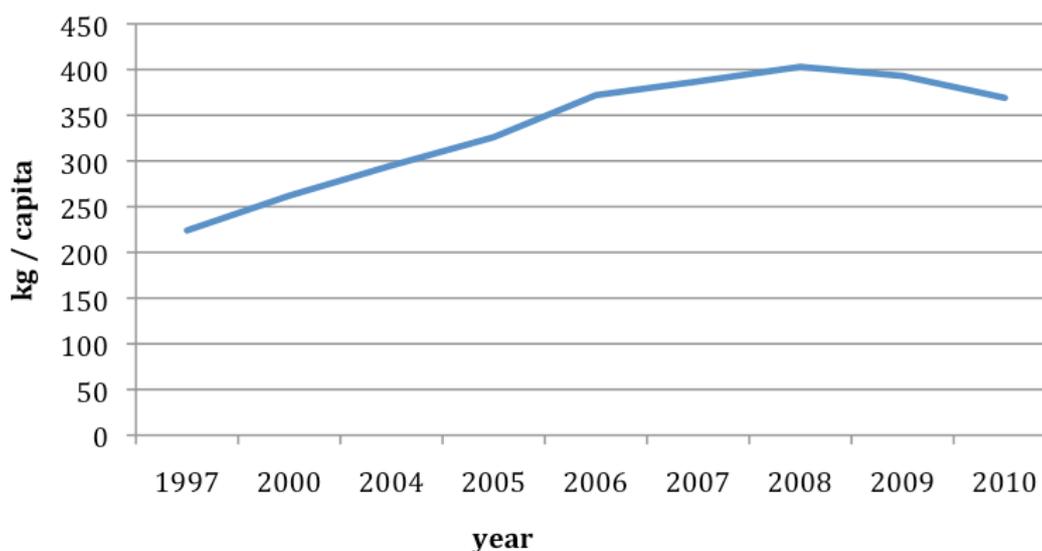
Referring to waste management system in Croatia, one of the major problems as well is disposing large amount of municipal waste at landfills while the system of separate collection is still not enough developed to reach the EU standard. Generation of municipal waste in Croatia had been increasing until 2008 (1.79 million tonnes generated in 2008), which was followed by decrease mostly caused by economic crisis and decrease of general consumption. An amount of 1.63 million tonnes of municipal waste was generated in 2010, which means 369 kg/cap/year - still significantly lower than EU average (502 kg/cap/year) (see Figures 3-8 and 3-9). Landfilling remains the main disposal option for municipal waste. Since 2008, the amount of waste disposed in Croatian landfills had had a continuously slight decreasing trend and in 2010 it amounted to 1.54 million tonnes landfilled. At present, almost all amount of biodegradable municipal waste (paper, green and kitchen waste) is being disposed at landfills.

FIGURE 3-8: Generation of municipal waste (kg/capita)



Source: Eurostat

FIGURE 3-9: Generation of municipal waste in Croatia (kg/capita)



Source: Eurostat

Separate collection of municipal waste is increasing, especially in respect to packaging waste and waste of electrical and electronic equipment (WEEE). The amount of separately collected types of municipal waste (types other than mixed municipal waste, e.g. bulky waste) in 2010 accounted 14% (227 651 t). However, part of this quantity still ends up in landfills. Percentage of population served by organised collection of municipal waste was 96% in 2010, which represents an increase in comparison to the estimated 86% in 2004 and especially 57% in 1995.

Scattered and non-compliant landfills, and a large number of illegal dumpsites, pose significant threat to human health and environment. For a total of 301 official landfills, at the beginning of 2012 remediation of 107 landfills was completed (the waste was removed completely from 66 locations). The waste was actively landfilled at 148 official landfills. Out of

3000 estimated illegal dumpsites, 750 have been remediated (waste removal) (see Figure 3-10).

It is estimated that total amount of the waste disposed in all official landfills has increased from approximately 35.5 million cubic meters in 2004 to 41 million cubic meters in 2010. The volume of waste that is depositing at landfills has gradually increased because of the larger proportion of population with organised collection of waste, and also due to increased volume of waste produced per inhabitant.

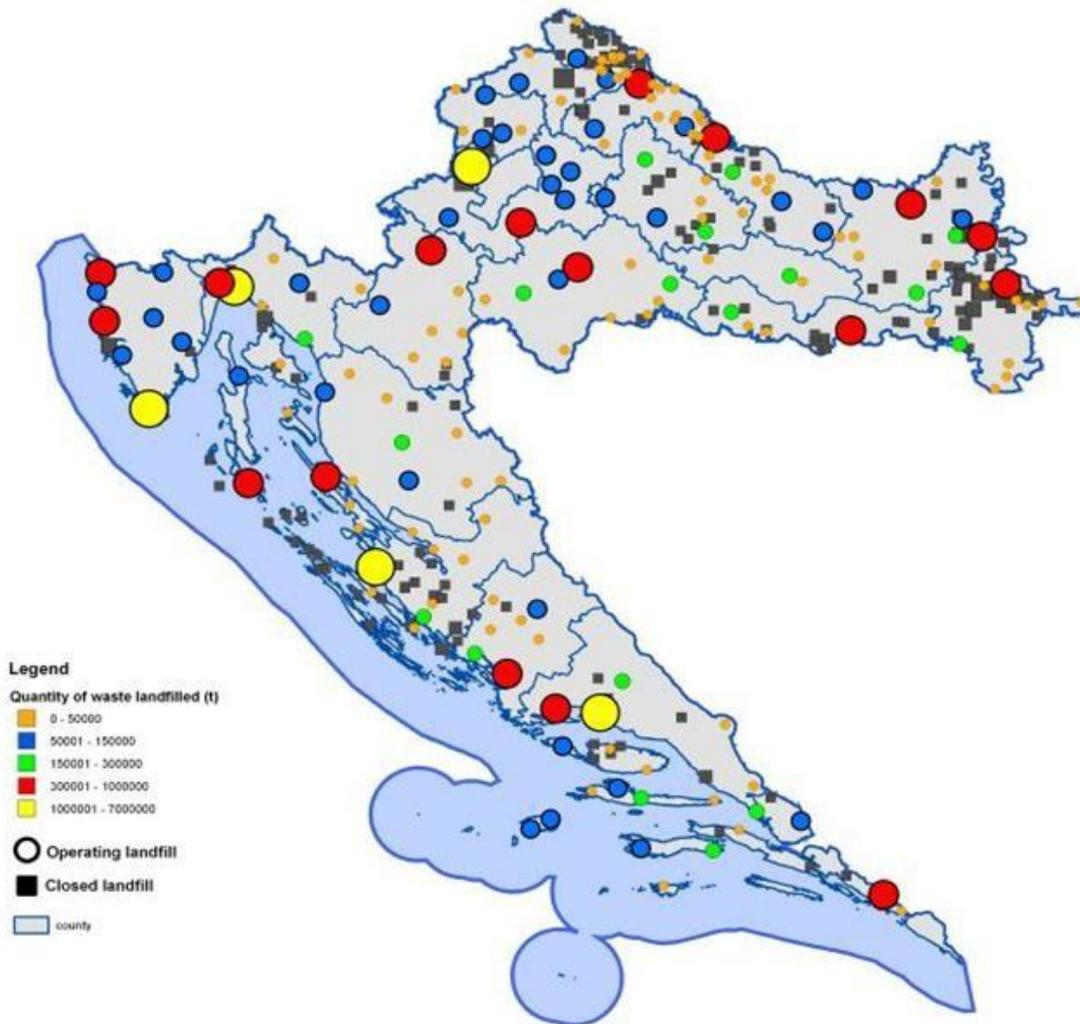
The infrastructure currently available for the management of waste is insufficient and of inadequate standard; the lack of waste treatment facilities represents an obstacle for the establishment of an integrated management system. Waste management system is not completely functional, although there have been improvements introduced during the last several years, including the start of establishment of waste management centres which create conditions for an efficient functioning of the integrated waste management system. Mainly the waste is disposed at the nearest landfill to where the waste is produced. Also, there is a lack of specialized areas for disposing the hazardous waste; furthermore, nine highly polluted landfills also known as “hot spots” should be remediated.

A legacy of the past is a specific problem of “hot spot” sites polluted by waste, representing potential hazard for human health and environment. Remediation of nine such priority locations is defined in the Waste Management Plan. The Waste Management Strategy and Waste Management Plan of Croatia detected nine priority locations (“hot spots”) with a high risk generated because of the long-term inappropriate waste policy. According to this issue, remediation for six hazardous waste locations was ordered by authorities: 1) Factory Salonit d.d. (asbestos cement waste) in bankruptcy and Mravinačka kava; 2) red mud pool and the waste lye of the former alumina plant next to Obrovac; 3) unarranged depository with location large quantities of hazardous waste Lemić Brdo next to Karlovac; 4) site with slag and ashes-depository of slag in Kaštela Bay; 5) Pit Sovjak next to Rijeka - preparation of documentation for remediation co-financed through IPA.; 6) site polluted by coke tar and oil in the part of the chemical section of cokery in Bakar. There are three remaining “hot spots” that will be completed by their owners: “Plomin” slag dump (repaired by the owner), Landfill phosphorus gypsum “Petrokemija Kutina” (remediation program prepared through project Phare 2006), Oily mud “Botovo” (initial program has been made, there is still additional investigation required).

The measures for separate collection of individual waste components have been implemented, but in general, it can be stated that the level of separate collection and recycling is low compared to the EU. A set of regulations on special categories of waste was adopted between 2005 and 2008 and it introduced producer responsibility principle in managing such types of waste.

For those special waste categories, the quantities collected and recovered/recycled in 2011 were: 125 258 t for packaging waste, 35 104 t end-of-life vehicles, 17 233 t waste electric and electronic equipment, 16 754 t waste tires, 8 480 t waste batteries and accumulators, 6 391 t waste lubricant oils and 1 196 t edible oils.

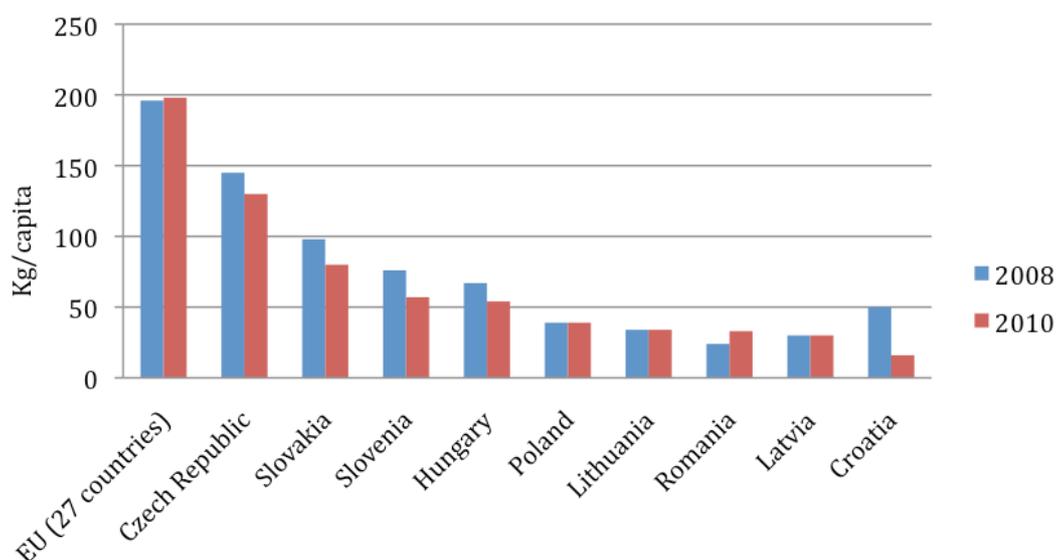
FIGURE 3-10: Landfills by quantity of waste and operational status (2011-2012)



As regards hazardous waste, still there is no adequate infrastructure for the disposal and therefore, the hazardous waste, which cannot be recycled or recovered in Croatia, is sent for export. In 2010, 18 937 t of hazardous waste was exported.

The average amount of hazardous waste produced in EU countries was 196 kilos per capita in 2008, while in 2010 there was 198 kilos per capita. Croatia is way beyond that level. In 2008, the hazardous waste produced in Croatia was 15 kilos per capita and in 2010 there was 16 kilos per capita of produced hazardous waste, as shown in Figure 3-11.

FIGURE 3-11: Generation of hazardous waste by economic activity



Source: Eurostat

Water

The other important issue of environmental policy is facing the problems of public water supply. Croatia belongs to a group of countries relatively rich in water and the water resources have not yet become a restrictive factor of development¹³. Surface and ground waters are the most important water sources of the public water supply. However, there is a great spatial and seasonal disparity in quantity between surface and ground waters.

While in 1990 the percentage of average supply from the public water supply systems in Croatia amounted to only 63%, in 2006 it reached the value of 80%¹⁴, which corresponds to the estimated EU average¹⁵. The remaining population is supplied partially from the local water supplies or individually from own wells, both without an adequate drinking water quality control. Large regional disparities are observed throughout the country. The highest level of water supply is in Istria County (about 99%) and the lowest in Bjelovar-Bilogora (only 31%). All urban centres have a relatively high ratio of water supply. The losses of water quantities supplied to consumers in Croatia are estimated to be about 40% due to the network leakages.

The rate of connection of population to the sewage system in Croatia is 43.6% while in the EU that rate is mostly between 50 to 80%. Once again, there are significant differences between regions with the highest connection in the area of Littoral and Istrian basins (58% of the population) and the lowest in Dalmatian basins (only 31% of the population). Connection rate is satisfactory in the settlements with more than 10,000 inhabitants, where the level of connection was about 75-80%. The major problems with the wastewater drainage occur in minor settlements up to 2,000 inhabitants inhabited by 40% of the population. There is an especially high number of settlements with less than 500 inhabitants in Croatia (5,387 settlements) inhabited by about 800,000 inhabitants. In such settlements, due to technical, technological and financial limitations, the construction and operation of centralized public

¹³ According to UNESCO (2003) Croatia holds 5th place in Europe and 42nd place in the world in terms of its richness in water resources.

¹⁴ Water Management Strategy

¹⁵ EUROSTAT structural indicators on water do not provide an average value for EU-27 but only percentage for certain number of countries.

drainage systems are hardly feasible. The majority of sewage systems in cities are obsolete and significantly permeable. Only 28% of the municipal waste water in Croatia is treated in waste water treatment plants, while in the majority of the EU member states this figure does not fall below 60-70%, as seen in Figure 17. An additional challenge is a large number (135) of municipal companies operating in this sector (some in the public water supply sector, too), which results in inefficiency. Thus, activities related to reorganization of water utility sector have been initiated in 2012. This reform in water sector will be carried out in period 2012–2016.

3.1.3. Regional Competitiveness

During the last decade, the Croatian economy has increased productivity and attained a higher level of investment in comparison to earlier decades, at a slow but steady pace. However, the overall competitiveness of the Croatian economy has declined. In the period 2009–2011 Croatia, as a small and open economy, was seriously affected by the global crisis and is now exposed to the challenges of restructuring. The consequences of the global crisis are still present and the recovery is still uncertain. The structural vulnerability of the economy demands acceleration of the past several years' efforts to increase overall competitiveness.

The Global Competitiveness Report (GCR) 2012-2013¹⁶ assesses the competitiveness landscape of 144 economies by analysing the factors that determine the level of their productivity and prosperity. With the Global Competitiveness Index (GCI)¹⁷ of 4.0 in 2011, Croatia is ranked in the 81st place and qualifies as a country in transition from an “*efficiency driven economy*” to an “*innovation driven economy*”, like its potentially comparable competitors of the Central and Eastern Europe: Estonia, Hungary, Latvia, Lithuania and Poland. The competitiveness score remains stable in comparison to years 2010 and 2009 when it was 4.0 and 4.1 respectively, while the ranking shows a drop from 76th and 77th position respectively.

The results of GCR show that Croatia declined in infrastructure and in technological readiness, whilst the results in health and primary education continue to be of concern. The rankings for the pillars of competitiveness such as financial market development, business sophistication, and institutions were assessed as suboptimal, while higher education, goods market efficiency and market size represents stagnating pillars. The decline in the evaluation of innovation was halted, while there was an improvement in the evaluation of labour market efficiency, although it continues to be at a lower level. Although there are some competitive advantages, which are located mostly under the infrastructure pillar, health and primary education pillar and technological readiness pillar, the Croatian economy will need to focus especially on increasing business sophistication and innovation in order for it to remain competitive.

Since the regional competitiveness monitoring began in Croatia in 2002, its regional competitiveness ranking consistently dropped. From 2002 to 2006, Croatia's average ranking was in the range of 60th place, but in 2009 it dropped to 72nd, in 2010 to 77th, and in 2011 to 81st¹⁸. Low business sector productivity¹⁹ and constant presence of various obstacles in the

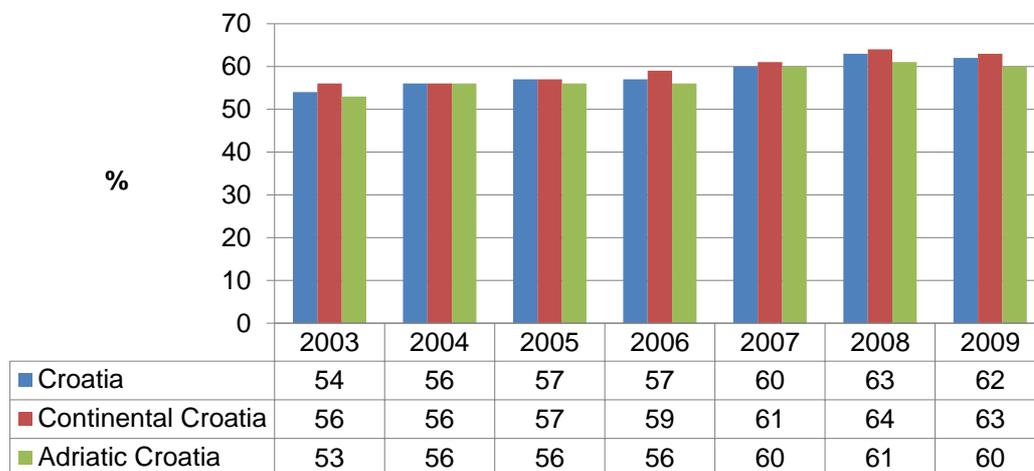
¹⁶ Released in September 2012 by the World Economic Forum

¹⁷ Competitiveness is measured by means of the Global Competitiveness Index (GCI) (on a scale of 1-7), which measures different aspects grouped into 12 pillars of competitiveness: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation.

¹⁸ National Competitiveness Council, Annual Reports on Croatian Competitiveness

business environment²⁰, which are primarily caused by the inefficient judiciary and public administration systems, corruption a lack of ability to absorb new knowledge, technology, innovation and labour market inefficiency make it difficult to strengthen competitiveness.

FIGURE 3-12: Regional GDP, by NUTS 2 regions (PPS p/c in % of the EU-27 average)



Source: Eurostat

Although there are no considerable differences of key economic indicators at the NUTS II level, comparison of Continental and Adriatic Croatia, in Croatia (see Figure 3-12 showing GDP by NUTS 2 regions), a proactive regional policy based on convergence, competitiveness and cooperation is very important because there are considerable and long-term internal development gaps since Croatian counties are not developed in a balanced way.

The demographic changes and depopulation show that Croatia has significantly unfavourable demographic trends compared to the more developed part of Europe. The depopulating areas are characterised by their underdeveloped infrastructure, which shows that extensive and efficient infrastructure is an essential driver of competitiveness. The quality and extensiveness of infrastructure has an impact on the economic growth and reduces income inequalities and poverty. The eastern part of Continental Croatia has been the most affected in this respect, presenting many gaps in infrastructure and recording a constant decrease in population. The competitiveness of the Croatian economy on a national level is thus a reflection of local and regional level competitive capacities, which only enhances the importance and the need for regional and local development in the country. Moreover, considering the gap existing between EU levels and levels achieved in both Continental and Adriatic Croatia, it is clear that additional resources for development cannot be focused at one region only.

Croatian entrepreneurs are becoming increasingly aware of the fact that the international flows of goods, services, technology and ideas, as well as environmental incentives, present unprecedented opportunities for those who are able to compete successfully. The present chapter displays an overview of the main areas of interest in terms of regional competitiveness.

¹⁹ Labour productivity in Croatia was 59.2% of the EU-25 average (2006). However, Croatia's labour productivity lags even more when compared to the EU-15 average, which is 106% of the EU-25 average. ("Path to Faster Convergence: Challenges and Cooperation Overview", The World Bank, Zagreb, January 2008, p.18.)

²⁰ The World Bank study on the ease of doing business ranked Croatia 103 of 183 countries. Doing Business, The World Bank, 2010.

Small and medium-sized enterprises (SME)

Small entrepreneurship has been one of the core drivers of the Croatian economy in the recent period, playing an important role in industrial restructuring, competitiveness and innovation, as well as in generating new employment. In the last two decades, Croatian economy has been characterised by the transition process and the conversion of the existing businesses from state to private ownership, and at the same time the establishment of new privately owned small businesses. The total number of SMEs has been increasing slowly, and in 2011 it reached 99.76% (in EU-15 99.8%) of all registered enterprises and generates 50% of GDP, while it participates in the total export with the share of 41%²¹. The basic characteristic of that period is a large number of loss making entrepreneurs (41.9%)²². The most active sectors are wholesale and retail trade (24.35% of enterprises), with real estate and manufacturing (13.27%) trailing behind²³. The information on the location of economic activity on the county level, measured in terms of registered businesses, shows that SMEs are concentrated in a few major urban centres (Zagreb, Split, Rijeka, Osijek and the surrounding areas).

Despite the progress that has been demonstrated in the SME sector over the last years, there are a number of challenges in terms of SME performance, which need to be overcome if Croatia is to reap the full benefits of the EU membership, and respond effectively to the challenges of the EU and global markets.

Two thirds of SMEs in Croatia are micro businesses, many of which currently lack the skills and resources to further develop their potential. A significant part of SMEs have to tackle difficulties such as limited access to finances and specific financial instruments (loans, guarantees, risk capital), low levels of productivity, an insufficient level of profitability, which in turn has an impact on developing investments, lack of innovation and an overall lack of cooperation between entrepreneurship and R&D, not only in business relations with science institutions but also with companies which specialise in new technologies and R&D. Further obstacles are a small high tech sector, orientation of production mainly towards the domestic market a low share of high quality products and their certification. All of these can be seen as the main factors that hinder the development of the SME sector, preventing it from reaching satisfactory levels.

The availability and level of education attained across Croatia influences the cohesive growth of the country, and is thus recognized as a crucial factor in the development and transition towards modern and high value added production. In June 2010, Croatian Government has adopted Enterprise Learning Strategy. The objectives of the Strategy are rising of public awareness about entrepreneurship and develop a positive attitude towards lifelong learning for entrepreneurship, as well as to introduce learning and training for entrepreneurship as a key competence in all shapes, types and levels of formal, non-formal and informal learning.

The existence of quality business-related infrastructure is a prerequisite for competitiveness and sustainable, value added economic activity. Within the period 2008-2011, the activities of totally 94 business supporting institutions (BSI) were co-financed, specifically: 26 development agencies, 35 entrepreneurial centres, 26 business incubators and 7 technological parks. Main concentration of BSIs is in most advanced counties, which gravitate with biggest centres of Croatia, like Zagreb (including County of Zagreb with 8 BSIs), Osijek (Osječko-Baranjska County with 11 BSIs), Split (Splitsko-Dalmatinska County with 7 BSIs), and Rijeka (Primorsko-Goranska County with 7 BSIs). In the lagging behind regions, there are 33 BSIs, which represent 37.5% of the total number of BSIs.

²¹ FINA, SBA fact sheet Croatia 2010/2011

²² SBA fact sheet Croatia 2010/2011

²³ The Croatian SME Observatory Report 2012

In the period 2004-2009, the former Ministry of Economy, Labour and Entrepreneurship co-financed the construction and development of 293 entrepreneurial (industrial) zones, which, according to the data submitted by the local self-governing units, occupied around 8,000 hectares with approximately 1,800 active entrepreneurs employing 31,000 persons²⁴. However, despite the above-mentioned investments, the quality of available business infrastructure limits the economic activities and growth of enterprises. Particularly, the large entrepreneurial zones, that have the greatest potential for large investment projects, are considered to be inadequate for the reception of foreign and domestic investments, due to low level of infrastructural equipment, since only 13.53% of the free surface is fully equipped²⁵. That said, it does not surprise that the occupancy rate of large business zones is low (34.75%) compared to the medium-sized zones (40.84%), despite a high interest of investors in large zones.

A problem that inhibits foreign greenfield investments is the inadequate and unequipped business related infrastructure mainly referring to the size of industrial plot, the availability of basic infrastructure, the link to major transport corridors and the availability of high quality labour force²⁶. The long-standing shortage of greenfield FDI continues. The total stock of FDI in Croatia stood at 22.2 billion euros (around 49.42% of GDP) at the end of 2011, about 9 percentages lower than at the end of 2010. The largest shares of cumulative FDI inflows (over the period 2003-2010) are accounted for by the financial sector (37%), followed by manufacturing (21%) and wholesale and retail trade (17%)²⁷. In order to successfully build a positive image of Croatia as a country worth investing in, there is a need to make quality improvements in the area of proactive targeted marketing activities and the dissemination of reliable information to investors and to acquire additional knowledge related to the successful attraction of FDI.

Research, development and innovation (RDI)

Research, development and innovation, especially market-oriented R&D and RDI applicable in the business context are the undisputed key elements of a knowledge economy, as well as an essential factor in economic growth, business competitiveness and employment.

Out-dated infrastructure and equipment represents one of the obstacles for Croatian public research organisations and higher education institutions to enhance the quality and availability of their services and R&D capacity since research facilities and facilities that can be used for research-to-business cooperation are currently severely underdeveloped in Croatia and require major improvement.

Human resources in science and technology, as a share of the total labour force, have been continuously increasing from 2002 (27.6%) to 2010 (32.1%). In 2011, 30.9% of the total labour force in Croatia was in the science and technology sector, which is comparable to most of the EU-27 member states²⁸ (EU-27 average being 42.3%). While Croatia employs 4.62% (2008) in high- and medium-high-technology manufacturing sectors, trends in the EU-27 countries for these sectors vary from less than 1% in Cyprus and Luxembourg to over 10% in Germany and the Czech Republic²⁹.

However, in the knowledge-intensive services sector Croatia has a relatively low share of employment, which measured 28.9% in 2011, compared to 35.5% in EU-27³⁰. The share of

²⁴ Source: SME Directorate of Ministry of Economy, Labour and Entrepreneurship

²⁵ "Supply and Demand Analysis of Business Zones in Croatia", Trade & Investment Promotion Agency, 2010

²⁶ Source: Trade and Investment Promotion Agency survey

²⁷ Source: UNCTAD, World Investment Report 2012, CNB

²⁸ EUROSTAT

²⁹ EUROSTAT

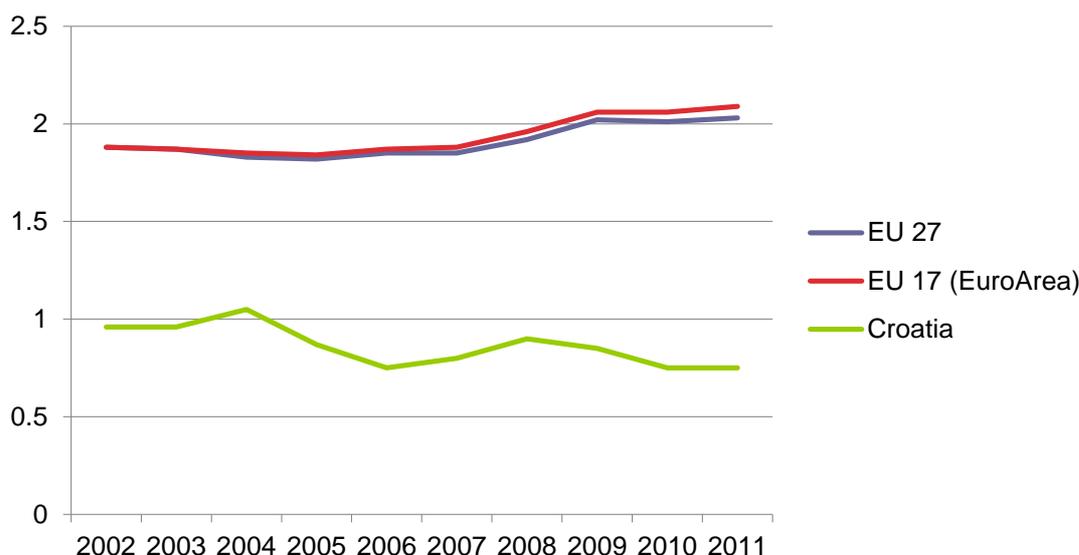
³⁰ EUROSTAT, 2010

research and development personnel in the business enterprise sector (in 2011 0.17% of the labour force in Croatia compared to 0.62% in EU-27³¹) is not sufficient for accumulation of regional technological potential.

The public sector employs 81.5% of all the researchers and allocates almost 90% of the total investment into science and research, whereas only 10% of institutes' revenues and 6% of faculties' revenues come from research done for the business sector³².

Although the most important source of funding for the total domestic investments in R&D in 2010 was the government sector which provided 49.2% of Gross Domestic Expenditure on R&D (GERD), business research, on the other hand is mostly financed by companies themselves (72% in 2008) since the government contributed to the business sector with a modest 1.8%³³. The share of innovative companies in the general population of companies in Croatia is 42.43%, which is below the EU-27 average (52.93%)³⁴ but nevertheless comparable to other new member states of the EU. Croatian companies do not exploit technological and innovation activities and R&D as a major source for creating overall competitive advantages. Expenditure on innovation compared to total income is still low. Croatia's GERD in 2011 amounted to 0.75% of the GDP, which was significantly lower than the EU-27 average level of 2.03%,³⁵ as shown in the Figure 3-13.

FIGURE 3-13: Gross domestic expenditure on R&D as percentage of GDP



Source: Eurostat

Tourism

Tourism is an important sector for the Croatian economy. With unique natural wealth and cultural-historical heritage, Croatia has exceptionally attractive tourism potential, which must be more intensely valorised, with a view to creating a more recognizable identity of the Croatian tourism that would improve its competitiveness and facilitate its market positioning. In 2011, 11.45 million tourists visited the country and total revenues from tourism contributed with 8.3 % to the national GDP and had 14.4%³⁶ share of international receipts to the GDP.

³¹ EUROSTAT, 2010

³² CBS, 2009

³³ Annual Report for R&D 2008, CBS Croatia

³⁴ EUROSTAT, Community Innovation Survey 2010

³⁵ EUROSTAT

³⁶ Croatian National Bank, 2011

Tourism is of vital importance for the well being of many areas, particularly those situated on the Adriatic coast, thus the vast majority (94%) of the tourism accommodation businesses situated in seaside resorts. Unlike the Croatian coastline, the continental part of the country, from a tourist point of view, still remains insufficiently and/or inefficiently utilized, even though there is no lack of potential tourist attractions there. Indeed, to some degree, the City of Zagreb, which accounted for 65% of all inland arrivals and 50% of all overnights recorded in the inland area with 730 945 tourists in 2011, represents an exception here³⁷.

Croatian tourism productivity is limited due to out-dated concepts and technology, as well as a low average level of quality of accommodation facilities. There is a lack of facilities that contribute to increasing the general service quality and extend the tourist season of both seashore and inland tourism. Furthermore, there is a lack of professional management that would promote and intensify diversification of tourism offer and accompanying tourism services. Total accommodation stock has an unfavourable structure by types of establishments since in 2010, of the total share of beds, only 17% was in hotel-type establishments (hotels and tourist villages), while the remaining 83% was in small, family-type of establishments, camping sites and other types of establishments³⁸. Aside from the basic offer, tourist accommodation in general does not have enough complementary attractions and infrastructure to contribute to upgrading the quality of the establishments and to increase occupancy rates, especially beyond the main season.

Cultural tourism is becoming a significant part of the Croatian tourism supply as well. Although recognized as a part of the tourist potential, cultural heritage in the form of castles, palaces, manor houses, fortresses, houses of traditional architecture, monuments of industrial heritage, houses of traditional crafts, etc. remains neglected and unutilized. In the period between 1991 and 1996 more than 2,500 buildings under protection were damaged or destroyed and have partially lost their touristic value. Nevertheless, there are currently over 5,600 immovable cultural monuments that are classified as protected cultural goods and which can be validated through tourism and entrepreneurial activities. Also, since, according to State Institute for Nature Protection, there are 433 areas of protected nature in Croatia, nature protected areas and their tourism valorisation present another important aspect where interventions are necessary in order to integrate them into the tourist offer. This rich and diverse cultural heritage together with nature protected areas offer a great potential for the creation of broader and more diverse tourist offer throughout Croatia, but significant investments in the infrastructure is still needed for their sustainable use.

3.1.4. Human Resources Development

Human capital in Croatia is facing similar structural challenges as the majority of western and central European countries, such as decreasing and ageing population, stagnation of employment and high unemployment.

According to the 2001 census, Croatia had 4,437,460 inhabitants, which represents a decrease of 7.2% in comparison to the previous census in 1991. A further decrease of 3.4% was shown in 2011, when the census recorded the population of 4.284.889. In addition, the recent demographic developments and projections show that Croatia is facing a rather fast ageing population. The average age of the population in 2011 was 41.7 (39.9 for males and 43.4 for females), which is an increase compared to 2001, when the average age amounted to 39.3 (37.5 for males and 41.0 for females). During the last five decades, the average

³⁷ CBS

³⁸ Source: Ministry of Tourism

ageing was 1.5 years per decade (1.6 for males and 1.7 for females), which demonstrates structural changes in the population and a direct impact to the labour force.

In 2010, the life expectancy in Croatia was 73.5 years for men and 79.9 years for women, which is below the EU average of 76.7 years for men and 82.6 years for women³⁹. In 2011, the old-age-dependency ratio in Croatia was 25.4, and in EU-27 it was 26.2, which indicates that Croatia faces demographic changes similar to the ones in the EU.

Labour market

Before Croatia was affected by the global economic crisis, the employment rate of the working age population (20-64) was 62.9% in 2008, but in the next few years it decreased to 57.0% in 2011 (as shown in Table 3-2). This however is considered to be a rather low rate of employment compared to the average European employment rate, which is estimated to be 70.3% in 2008 (68.6% in 2011). The employment rate of women was improving before crisis emerged, and in 2011 it was at the same level as in 2003; 50.9% (EU-27 average in 2011 was 62.3%), and for the elderly (55-64) the employment rate is 37.1% (EU-27 average in 2011 was 47.4%). However, with the consideration of relatively stable annual growth rates before the crisis, a relatively stable employment rate trends in the same period showed the application of the growth model of “*growth without employment*”. Due to crisis and economy shrinkage, the employment rate decreased considerably. The level of education continues to influence the activity and employment rate. In 2011, the activity rate of the middle-aged population (25-54) with elementary education was 63.1%, with secondary education 80.7% and with college or university education 93.2%.

TABLE 3-2: Labour market developments in Croatia

Year	2007	2008	2009	2010	2011
Employment rate (20-64)	62.3	62.9	61.7	58.7	57.0
Employment rate (women)	54.5	55.2	55.4	53.0	50.9
Employment rate (older workers)	35.8	36.7	38.5	37.6	37.1
Persons employed part-time	8.6	8.8	9.0	9.7	9.9
Unemployment rate	9.0	8.4	9.1	11.8	13.5
Long-term unemployment rate	5.7	5.3	5.1	6.7	8.6

Source: Eurostat

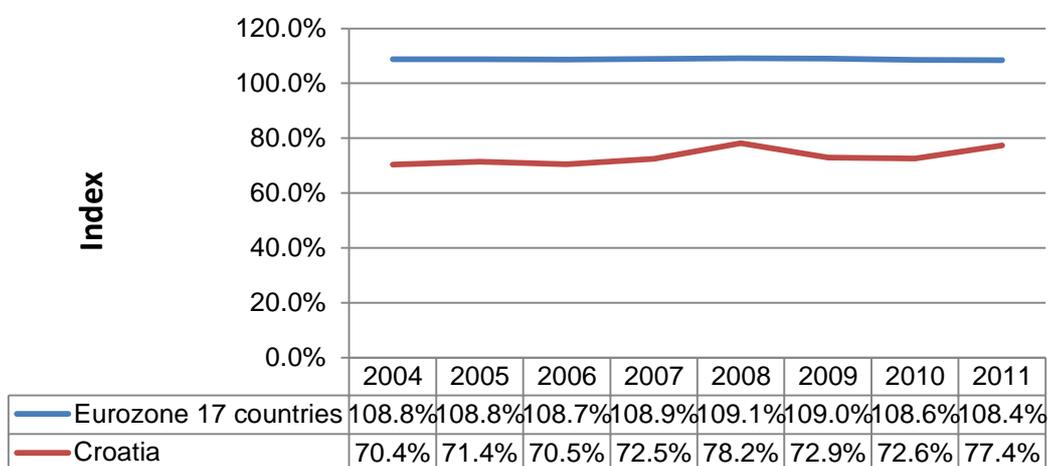
Part time workers, as well as workers with temporary contracts, make a relatively low percentage of persons in employment, suggesting that these flexible forms of employment are still of limited use. For instance, the share of the part-time employed persons, within the total number of employed population, has increased from 8.8% in 2008, to 9.9% in 2011, and it is still lower than the EU average of 19.5%, especially when it comes to employed women (12.4% compared to 32.1%). Furthermore, labour productivity per person has been slightly rising since 2008; from 78.2% to 77.4% in 2011 and is considerably low compared to the average of the EU-17 (euro zone), which is 108.4% in 2011, as shown in Figure 3-14.

In 2011, unemployment rate of the youth (15-24) was 36.1%, which was significantly above the EU-27 average of 21.4%. The similar situation applies to the unemployment rate of women, which rose from 10.1% in 2008, to 13.2% in 2011, and which was significantly higher than the EU-27 average of 9.8% in 2011. Long-term unemployment (longer than 12 months of duration) is on a very high level of 8.6% of the total active population in 2011. There has

³⁹ Eurostat

been simultaneous unemployment rate increase in all basic groups of population. Specific groups of people threatened by unemployment are those employed in sectors that are under restructuring, especially the shipbuilding industry. Increase of previously mentioned unemployment rates was direct influence of recession.

FIGURE 3-14: Labour productivity per person employed (EU-27=100)



Source: Eurostat

In order to provide income security to the unemployed, and to provide a basis for more flexible employment relations, the Government significantly increased the unemployment benefit level in 2009. The benefit for the first 90 days is 70% and for the remaining time 35% of the base. The basis for determining the amount of compensation is the average salary calculation. An unemployed person, depending on the total time spent at work, is entitled to compensation of 90 days if that person fulfils the minimum requirements, and up to 450 days if that person has spent more than 25 years working.

The unemployment benefit system does not seem to have a substantial effect on effective labour supply due to the low benefit replacement rate and limited benefit duration. Also, unemployment benefit is received by less than 25% of the unemployed, so the system creates little incentive for labour force withdrawal.

Social inclusion and poverty

In the end of 2011, there were 5,992 registered unemployed people with disability, making 1.96% of the registered unemployed population. Their structure, according to the sort of disability shows, that they are mostly persons with intellectual disability, followed by physical disability and combined disability.

The structure of unemployed persons with disability, by educational background, shows that 67.7% persons completed 1 to 3-year vocational secondary school and the total of 81.5% persons completed 1 to 3-year, or 4-year secondary school education. By duration of unemployment, 65% are unemployed for longer than 1 year and 36.9% of persons with disability are unemployed for longer than 3 years, which shows difficult position in access to employment for people with disability. Their main difficulties are owed to their inadequate professional occupations, i.e. their knowledge and skills are usually not needed on the labour market.

In the course of the global recession the Croatian Employment Services intensified regular activities and have applied a series of additional measures, e.g. establishment of mobile teams providing counselling and vocational trainings without commencing employment.

Poverty risk is strongly linked to status of household members on the labour market. In 2008 the CBS “at-risk-of-poverty-rate” basic indicator (namely, threshold at 60% of national median equivalent net income) in Croatia was 18.9%, presenting a slight improvement since 2001 (20.5%). But in 2011, it rose to 21.1%. Higher at-poverty-risk-rate in 2011 was for the unemployed (42.5%), followed by the economically inactive (33%), the retired (22.2%) and the self-employed (17.6%). The at-poverty-risk-rate for the employed increased from 4.1% in 2008 to 5.3% in 2011.

Risk of social exclusion is correlated to lower educational level (poverty risk is two to three times higher for groups with unfinished secondary school than for the average population). Groups of people with disabilities or those belonging to minorities (particularly the Roma) and refugees are also facing the risk of social exclusion.

The analysis of Croatian context indicates that the special endangered groups persons with low income (unemployed, older people without pension, one-parent families, families with more than two children, single mothers and older woman), internally displaced persons, refugees, returnees, vulnerable ethnic minorities (especially members of the Roma community), persons with disabilities, as well as other less numerous groups. In 2011 there were 318,962 registered welfare recipients of which 51 % were woman. According to the age of welfare recipients, there were 9 % of welfare recipients at the age of 18 to 21, 26 % welfare recipients at the age of 22 to 39, 34% of welfare recipients at the age of 40 to 65, 23 % of welfare recipients at the age of 66 to 80 and 8 % of welfare recipients who were above the age of 81. According to the number of users, the highest number of welfare recipients was in the group of people with intellectual or physical disabilities (26.5%), then people without sufficient income to cover basic life costs (23.2%), people without sufficient income (15.4%), persons with behavioural disorders (5.4%) and persons with mental disorders and addicts (5.1%). During 2011, some of the social welfare rights, services or measures were used 1.7 times per adult user in average. Analysis and estimation of the World Bank show that the profile of poverty has changed under the influence of the crises and that the risk of absolute poverty has increased for the children and the youth population under the age of 30, as well as the risk of poverty of working –age in general.

Education

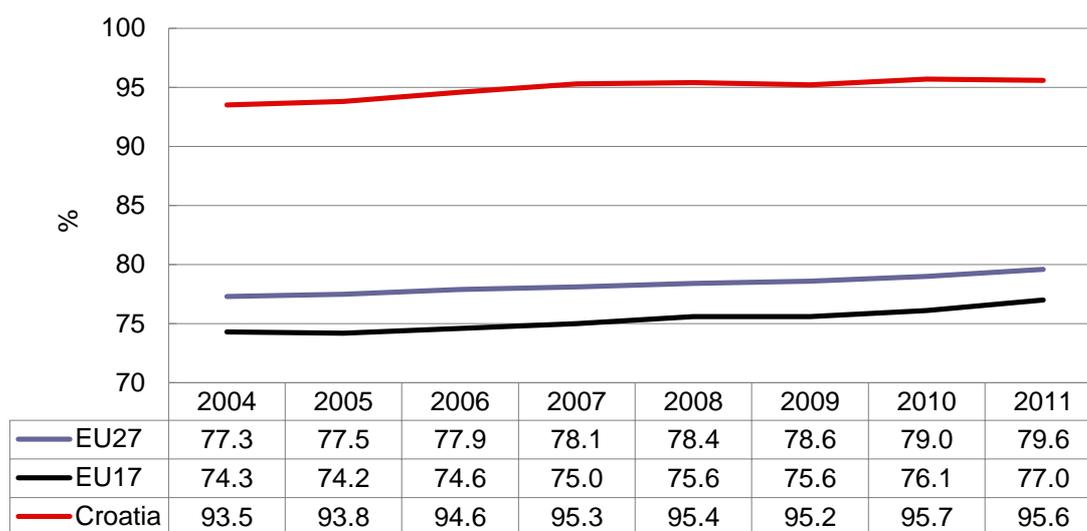
Educational attainment levels of Croatian working age population are generally below EU standards. There was 22.7% persons with low educational attainment (ISCED levels 0-2), 25.3% of persons with lower secondary education (aged 15-64), 59.5% of persons with upper secondary education and 15.3% of persons with tertiary educational attainment. Youth education attainment level is above EU average, peaking at 95.7% in 2010, as shown in Figure 3-15.

Furthermore, there was 78.4% of secondary school pupils included in VET system. Moreover, during academic year 2010/2011, a total of 32,378 students graduated from Croatian institutions of tertiary education. In addition, a total of 1762 students were enrolled in postgraduate specialist studies. There is currently no data available at the national level on the rates of access, completion and dropout in tertiary education.

In the period 2005-2008, the budgetary provisions for higher education increased by 33%. Since then, under the effects of the economic crisis, the available budgetary funds have stagnated, but the increase in the available funds still surpasses the comparable increase in the number of students. The increased public funding and increased human resources have resulted in certain changes in the tertiary education sector; new student services have started developing and there has been an overall improvement of the teacher/student ratio. The capacity of tertiary education institutions to use the new resources efficiently, however, is limited by weak governance structures. By tradition, the four largest public universities in Croatia - Rijeka, Zagreb, Osijek and Split - which account for over 70% of all students, are loose associations of independent institutions or faculties. According to OECD (2007) and The World Bank (2009) reports, this governance model hampers the progress of systemic

reforms and decreases the overall responsiveness of the university system to the needs of Croatian society⁴⁰. The legal independence of faculties lowers universities' capacities to function as single entities, which negatively affects their strategic development, use of resources and overall quality of teaching and research work. It also hampers the establishment, development and effectiveness of student services, thereby negatively affecting completion rates and the overall quality of education. The 2011 State Audit of higher education in Croatia provided a strong negative assessment of the accounting practices and pointed out the low general standards in financial governance of Croatian higher education.

FIGURE 3-15: Youth education attainment level (percentage of the population aged 20-24 having completed at least upper secondary education)

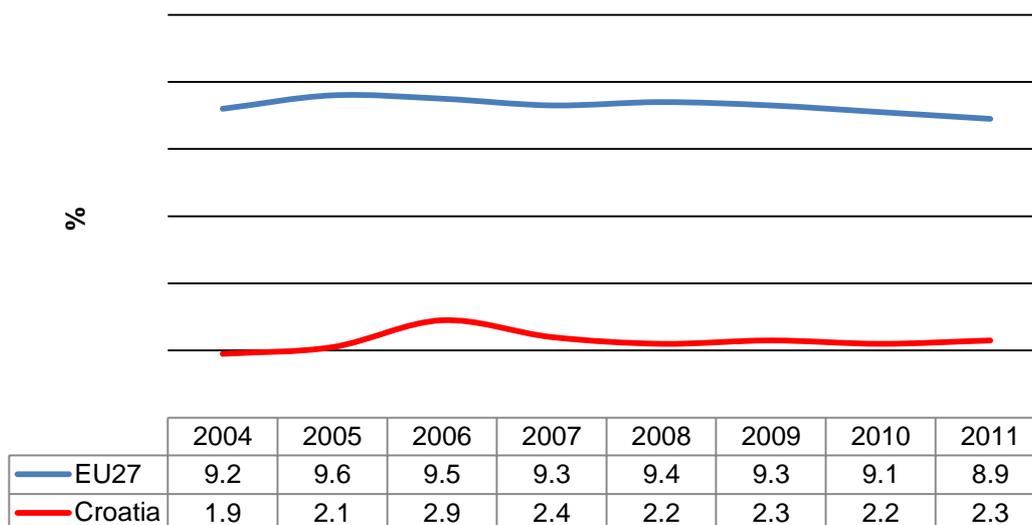


Source: Eurostat

The application of Life Long Learning (LLL) principles is still below the EU average (see Figure 3-16). The share of population aged 25-64 participating in education and training in terms of LLL in 2011 is significantly low at 2.3%, whereas the EU average is 8.9%.

⁴⁰ Analysis available in OECD, 2007, "OECD thematic review of tertiary education - country background report for Croatia" and World Bank, 2009, "Croatia Convergence Report"

FIGURE 3-16: Life-long learning (percentage of the population aged 25-64 participating in education and training over the four weeks prior to the survey)



Source: Eurostat

There is discrepancy between education supply and the demand of the labour market. Even though there is an absence of thorough analysis, a deficit of skilled workers can be observed, especially of workers with secondary and tertiary technical education. At the same time there is a surplus of workers with less than secondary and general secondary education. As for regular VET education, some programmes with the highest enrolment rates educate for occupations with highest number of unemployed persons. The funding of VET is approached in a traditional way with the private sector playing only a minor role. Funds for financing secondary education are allocated from the central government budget and from budgets of local and regional administrations. These financing conditions hamper a faster VET reform, capacity building and more effective interaction with stakeholders and labour markets.

Although the RDI sector has evolved considerably in the last 15 years, Croatia still lags behind European and international competitors. The share of R&D personnel in the business enterprise is not sufficient (0.17% of the total employment in Croatia to 0.62% in EU-27) for accumulation of regional technological capabilities. A significantly negative trend was recorded in the share of young people who are taking up technical and natural sciences, medical and biomedical sciences, ICT and engineering and who can contribute to the technological capacity of companies and industry. The number of students in natural sciences remains low (3.56%), while the number of students in the medical sciences (6.69%) and technical sciences and engineering (23.38%) has not changed over the last seven years. The proportion of PhD is very small and amounts to only 0.2% of PhD holders in total population. When examining unemployment and social exclusion trends, the regional differentiations are significant. The nation-wide average (registered) unemployment rate was on the level of 17.0% in 2011, ranging from 8.3% in City of Zagreb to 31.8% in Brod-Posavina County. Similarly, the threats for exposure to social exclusion and/or poverty rate in country's poorest regions are up to six times higher than the one in the richest region, while the poverty gap between rural and urban areas is up to three times higher.

Civil society

Civil society includes a wide network of organisations in the wider spheres of social life whose members have objectives and responsibilities of general interest and which act as intermediaries between citizens and public authorities. Non-governmental organisations (NGOs) include associations, foundations and trusts, private institutions, trade unions,

employers' associations, legal entities of religious communities, as well as various types of informal civic initiative and citizens, which have in common the promotion of active participation of citizens in public life. Cooperation and dialogue between different sectors of society represents the most effective way of shaping public policies that will be the basis for balanced economic and social development and for finding common solutions that will contribute to employment, social security and inclusion, and solidarity, without neglecting the environment in which we live.

Currently, the social dialogue is handled predominantly on central level, which gives the process a more formal and unilateral character. Fragmented structure of the trade unions poses additional challenge in continuity of the social dialogue process; the majority of trade unions are affiliated through five confederations, but they are insufficiently organised to actively participate in the sectoral dialogue. Since the collective interest of employees is represented most effectively by their trade unions, unionization level has a crucial importance in the social dialogue. In Croatia there is about a 26% level of unionization, which is on par with the EU-27 level, and the four EU most populated countries, such Italy (30%), the UK (29%), Germany (27%) and France (9%). In Croatia social dialogue is promoted mostly by the Croatian Economic and Social Council (ESC), which started its work in January 1994. It consists of representatives of the government, trade unions and employers associations in an equal extent.

In addition to the established social dialogue in Croatia, over the years a solid framework for the institutionalisation of dialogue with a wide circle of civil society organisations in the form of public policy has been developed. Powered and dynamic civil society is recognized as a guarantee of a responsible and effective public administration. Through the development of its capacity for activities, the dialogue with NGOs and interested public, the civil society is making progress in accountability, transparency and a greater orientation to the public administration performance. NGOs in Croatia have eventually grown into very recognizable actors in key social, political and economic developments in Croatia. As of December 2011, there were 45,018 registered associations, 179 registered foundations, 12 funds, 131 foreign NGOs, over 600 private institutions and more than 500 trade unions and employers' associations, along with 52 religious communities and 2014 legal entities of the Catholic Church and 428 legal entities of the Orthodox Church in Croatia. The number of organisations has been constantly increasing. Significant differences can be observed between different sectors; sports associations represent a share of 35%, the association of culture 14.5%, while organisations in the field of social welfare participate with only 3.6% of the total number of registered associations. Through the grant schemes programme of the state budget aimed for civil society programmes and projects (through which 23 government bodies, offices of the Croatian Government and other public institutions annually fund more than 5,000 projects and programmes of civil society organizations), as well as through the EU programs, significant results have been achieved in the view of strengthening the capacity of civil society organisations as service providers in the field of social welfare, health care, education, culture and environmental protection. The positive results achieved indicate that these forms of cooperation meet the needs of local people, contribute to employment and mobilise local resources. As an upgrade to the achievement of the objectives, additional programs to strengthen civil society sector have been foreseen.

Concerning the provision of social services by non-state actors in 2007, the 2008 UNDP Research Mapping Alternative Social Services/Programs by Countries showed that international funding accounted for 23.4% of the total funding available in 2007 and 20.6% of the funding is targeted specifically to CSOs providing non-institutional social services. In total, CSOs have accounted for 57.0% of non-institutional social services provided in 2007. In last few years there were not any significant changes in that field, so data from 2007 are still relevant.

3.2. SOCIO-ECONOMIC SITUATION IN CROATIAN REGIONS

Croatia is divided into two NUTS 2 regions: Adriatic Croatia and Continental Croatia⁴¹. Continental Croatia covers 14 counties (City of Zagreb, County of Zagreb, County of Krapina-Zagorje, County of Varaždin, County of Koprivnica-Križevci, County of Međimurje, County of Bjelovar-Bilogora, County of Virovitica-Podravina, County of Požega-Slavonia, County of Brod-Posavina, County of Osijek-Baranja, County of Vukovar-Sirmium, County of Karlovac, County of Sisak-Moslavina), while Adriatic Croatia covers 7 counties: County of Primorje-Gorski kotar, County of Lika-Senj, County of Zadar, County of Šibenik-Knin, County of Split-Dalmatia, County of Istria, County of Dubrovnik-Neretva (see Figure 3-17). The two regions constitute statistical units only, unlike the counties (NUTS 3 level), which are administrative, self-governing units. According to the GDP per capita in PPS (compared to the EU-27=100), Continental Croatia has a higher figure of 64.1% than Adriatic Croatia with 62.1%, while the whole country has 61%⁴² of the same index.

Regional disparities at county level

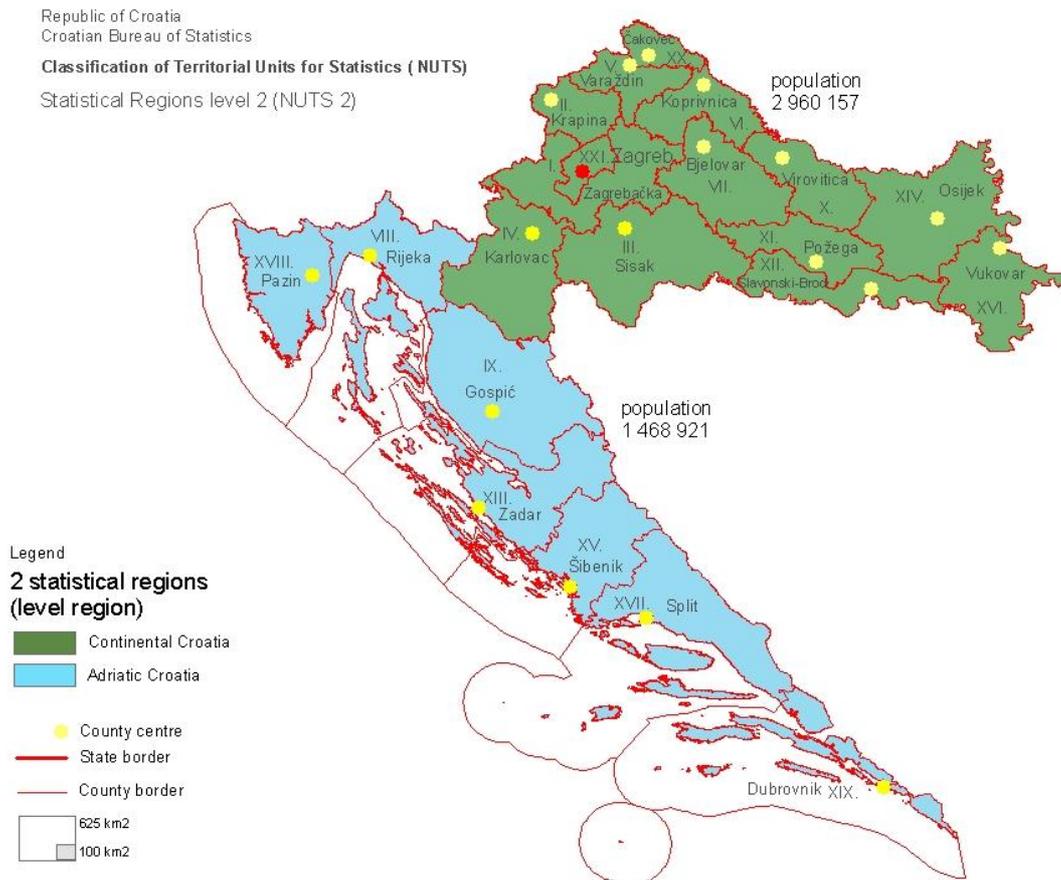
Although disparities may not be considerable at the NUTS 2 level, significant differences can be noticed at the individual county (NUTS 3) level. There are large development disparities between Croatian counties caused by diverse factors such as their location, geography, historical events, transport connectivity to other regions or countries, local conditions, natural resources and different traditions. The two extreme examples are the City of Zagreb and the County of Brod-Posavina. The GDP per capita for the City of Zagreb is 76.1% higher than the Croatian average. On the other hand, the GDP per capita of the County of Brod-Posavina is slightly above half the Croatian average (55.4%)⁴³. A comparison between these two counties shows that the GDP generated per capita is 3 times larger in the area of the capital city than in County of Brod-Posavina.

⁴¹ National Classification of Territorial Units for Statistics (OG 96/2012)

⁴² EUROSTAT, 2012.

⁴³ CBS (First release, no. 12.1.2., 14th March 2012)

FIGURE 3-17: NUTS 2 Regions in Croatia



Source: CBS

The three most developed counties in terms of GDP per capita are the City of Zagreb, the County of Istria and the County of Primorje-Gorski Kotar, which are the only ones that have reached a GDP per capita level above the Croatian average. The least developed counties are Brod-Posavina, Vukovar-Sirmium (59.1%), Požega-Slavonia (61.6%) and Virovitica-Podravina (63.3%), where the GDP per capita levels are less than 65% of the national average. Three out of four of the above mentioned counties are situated in the eastern part of Continental Croatia.

The most developed regions generate their added value mainly in the business services and industry sectors, while the added value of the less developed ones comes mainly from agriculture followed by industry. Although there are no significant differences in existing public services, evident discrepancies exist in the productive performance of the regions⁴⁴.

The analysis of the economic structures shows that the most prevailing business sectors in the western part of Continental Croatia are financial intermediation and real estate (mainly due to the impact of the City of Zagreb), followed by the manufacturing industry, trade, construction, agriculture and forestry. The eastern part of Continental Croatia is the economically most homogenous territory and shows a narrow economic base oriented

⁴⁴ FINA, "Analysis of the financial results of entrepreneurs by counties", 2008.

towards a single dominant activity, agriculture and forestry. Adriatic Croatia shows considerable heterogeneity, and is mostly specialized in tourism, followed by construction and transport⁴⁵.

Regarding investments, which are certainly one of the most important sources of growth, some differences between regions have been recorded. In 2009, of the total investment in the Republic of Croatia, 63% was achieved in the Continental Croatia.⁴⁶ However, if the gross fixed capital formation in new fixed assets is considered per capita, values are more or less equal, with slight advantage given to Adriatic Croatia. Analysis on the NUTS 3 level shows that around 50% of all investments in Croatia refer to three counties – City of Zagreb (with 32.9% of total investments), Primorje-Gorski Kotar (9.9%) and Split-Dalmatia (7.9%). On the other hand, the lowest investments refer to Požega-Slavonia and Virovitica-Podravina (each counts with around 0.6% of total investments in the Republic of Croatia). This fact can easily lead to the assumption that an increase in regional discrepancies is inevitable since the larger investments are realized in the most developed regions.

In almost all counties, an increase in exports has been noted in the recent years (County of Brod-Posavina has been the only one with decrease of export in period 2009-2010). Continental Croatia exports makes 72% of the total Croatia export. Although 35% of all export refers to City of Zagreb, it is worth noting that Istria, Split-Dalmatia and Primorje-Gorski Kotar counties, all situated within Adriatic Croatia, were placed in the top five as well. Lika-Senj (only 0.07% of total Croatian export), Dubrovnik-Neretva and Požega-Slavonia counties have the lowest position on the list⁴⁷.

Regarding the unemployment rate, there are no significant disparities between the NUTS 2 regions. Continental Croatia had a higher unemployment rate in 2011 (17.35 % compared to the national average, which was 17.0%), while the unemployment rate of Adriatic Croatia was lower than the average and amounted 16.39%. However, analysis on the NUTS 3 level again presented important differences between counties. While the lowest unemployment rate of 8.2% has been recorded in the City of Zagreb and followed by Istria (8.6%), unemployment reached the highest level in Brod-Posavina (31.8%), Virovitica-Podravina (30.5%), Sisak-Moslavina (29.9%) and Vukovar-Sirmium (29.6%)⁴⁸ counties (Figure 3-18).

Regional disparities are reflected also through the availability of basic infrastructure, namely transport and environment, but also business-related, as well as social and educational.

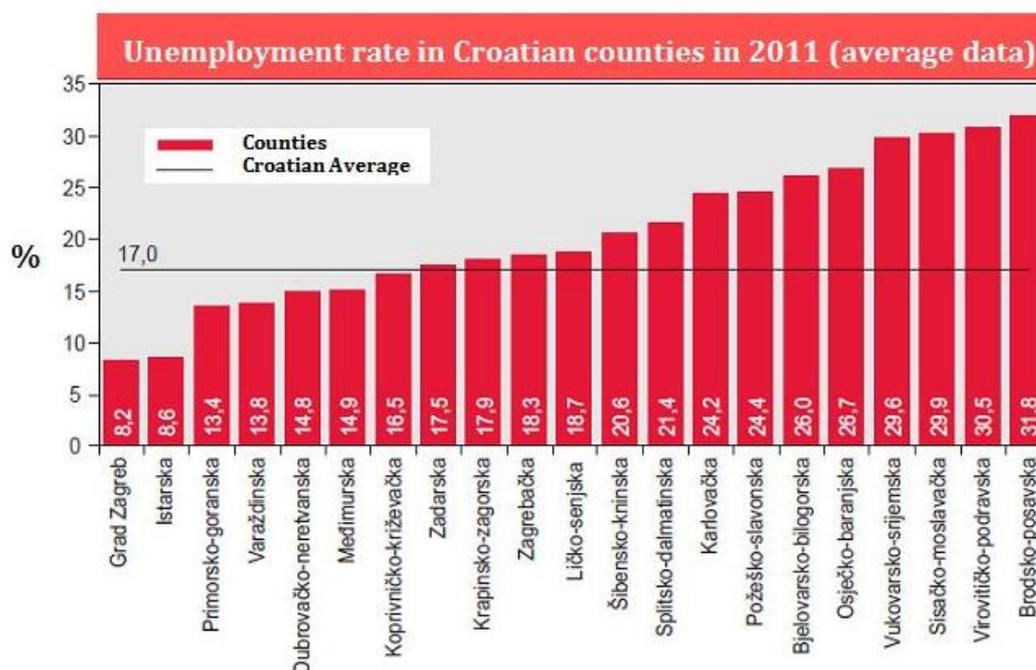
⁴⁵ National Strategy for Regional Development 2011-2013

⁴⁶ CBS, Statistical Yearbook 2011

⁴⁷ CBS Statistical Yearbook 2011

⁴⁸ Croatian Employment Service – Yearbook 2011

FIGURE 3-18: Unemployment rate in Croatian counties in 2011



Source: Croatian Employment Service

In line with the Act on Regional Development of the Republic of Croatia and subordinate acts and considering the factors leading to regional differences, the Development Index for all Croatian counties and local self-government units (towns and municipalities) was calculated in 2010 (see Table 3-3). The index-included data on unemployment rate, income per capita, own source revenues per capita in county/local units, changes in population growth and level of education. Based on this calculation, a total of 11 Croatian counties were identified as significantly lagging behind, with the Development Index below 75% of national average. Beside those counties, five more have the Development Index below Croatian average.

TABLE 3-3: Croatian counties (NUTS 3 level) according to Development Index

Group I (Below 75% of average)	Group II (75-100% of average)	Group III (100-125% of average)	Group IV (above 125% of average)
Bjelovar-Bilogora (35.17%)	Krapina-Zagorje (87.72%),	Dubrovnik-Neretva (107.93%)	City of Zagreb (187.54%)
Slavonski Brod – Posavina (33.36%)	Međimurje (75.11%)	Zagreb county (123.22%)	Istria (156.13%)
Karlovac (54.52%)	Split-Dalmatia (89.09%)		Primorje-Gorski kotar (142.32%)
Koprivnica – Križevci (64.32%)	Varaždin (96.30%)		
Lika-Senj (55.48%)	Zadar (75.59%)		
Osijek-Baranja (52.88%)			
Požega-Slavonia (43.95%)			
Sisak-Moslavina (48.50%)			
Šibenik-Knin (63.30%)			
Virovitica-Podravina (20.51%)			
Vukovar-Sirmium (20.57%)			

Migration and urban-rural disparities

In Croatia, there are 127 towns and 429 municipalities. The towns constitute growth poles, developed through a continuous process of urbanisation. This has led to the fact that approximately two thirds of the population lives in the urban areas, and just one third lives in the rural areas. The process of internal migration constantly strengthens urbanization. This process is durable and generates differences between the regions (mostly in favour of those regions containing large cities) and the gap between the urban and rural areas.

Internal migration within the counties is a long-term and intensive process. In the year 2011, only six counties had a total positive balance of migration (see Table 3-4), meaning that fifteen counties faced a decrease in their population (in 2008, only ten counties in 2008 faced this problem).

TABLE 3-4: Net migration between counties and natural increase (2011)

County	Natural increase	Net migration between counties
Republic of Croatia	-9,822	/
Zagreb county	-67	745
Krapina-Zagorje	-688	- 153
Sisak-Moslavina	-1,081	- 510
Karlovac	-997	- 167
Varaždin	-593	24
Koprivnica-Križevci	-499	- 135
Bjelovar-Bilogora	-656	- 426
Primorje-Gorski kotar	-1,014	139
Lika-Senj	-447	- 9
Virovitica-Podravina	-430	- 164
Požega-Slavonia	-355	- 328
Slavonski Brod-Posavina	-343	- 612
Zadar	-28	712
Osijek-Baranja	-1,079	- 344
Šibenik-Knin	-504	- 130
Vukovar-Sirmium	-571	- 778
Split-Dalmatia	-77	55
Istria	-395	251
Dubrovnik-Neretva	-12	- 151
Međimurje	-1	- 114
City of Zagreb	15	2,095

Source CBS

This process was combined with the negative natural population growth (-2.2 per 1,000 inhabitants⁴⁹ in 2011), which resulted with an ageing population (the average age was 41.5 in 2011 compared to 41.3. in 2010, 41.1 in 2009, 41 in 2008 and 40.8 in 2007⁵⁰). Moreover, in 2011 all counties with the exception of the City of Zagreb recorded a negative natural growth (Table 3-4).

These processes have two different impacts: one is the progressive depopulation of some rural areas and the second is a concentration of inhabitants in large cities and their environs (Zagreb, Rijeka, Osijek, Split, Šibenik and Dubrovnik). The polarisation of population is connected with infrastructure problems that have emerged within cities and their surrounding areas (for instance, problems with roads, parking areas, public transport, the regeneration of urban areas, which were not originally planned for such huge development and growth, etc.).

⁴⁹ CBS, First release No. 7.1.1., 19 July 2012.

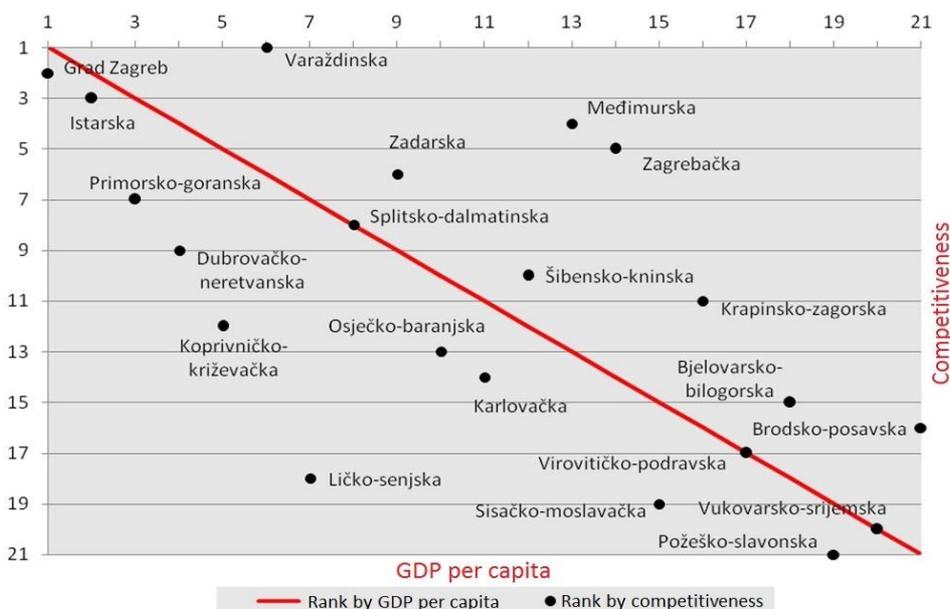
⁵⁰ CBS, Monthly Statistical Report 1/2010 and Monthly Statistical Report 8/2012

Four cities in Croatia have over 100,000 inhabitants (Zagreb, Split, Rijeka and Osijek) and another five cities have between 50,000 and 100,000 residents (Zadar, Slavonski Brod, Velika Gorica, Karlovac and Pula). Zagreb, the capital of Croatia, is an international metropolis of lower degree and one of the most dynamic regions within this part of Europe. Although it faces some problems with transport infrastructure and the regeneration of some neglected areas of the city, it is now the most important development pole in Croatia, with the ability to produce and stimulate growth and innovation around the country.

Growth potential

A comparison of the data on the counties' competitiveness (i.e. their growth potential) with data on GDP per capita, or the current level of development of individual counties, indicates a high correlation (Figure 3-19). Low competitiveness is usually followed by low GDP per capita. A less favourable competitiveness level indicates that the sustainability of a higher GDP per capita is endangered in the long run. When the gap between the GDP and competitiveness levels is large it usually indicates that GDP includes an inflow of value from outside of the region/county (i.e. subsidies or investments).

FIGURE 3-19: Counties ranked by competitiveness and GDP per capita



Source: National Competitiveness Council, 2010

The largest discrepancies between competitiveness and development have been identified in County of Lika-Senj, which is at the bottom of the competitiveness list, but ranks 7th in GDP per capita. These discrepancies are not sustainable in the long run and indicate the need for a different approach to development, which has been confirmed by changes that took place between the regional competitiveness research conducted in 2007 and that conducted in 2010. County of Lika-Senj is the only county where GDP per capita was lower in 2010 (HRK 60,432) than it was in 2007 (HRK 62,485)⁵¹. County of Međimurje and County of Zagreb are ranked higher in competitiveness than they are in GDP per capita, which leads to the question of why this competitiveness capacity is not reflected in a growth of gross domestic product per capita.

⁵¹ The regional competitiveness study conducted in 2007 used GDP per capita data from 2004, while the study conducted in 2010 used GDP data from 2007.

Continental Croatia includes the most competitive counties, mainly situated in the Northwestern part, as well as the least competitive, situated at the very bottom of the list. The biggest advantage of the Northwestern part is the level of entrepreneurial development, along with favourable indicators regarding demographics, health, cultural activities, education and basic infrastructure. There are still deeper development problems in Krapina-Zagorje and Koprivnica-Križevci counties because they are still lagging behind in comparison to their surroundings, the Varaždin, City of Zagreb, County of Zagreb and County of Međimurje which take a leading position according to a series of statistical indicators (especially investments and entrepreneurial trends, education, demographics and business sector economic results). However, eastern part of the region is the least competitive, and will require the most investment to catch up with the competitiveness level of other regions. This applies to all of the competitiveness pillars. Although in a situation like the one presented, when there is so much to gain, the dynamics of achievement in the business sector and tangible economic results are much better than they are in the Northwestern part. The eastern counties are at the bottom (ranking 13th to 21st) of the competitiveness list, both according to their competitiveness and their GDP per capita.

Adriatic Croatia, although similar if the indicators are considered at average levels, has a considerably different competitiveness profile than Continental Croatia. The reason behind this difference is very good demographics and education environment and the presence of good business sector indicators (investments and entrepreneurial trends and trends in business economic results). The region still faces problems with the quality of basic and business infrastructure and entrepreneurship development, which is particularly emphasised in County of Lika-Senj.

3.3. SWOT ANALYSIS

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> - Stable exchange rate and relatively low inflation - Liberalised access to the EU market - Favourable geographic location - Developed motorway infrastructure - Preserved natural environment - High quantities of water resources - Relatively low level of GHG emissions - Increasing number of SMEs over the past years - Croatia perceived as desirable tourist destination - Rich cultural and historical heritage - Inclusion of private profit and non-profit actors in social services provision - Experience in employment policy's active measures programmes - Strong awareness about importance of human resources development among the relevant stakeholders 	<ul style="list-style-type: none"> - Persistent fiscal deficit, high current account deficit and growing external debt - Unbalanced development of transport infrastructure due to emphasis on motorway infrastructure development - Underdevelopment of waste and water infrastructure and management services - High dependency on non-renewable energy sources and on energy import, and low level of energy efficiency - Unbalanced regional growth and growing regional disparities - Insufficiently utilised tourist potential - Extensive damage of cultural and historical heritage in the disadvantaged regions - Industry, R&D and high tech sectors lag behind international competitors - Low level of productivity, innovative, high quality and high added value production of SMEs - High dependence on tourism revenue - High share of both long term unemployed people and people with lower educational level facing social exclusion - Relatively low level of labour productivity - Insufficiently developed educational, employment and civil society inter-sectoral networks
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> - EU accession - Increased attractiveness for investments - Regional cooperation as a competitiveness enhancing mechanism - Accelerated transfer of knowledge through a common approach to the market - Eased access to capital markets - Economic recovery - Improved connectivity and increased support to environment-friendly means of transport - Better protection of the environment - Increased networking and cooperation, both domestically and internationally - Potential for additional business development - Civil society strengthening - Inclusion of Croatian research resources to the European Research Area - Ingoing mobility 	<ul style="list-style-type: none"> - Occurrence of global economic crises and spill over effect on - Rising oil prices and insecurity of gas supply - Deterioration of transport infrastructure due to insufficient sources of financing and depopulation - Unsustainable development of economy through neglect of environment aspects - Trend of continuous loss of biodiversity and loss of habitats - Imports of pollution - Continuation of the process of depopulation of regions lagging behind - Further aging of population and poor demographic structure - Insufficient political will and support for the necessary structural reforms

4. STRATEGIC FRAMEWORK

4.1. OVERALL OBJECTIVE OF THE NSRF

The objectives and priorities of the NSRF have been defined in accordance with the objectives set out in:

- National strategic documents identifying national strategic objectives: Strategic Development Framework 2006-2013 and Strategy of Government Programmes for the period 2013 – 2015,
- Programming documents prepared in the context of Instrument for Pre-accession Assistance (IPA), namely Strategic Coherence Framework 2007-2013 and related Operational Programmes,
- Relevant national sectoral strategic documents, wherever they have been developed, setting out policy priorities in particular areas and taking into account adoption of EU standards and best practices,
- Lisbon Agenda and Europe 2020 strategy.

They have also been elaborated taking into account the views of all relevant ministries but also partner institutions during several rounds of consultations on NSRF and related Operational Programmes.

Compliance with the reference documents set above during the formulation of objectives and priorities ensures greater synergies between long-term national policies and budgetary planning, eases the alignment with the requirements stemming from EU membership, primarily those related to heavy investment directives, and seeks to achieve higher impact of planned investments.

The strategy for investments under the EU Cohesion policy in 2013 focuses on a limited number of sectors, namely those that have been supported under the IPA programme and build upon the results achieved during the implementation of IPA but also previous EU assistance during pre-accession period. The continuation of efforts undertaken and application of lessons learned creates higher chances for success during the implementation of 2013 allocations, which at the same time is crucial for the smooth take off of the upcoming financial perspective 2014-2020.

Moreover, the 2013 allocations offer significant opportunities for Croatia to address a number of outstanding internal and external economic and social challenges identified in the socio-economic analysis, while supporting the implementation of the national as well as the EU priorities. Also, the timely and effective absorption of the allocated resources will require more ambitious and focused policy decisions that will lead to more investments into and better exploitation of potential for smart, sustainable and inclusive growth and eventually result in reducing the disparities in comparison to other EU member states in terms of quality and availability of infrastructure, business friendly environment, living standard, employment opportunities, etc.

The strategic orientation of the NSRF is reflected in a three level structure of objectives and priorities:

- Overall objective,
- Strategic objectives,
- Thematic priorities.

The overall objective, together with strategic objectives, defines the strategic focus of the investments planned in a broader development context, while thematic priorities channel

them in a more specific direction. The real effect can only be achieved by harmonised and simultaneous action in these specific areas.

The overall objective of the NSRF is to support convergence of Croatia with other EU countries by accelerating economic growth and fostering employment.

It has evolved from the goal of Strategic Development Framework 2006-2013 being “social prosperity through development and employment in a competitive market economy acting within a European welfare state of the 21st century” and the strategic objective of Strategy of Government Programmes for the period 2013–2015, more specifically “growth and employment in a competitive market economy acting within a European welfare state of the 21st century”.

This overall objective is coherent with Europe 2020, the European strategy for smart, sustainable and inclusive growth, designed to enhance the EU's growth potential and deliver high levels of employment, productivity and social cohesion.

Closing the income gap and facilitating convergence with other EU countries has continuously been on top of the political agenda in Croatia, and Croatia's progressive economic transition and its path towards full EU integration have enhanced economic activity since the beginning of the decade. However, there is still a long way to go to catch up with the levels of other EU member states and EU as a whole. The country's GDP per capita in PPS in 2011 has reached 61% of EU-27. It represents a slight increase in comparison to 2010 level when GDP per capita in PPS reached 59% of EU-27 level. The membership in EU assumes faster growth of GDP per capita. In 2025 it could reach 75% of EU-25, while in case of non-acceding it would not have reached more than 68% of EU-25⁵². In addition, the membership in the EU is expected to encourage the implementation of a number of institutional and structural reforms with a positive effect on the real convergence.

4.2. STRATEGIC OBJECTIVES OF THE NSRF

In support to the achievement of the overall objective, three strategic objectives compliant with the national and EU policy orientation in the relevant sectors have been identified. These are:

- Competitive economy based on market integration, institutional reforms and sustainable development,
- Improving environment for job creation and employability,
- Balanced regional development and improvement of living conditions.

The OPs support directly or indirectly the achievement of the given objectives, which is illustrated in Table 4-1 below.

⁵² EIZ (2007): Pristupanje Europskoj Uniji: ekonomski učinci. Zagreb, EIZ.

TABLE 4-1: Contribution of the OPs to the NSRF strategic objectives

NSRF Strategic Objective	OP Transport	OP Environment	OP Regional Competitiveness	OP Human Resources Development
Competitive economy based on market integration, institutional reforms and sustainable development	+	+	++	+
Improving environment for job creation and employability	+	+	++	++
Balanced regional development and improvement of living conditions	++	++	++	++

++ *Direct contribution*

+ *Indirect contribution*

Competitive economy based on market integration, institutional reforms and sustainable development

Croatia aims to become an economy oriented towards knowledge, innovation and new technologies and based on increased levels of SME productivity. The biggest contribution to this aim comes from OP Regional Competitiveness, which also supports the implementation of institutional reforms reducing obstacles for doing business and creating more attractive business environment. Furthermore, competitiveness of the economy depends significantly on adequately educated human capital and higher levels of social responsibility, supported by relevant institutional reforms enhancing the contribution of technology to creation of jobs and will be targeted through the OP Human Resources Development. Both, OP Transport and OP Environment, will contribute to this objective by promoting the environmentally sustainable economic growth and development, more specifically through the creation of modern, safe and clean transport networks and upgraded environmental infrastructure. The existence of all these qualities will facilitate a faster integration into the European single market.

Improving environment for job creation and employability

Higher employment through faster creation of jobs is a key benefit of faster economic growth. Job creation is a direct effect of a healthy and lively SME sector that will be encouraged by OP Regional Competitiveness. OP Human Resources Development directly supports policy reforms aiming to improve the human capital, more specifically reforms in the education and training system, reforms of labour market that will lead to better matching of demand and supply, therefore create stronger link between educational results and market needs. Improved transport connectivity and upgraded environmental infrastructure, resulting from OP Transport and OP Environment, are expected to have indirect impact on job creation and employability.

Balanced regional development and improvement of living conditions

A new approach to balanced regional development involves a shift away from redistribution and aid specifically for less-developed and lagging behind areas in favour of measures to increase the competitiveness of all Croatian regions. This approach, focusing on endogenous assets, rather than on exogenous factors, of each particular region (county) shall focus on supporting economic activities (i.e. increasing regional potential for economic development), particularly addressed through the OP Regional Competitiveness. However, direct contribution to this objective comes from all four OPs. They seek to provide the regions with more attractive living conditions, support economic development and increase the intra- and inter-regional economic, social and territorial cohesion. The investments from the OP

Transport aim to overcome the deficits in international connectivity and national mobility and accessibility, by improving the infrastructure and facilities important for enhancement of economic activities. The contribution of the OP Environment to the achievement of this objective is through the provision of infrastructure in the environmental field and better environment protection. Further improvements of living conditions throughout the country will come from the implementation of OP Regional Competitiveness and OP Human Resources Development, more particularly, from the investments enhancing the opportunities for doing business through quality, diversity and availability of business infrastructures, supporting the touristic and cultural valorisation of regions' natural potential, strengthening the quality of education and training programmes, delivery of local support services to job seekers and creation of local job opportunities. An effort to reduce disparities, support social cohesion and strengthen economic potential is not only addressed through large-scale infrastructure investments and inward investments but also regional development strategies that cover a wide range of direct and indirect factors that affect the performance of local (regional) businesses.

4.3. THEMATIC PRIORITIES OF THE NSRF

The overall objective of the NSRF, together with its strategic objectives, defines the strategic focus of the investments planned in a broader development context, while four thematic priorities of the NSRF, defined in response to the challenges identified in the socio-economic analysis, channel them in a more specific direction. Thematic priorities of the NSRF are:

- Development of modern transportation networks and increased accessibility of the regions,
- Improvement of environmental infrastructure and quality of related services,
- Higher competitiveness of SMEs and support to knowledge-based economy,
- Improvement of labour market efficiency, development of human capital and reinforcing social inclusion.

Thematic priorities of the NSRF correspond to overall objectives of the four Operational Programmes and will be addressed directly through their implementation. The results expected from the implementation of the OPs are presented in the tables given in Annex 2.

4.3.1. Development of modern transportation networks and increased accessibility of the regions

In order to define the strategic background for the thematic priority “Development of modern transport networks and increased accessibility of the regions”, the following elements were considered: continuation of previous initiatives funded by the EU through CARDS, Phare, ISPA, and especially through IPA pre-accession instrument, problems identified on the basis of the socio-economic analysis in chapter 3.1.1 of this document, priorities identified in the national and EU strategic and sectoral documents.

The main priorities identified in the Strategic Coherence Framework 2007-2013 and IPA Operational Programme Transport will continue to be implemented under the European Regional Development Fund. The integration and the modernisation of the Croatian railways and inland waterways linked with TEN-T corridors remain the necessity of the transport development strategy.

In 2000, within the framework of the Stabilisation and Association Process, Croatia started its active international and regional activities in order to improve traffic and transportation links with the neighbouring countries. A Memorandum of Understanding was signed by seven South-East European countries and the EU, determining the basis for joint network development through multi-annual development plans, which led to Croatia intensively cooperating with the region and the EU through the South East Europe Transport Observatory (SEETO).

This cooperation has been proven through the implementation of the Strategic Development Framework 2006-2013 (SDF), a basic national development strategy in Croatia, which recognized the following solutions of the main problems in the transport sector: (1) a more balanced development of transport network, (2) an enhancement of inter-modal forms of transport and (3) an alignment of transport development with the environmental protection principles.

The 2010 Interim Transport strategy, as a current sectoral strategic document, sets out the following priorities for the period 2012-2013: to upgrade and harmonise the transport infrastructure (in accordance with EU requirements) on the sections of the TEN-T corridors located in Croatia, to upgrade the transport infrastructure on the national and regional networks, as well as their links to the TEN-T networks, and to develop multi-modal transport systems.

The National Program of the Railway Infrastructure for the period 2008-2012 addresses the needs of substantial investments in the rail sector. The sectoral strategic documents related to the inland waterways and ports are the Development Strategy for Inland Waterway Transport in the Republic of Croatia (2008-2018) and the Medium Term Development Plan of Inland Waterways and Ports of the Republic of Croatia (2009-2016). The Medium Term Development Plan is a national action plan at the level of infrastructure of waterways and inland waterway ports, based on the River Transport Development Strategy adopted by the Croatian Parliament in June 2008.

Considering all of the above-mentioned elements, the following problems and needs in transport sector and inland waterways sector are identified and summarized. The main problems of the railway transport sector are linked with the capacity of the existing railway network, inadequate tracks and rolling stock in view of the demand and quality standards, as well as obsolete rail signalling and electronic communication systems. In addition to the wider economy of the surrounding region, the improvement of the railway connections to the maritime ports is of great importance, together with the increase of its participation in the multi-modal transport of goods and its integration within the European network. The aim would be to provide a cost effective, faster and environmentally friendly alternative to the shipping of (principally) goods by road, thereby improving the competitiveness of the ports, redressing the current transport mode imbalance and reducing transportation costs as a whole for all carriers. There is a clear need for better passenger commuter railway lines since the steady rise of this segment of transport offers a great opportunity to develop the sector, but also to mitigate the choke points in urban and suburban areas and contribute to the labour mobility. The main problems of the inland waterway sector are linked with unbalanced development and the existence of bottlenecks on the waterways the port infrastructure being in poor condition and inadequate for the provision of quality services, relatively poor navigational conditions on the inland waterways and the antiquated and limited capacity of the fleet.

4.3.2. Improvement of environmental infrastructure and quality of related services

In order to define the strategic background for the thematic priority “Improvement of environmental infrastructure and quality of related services”, the following elements were considered: continuation of previous initiatives funded by the EU through CARDS, Phare, ISPA, and especially through IPA pre-accession instrument, problems identified on the basis of the socio-economic analysis in chapter 3.1.2 of this document, priorities identified in the national and EU strategic and sectoral documents, the negotiation process under Chapter 27 and requirements of the environmental *acquis*.

The main priorities identified in the Strategic Coherence Framework 2007-2013 and IPA Operational Programme Environment will continue to be implemented under the Cohesion Fund. The necessity of the environment development remains the systematic and efficient environmental protection and rational utilisation of natural resources, through the development of waste and water management system.

The Waste Management Strategy adopted in 2005 stipulates the need for reduction of waste disposed at landfills and reducing proportion of biodegradable waste in communal waste, as well as establishment of a comprehensive system of waste management and construction of centres for waste management and adequate waste treatment.

The Water Management Strategy adopted in 2008 defines strategic goals in ensuring availability of sufficient quantities of water for drinking and economic use. More specifically, priority actions should relate to increasing the level of connection of population to the public water supply and sewerage systems, decreasing the losses in water supply and leakage in sewerage network, increasing treatment of waste waters and construction of facilities for flood protection and identification and implementation of the projects for irrigation.

The Strategy for Sustainable Development (2009) places emphasis on the introduction of an integrated waste management system, preservation of the quality of water and provision of adequate water to the public.

Considering all of the above-mentioned elements, the following problems and needs in environment sector are identified and summarized.

Environmental infrastructure and protection quality levels in Croatia are still lagging behind the developed EU countries in most sub-sectors (e.g. waste management, water management, etc.). This directs the strategy towards completion and improvement of waste management infrastructure (covering separation, recycling and reuse of waste, processing and its controlled disposal), and water and wastewater management infrastructure (covering surface and ground water pollution, rational use and protection of drinking water sources), as two key areas that require the most significant investments and remedial actions. Interventions are focused on the waste and water management system through investments in waste and water utility infrastructure, construction and/or reconstruction of the facilities and the enhancement of the related services.

4.3.3. Higher competitiveness of SMEs and support to the knowledge-based economy

In order to define the strategic background for the thematic priority “higher competitiveness of SMEs and support to knowledge-based economy”, the following elements were considered: continuation of previous initiatives funded by the EU through CARDS, Phare, and especially through IPA pre-accession instrument, problems identified on the basis of the socio-economic analysis in chapter 3.1.3 of this document, priorities identified in the national and EU strategic and sectoral documents.

The main priorities identified in the Strategic Coherence Framework 2007-2013 and IPA Regional Competitiveness Operational Programme will continue to be implemented under the European Regional Development Fund.

The main national strategies addressing the competitiveness of the Croatian economy are the Strategic Development Framework for 2006-2013 and Strategic Coherence Framework (SCF) 2007–2013. SCF 2007-2013 describes the relevant strategic objectives with regard to balanced regional development: “To achieve higher competitiveness and a balanced regional development by encouraging research and technological development, small and medium sized enterprises, development of information society and e-Croatia, alongside with improving overall social and economic conditions for underdeveloped areas“. This document is completely in line with the EU Strategy for Sustainable Development, which defines the provisions for supporting the necessary structural changes enabling the economies of the Member States to tackle the challenges of globalisation by establishing equal conditions for innovation and creative entrepreneurship, while ensuring social equality and a healthy environment.

The Strategic plan for the SME development 2012-2014, aligned with the Small Business Act for EU, sets goals which establish a competitive, environmentally and socially responsible, knowledge-based and export-oriented economy that provides market-value-added growth, new and well-paid jobs and a better and more just society.

On the basis of the Strategic plan, Ministry of Entrepreneurship and Crafts (MEC) adopts annual implementation plans, which provide continuous support to SME competitiveness. In accordance with these plans and the analysis of SMEs’ current situation, Croatia has decided to continue, within the SF programming period 2013, with the IPA interventions and to extend/supplement them by direct support to SMEs through grants including the SMEs in tourism.

Croatia has also made a strategic decision to support R&D and innovation, as drivers of economic development. Operations envisaged to support competitiveness are a logical continuation of IPA funding. The main goal of these operations is to improve the conditions for innovation by encouraging industry-driven research and development with the purpose of achieving scientific excellence as a basis for innovation, technology transfer and commercialisation. Interventions in this area focus on improvement of different parts of National Innovation System, such as: strengthening of knowledge institutions as centres of excellence, development and enhancement of technology transfer infrastructure, development of RDI physical infrastructure and supporting partnership of science sector (mainly public research and high education institutions) and business sector (mainly SMEs) in order to reflect the needs of the economy. These efforts are based on the Science and Technology Policy of the Republic of Croatia 2006-2010, which is aimed at the promotion of scientific excellence, transfer of knowledge and technology, improvement of investment in R&D physical infrastructure and cooperation between science and industry, as the core drivers of competitiveness and generators of sustainable growth and productivity.

Strategy of Regional Development of Republic of Croatia 2011-2013, adopted in June 2010: to reduce the most significant differences between the regions, especially in their socio-economic levels, to assist all the regions in utilising their own conditions and comparative advantages, the so called local/regional capital, to achieve, through the development of the regions, the overall growth of the Croatian national economy, to prepare the Croatian regions to be able to compete with other regions on the single European market and on the global market.

The strategy of increasing the development potential of the regions matches the first priority axis of IPA RCOP in covering the business related infrastructure (communal and support infrastructure inside the business zones and public tourism related infrastructure). Support of economic activity (direct or indirect support to SMEs) has to be accompanied with the creation of favourable conditions for workers and their families, facilitating their participation in the labour market, and thus making regions an attractive place to live and work. All this will help tackle the issue of excessive concentration of inhabitants in larger cities and depopulation of the countryside.

Considering all of the above-mentioned elements, the following problems and needs in environment sector are identified and summarized; increasing regional potential for economic development, development of entrepreneurship and fostering innovation and research excellence.

Development of the potential of regions, implying the improvement of their attractiveness for investors and their economic development, is necessary, but not a standalone step, for building and increasing competitiveness (competitive position on the market). It is a step preceding the level of competitiveness that will be achieved through the development of the production sector. Only regions attractive enough for investors and entrepreneurs can develop further and can expect to contribute to the overall competitiveness of the country. Furthermore, such regions will become attractive for investors and/or entrepreneurs only if they are attractive to their residents in the first place, i.e. to the educated labour force. The idea of increasing the development potential of the Croatian regions is mostly based on investments in construction and modernisation of the so called hard infrastructure and on preparation of larger projects that can contribute to rising of development potential in important elements of economic and social development such as business related infrastructure, e-communication, tourism, culture and leisure services.

In order to develop the potential (increase the attractiveness) of the Croatian regions and boost their competitiveness, support to the regional development will be targeted on the utilisation of their own resources (geographical, natural, raw materials, human resources, tradition, experience, image, etc.) and their comparative advantages. This is expected to contribute to the growth of the national economy by diversifying the economic activity base and by supporting sustainable development, while reducing the regional disparities and depopulation of affected regions.

The entire territory of Croatia is eligible for the Convergence objective (Objective 1) of the EU Cohesion policy, as both Croatian NUTS 2 regions are undeveloped when compared to the average of EU 27. In that sense, all Croatian counties will be invited to take part in the proposed activities, also taking into consideration that further development of overall competitiveness will not be possible without the participation of the most developed Croatian regions.

A higher degree of competitiveness will, among other, be achieved through direct support to SMEs as the most important tool, accompanied by enhancing business support for SMEs delivering soft services to SMEs including e-business, quality business advisory services and education of SMEs, developing specialist support for high growth businesses, soft measures

like promotion (FDI and local investors, export, tourism) as well as stimulation of R&D and its transfer into production and commercialisation. Therefore, the grant scheme for SMEs represents the central and most important tool for increasing the competitiveness of the Croatian economy within this thematic priority of the NSRF.

SMEs will receive support through grants for the transfer and installation of new innovative technologies, the development of new products, higher quality production, production with high added value and production less demanding on consumption of energy and raw materials. Direct support to SME will be implemented with a focus on encouraging investment into export-oriented activities, strengthening the business sector through the implementation of business start-up initiatives, leveraging innovative ecological solutions and optimizing energy and resource efficiency, increasing productivity levels, increasing investments to companies in the production sector and introducing the results of R&D into production through linking the business, scientific (educational) and public sector (“Triple Helix”) and associating into interest associations. The support shall encompass all aspects of competitiveness: productivity, quality, consumer appeal and marketing support to assist penetration into new markets (from territorial and demand point of view). Another issue taken into consideration by the government is ensuring adequate co-financing of such projects.⁵³ The Croatian economy is geared towards tourism and the SMEs active in the tourism sector need specially designed direct support. The objective in the field of tourism will be diversifying services and expanding the tourist offer, aiming at the prolongation of the tourist season and development of the less developed tourist areas.

Supporting productive investments and parallel creation of favourable environment for entrepreneurs and investors provides important synergies, which can contribute to the improvement of competitiveness even within the framework of a very short programming period.

Regarding the business related infrastructure, many facilities have already been constructed with the national and EU funds, and however additional supports to both, business and tourism infrastructure have been recognized as crucial for decreasing development gaps. Since some of the existing facilities are not sufficiently equipped, further required equipping will also be supported.

ERDF co-financed investments in the field of tourism shall focus on better utilisation of natural and cultural resources, as well as other manmade potential for tourism development, more specifically, it will focus on prolonging the tourist season and attracting the tourists all year around (with a goal of developing tourism in the continental areas by specific forms as MICE⁵⁴, spa tourism, mountain tourism, rural tourism, active and hobby based tourism, etc.) as well as on increasing and improving the structure of foreign visitors. Efforts will also be made in improving the public tourist infrastructure, including cultural infrastructure and commercial facilities (accommodation, leisure, sport, recreation, rehabilitation, amusement, conference, etc.) operated mainly by SMEs. Competitiveness of the Croatian tourism will therefore be supported by both the improvement of the tourist products (through new facilities and services) and intensive promotion and marketing activities on domestic and foreign markets. The proposed interventions are in full accordance with the Draft Strategy of the Croatian Tourism Development and the long-term vision that is a part of this document.

⁵³ Croatian SMEs have limited financial possibilities regarding the co-financing of projects by 50% or 60%. The Croatian government will provide the commercial banks with information in order to attract their attention to the potential loans, which could also be of interest to the banking sector (for instance, the risk is reduced since a part of the project's financing is a grant, which also means that all necessary controls are thus performed twice).

⁵⁴ Meetings, Incentives, Conferences, Events

4.3.4. Improvement of labour market efficiency, development of human capital and reinforcing social inclusion

In order to define the strategic background for the thematic priority “improvement of labour market efficiency, development of human capital and reinforcing social inclusion”, the following elements were considered: continuation of previous initiatives funded by the EU through CARDS, Phare, and especially through IPA pre-accession instrument, problems identified on the basis of the socio-economic analysis in chapter 3.1.4 of this document, priorities identified in the national and EU strategic and sectoral documents.

The main priorities identified in the Strategic Coherence Framework 2007-2013 and IPA Operational Programme Human Resource Development will continue to be implemented under the European Social Fund.

In the recent years, several EU funded interventions have been implemented within in the wider area of human resources development. Currently, several actions are under implementation within the framework of the Instrument for Pre-Accession Assistance. The interventions planned under this thematic priority represent a continuation of IPA OP HRD programme and are fully in line with the European Employment Strategy, the renewed Lisbon Strategy and recently Europe 2020. They can be summarised under four key objectives:

- To attract and retain more people in employment and modernise social protection systems;
- To improve adaptability of workers and enterprises and the flexibility of the labour markets;
- To increase investment in human capital through better education and skills;
- To enhance the role of civil society in policymaking and implementation.

To ensure complementarity of interventions under NSRF with other interventions planned in Croatia in this field, the relevant EU and Croatian strategies and policy documents were taken into account.

The planned interventions are defined in such a way so as to meet the national development needs and to foster synergy effect with the actions envisaged in National Employment Promotion Plan 2011-2012 (NEPP) as well as Joint Assessment of the Employment Policy (JAP). They are also in line with European Employment Strategy guidelines and general strategic direction defined by the EU regulations.

Health and safety at work is another important aspect that needs to be addressed in order to prolong activity period of labour active population. In line with the relevant EU Guidelines⁵⁵, “National Programme for Health Protection and Safety at Work 2009-2013” sets priorities for safe, and thus more qualitative, job performance. This should contribute to the reduction in the number of occupational accidents and diseases, and lead to improvement of workforce health and wellbeing.

As regards the concept of flexicurity, the Strategic Development Framework 2006 – 2013 sets out the commitment to implement the flexibility and security principles in the Croatian labour market. Although the current employment and social security laws in force do not provide models for the implementation of flexicurity principle, it will be developed and promoted to the highest possible extent in the implementation of this programme.

⁵⁵ Council Directive 89/391/EEC of 12 June 1989

In the social sector, special attention will be paid to increasing low activity rate of people at a disadvantage in order to achieve their higher social and labour market integration and thus reducing the poverty risk. This can be achieved by actions supporting their access to education and employment, as well as improving the quality of social services, which is all in line with the “Renewed Social Agenda: Opportunities, Access and Solidarity in 21 Century Europe” (COM 2008) and with the current national strategies (such as Joint Memorandum on Social Inclusion – JIM, National Action Plan for Social Inclusion 2011-2012, National Strategy of Equalization of Opportunities for Persons with Disabilities for the Period 2007-2015).

Social services play an increasingly important role in empowering people at a disadvantage, people in risk of social exclusion and people which facing difficulty in entering the labour market, from the aspect of harmonising the working and family roles, as well. The development of a network of alternative forms of services available to users in their community is encouraged, as well as services that better meet the needs of different user groups (including possibility of a choice), and a comprehensive expansion of the network of services in a community.

In this context, apart from encouraging students with disabilities and those from different marginalized groups to enter and remain in the educational system, self-employment schemes and improved access to active labour market measures for disadvantaged groups will be promoted.

Through the further development and implementation of the Croatian Qualifications Framework (CROQF), which integrates the whole reform process within the educational system and is an important quality assurance at all levels of education will be promoted. CROQF has a special significance for the implementation of the development strategy of the vocational education system and the Bologna Process.

Measures planned for the education sector are in line with national strategic documents on education and training (“MSES Strategic Plan 2013-2015”, “Development Strategy of the VET System in Croatia 2008-2013”, Adult Education Act (2007) and “Act on Quality Assurance in Science and Higher Education” (2009). To make Croatian economy more responsive to the demands of knowledge-based society, interventions in the field of research and innovation will support cooperation between higher education institutions, research and technological centres and enterprises, and by doing so foster innovation and technology transfer. Therefore, new act on higher education and science is in preparation. At the end of 2012, an initiative for development of new Strategy for education, science and technology was launch. It is envisaged to write the Strategy until the mid-2013.

In the civil society sector, priority should be attributed to reinforcing competences of civil society organisations since they are the ones that implement public policy advocacy initiatives in an effective manner at both central and local level. Furthermore, an important part of the civil society activation is the delivery of a wider scope of quality social assistance services on national and regional level, thus contributing to the reduction of social exclusion and to the increase of employability. Planned interventions are in line with the EU Community Strategic Guidelines on Cohesion Policy in Support of Growth and Jobs as well as with the “National Strategy for the Creation of an Enabling Environment for Civil Society Development 2012-2016”.

Within the employment sector, Croatia foresees a range of combined interventions with the aim to contribute to enhancing employability of specific segments of workforce. Attracting and retaining more people in employment shall be achieved through investment in active employment measures and policies with particular emphasis on most vulnerable groups in the Croatian labour market.

Active labour market measures (ALMM) shall be designed according to the specific problems and needs on regional and local level. Together with providing education and counselling for all job seekers and those at risk of unemployment, ALMM need to promote flexibility, skills adaptability, employment security and greater mobility of workforce, all with the aim to increase effective utilization of human resources. A better match between education provisions and labour market requirements is considered essential.

Support will be provided to employers for the creation of new job opportunities, as well as to the enhancement of entrepreneurial culture. Distinctive education and training in entrepreneurship that especially targets unemployed and other marginalised groups will create the basis for the development of new businesses and wider career options.

The Croatian Employment Service (CES) with its regional and local structures is a key national labour market mediator, therefore the quality and efficiency of CES services, as well as skills of its personnel, in other words improving life-long guidance and careers counselling system, designing personalized services and enhancing monitoring system of educational output shall contribute to the effectiveness of CES work.

4.4. CONSISTENCY WITH COMMUNITY STRATEGIC GUIDELINES ON COHESION 2007-2013

The Community Strategic Guidelines on Cohesion 2007-2013 provide a number of indicative EU priorities, which have to be taken into consideration by the Member States in the development of policy areas for support by the structural and Cohesion Funds. They highlight the main points of the EU Cohesion policy and the Lisbon strategy, as well as promote the adoption of policies directly linked to the overarching EU goals.

According to the Guidelines and in line with the renewed Lisbon strategy, programmes co-financed through the Cohesion policy should seek to target resources on the following three priorities:

- Improving the attractiveness of Member States, regions and cities by improving accessibility, ensuring adequate quality and level of services, and preserving their environmental potential;
- Encouraging innovation, entrepreneurship and the growth of the knowledge economy by research and innovation capacities, including new information and communication technologies; and
- Creating more and better jobs by attracting more people into employment entrepreneurial activity, improving adaptability of workers and enterprises and increasing investment in human capital.

The Guidelines seek to provide a balance between the twin objectives of the growth and jobs agenda and territorial cohesion.

The consistency of the Community Strategic Guidelines is examined both in relations to the thematic priorities of the NSRF and against the structure of the OPs, as illustrated in the consistency matrix shown in Table 4-2. A more extensive analysis is provided in the individual OPs.

TABLE 4-2: Consistency with the Community Strategic Guidelines on Cohesion 2007-2013

Support of the Community Strategic Guidelines on Cohesion by the OPs of the NSRF	Operational Programme			
	OP Transport	OP Environment	OP Regional Competitiveness	OP Human Resources Development
	ERDF	CF	ERDF	ESF
1.1. Guideline: Making Europe and its regions more attractive places to invest and work				
1.1.1. Expand and improve transport infrastructures	++		+	
1.1.2. Strengthen the synergies between environmental protection and growth	+	++	+	
1.1.3. Address Europe's intensive use of traditional energy sources	+	++		
1.2. Guideline: Improving knowledge and innovation for growth				
1.2.1. Increase and better target investment in RTD			++	+
1.2.2. Facilitate innovation and promote entrepreneurship	+	+	++	++
1.2.3. Promote the information society for all			++	+
1.2.4. Improve access to finance			+	+
1.3. Guideline: More and better jobs				
1.3.1. Attract and retain more people in employment and modernise social protection systems				++
1.3.2. Improve adaptability of workers and enterprises and the flexibility of the labour market				++
1.3.3. Increase investment in human capital through better education and skills				++
1.3.4. Administrative Capacity	++	++	++	++
1.3.5. Help maintain a healthy labour force			+	++

++ *Direct contribution*
+ *Indirect contribution*

As shown in the above consistency matrix (Table 4-2), the development strategy of the NSRF is fully consistent with the Community Strategic Guidelines for cohesion, all of which are supported through its thematic and territorial priorities and specified in the individual OPs.

4.5. EXPERIENCE FROM PAST AND CURRENT PROGRAMMING PERIOD

As of 2007 onwards, the integrated Instrument for Pre-Accession (IPA) replaced all the previous funding instruments (PHARE, ISPA, SAPARD) providing a unique framework for EU aid until accession. In proposing investments for funding as well as the modes of implementation, Croatia takes into consideration lessons learned in managing EU funds during the pre-accession period that can be summarised as follows:

1. Programming of assistance is a process through which a strategic development vision should be combined with an effective financial planning; this implies that the formulation of priority areas of EU intervention should be associated with long-term national policies and budgetary planning, as well as requirements stemming from EU membership, primarily those related to heavy investment directives. This requires attention and commitment from the highest level of government officials and involvement of partners from non-governmental sphere. The experience in the implementation of ISPA and IPA programmes, especially in the environment sector, has testified to the importance of an EIA procedure and active as well as early public participation in the respective procedure. Also, it is important to ensure early communication with stakeholders that do not formally belong to the programme management structures – notably the local level authorities and representatives of civil society organisations – in order to prevent possible opposition to the implementation of an individual project after the formal approval of a specific operational programme. These concerns are being addressed in the preparation of Cohesion Policy instruments and OPs through a systematic coordination with all the relevant stakeholders, taking into account also strategic environmental assessment procedure.
2. Insufficiently prepared project pipeline is an obstacle to the efficient utilisation of assistance, especially in the environment and transport sectors that promote large infrastructure projects. This relates equally to the preparation of major project applications and of the tender documentation. Therefore the preparation of sufficient, well-designed and mature projects is paramount to ensure use of EU assistance in a timely and technically acceptable manner. Taking into account the rather short period of time available to Croatia for the programme implementation under the current financial perspective (second half of 2013), large infrastructure programmes (OP Environment and OP Transport) will give priority to those areas in which large infrastructure projects are ready to be launched on accession remembering to have all arrangements for co-financing made before submission of such projects for approval. In addition, prioritising mature projects will considerably contribute to faster and transparent contracting. To that end, project preparation assistance will also be available to potential applicants through specific operations within the framework of OPs.
3. Croatia has been successful in accrediting its national institutions to manage the pre-accession programmes Phare, ISPA and IPA and it operates in decentralised environment without ex ante control of the EU Delegation. However, the establishment of the management system for pre-accession programmes has proven to be a time-consuming and complex process, and it required harmonisation of the national procedures with the EU requirements and rules. The management of the IPA programme has been partly delayed due to the fact that a significant portion of time was spent on the accreditation process. Taking into account that Croatia became a full member of the EU

at the very end of the current financial perspective (2007-2013) and that it cannot afford a lengthy compliance assessment procedure, the number of new institutions involved in the management of the SCF operational programmes is being kept at a rather low level. Having said that, and that IPA-accredited institutions have been managing pre-accession programmes without ex ante control, i.e. completing the EDIS accreditation process, the compliance assessment procedure should be facilitated.

4. Administrative capacity is crucial for efficient and effective utilisation of funds; the experience with the simultaneous management of CARDS, Phare, ISPA and IPA, and the preparation for Structural Funds and Cohesion Fund has testified to the fact that Croatia needs to ensure a larger number of qualified and motivated staff if it wishes to successfully implement operational programmes, in parallel with the management of the remaining pre-accession assistance in the first years of EU accession. Slowly, the capacities are being developed on all levels, both horizontally and vertically, by embedding administrative capacity development in everyday practice since the key to success lies in systems and structures being applicable to both EU and national programmes, i.e. full alignment of procedures. Moreover, this issue is being addressed in the organisational development strategies that the future Managing Authorities and bodies with horizontal responsibilities are currently preparing; it will also be addressed through the provision of systematic training and capacity building measures under the technical assistance priority axes of individual operational programmes. For further details on how the administrative capacity will be tackled, please refer to special chapter covering this topic.
5. With regard to increasing capacity at a local and regional level, special attention needs to be paid to promotion, publicity measures and the dissemination of information to all key stakeholders, but also to the wider public. In that respect, the newly developed National Communication Strategy for Structural Instruments in the Republic of Croatia 2007-2013 has a goal of raising public's and potential beneficiaries' awareness on the funding possibilities whilst developing administrative capacity for effective communication in the use of EU structural instruments, as ultimately absorption will depend on the capacity of the potential project beneficiaries, especially in case of grant-scheme type of operations under ESF and ERDF, who have to be well informed and capable of preparing and implementing good projects in an efficient and effective manner. Grant schemes implemented under pre-accession instruments have contributed to the capacity of potential grant applicants to prepare good quality applications. Under IPA, emphasis has been placed on building capacity of potential applicants through numerous trainings and workshops, especially in the OF Human Resources Development. Nevertheless, due to the larger financial envelope that is available for the implementation of Structural Funds operation, these capacity building efforts at the potential applicants level have to be sustained.

5. OPERATIONAL PROGRAMMES

Objectives of the NSRF will be implemented through four national Operational Programmes:

- Operational Programme Transport,
- Operational Programme Environment,
- Operational Programme Regional Competitiveness,
- Operational Programme Human Resources Development.

The OPs contribute directly and indirectly to four thematic priorities and three strategic objectives of the NSRF and therefore support the achievement of the overall objective of the NSRF.

5.1. OPERATIONAL PROGRAMME TRANSPORT

The Operational Programme Transport includes three priority axes. These are:

Priority Axis 1: Modernisation of railway infrastructure and preparation of projects in transport sector,

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

Priority Axis 3: Technical assistance.

Priority axis 1 aims at upgrading Croatia's railway network on TEN-T corridors and the regional and suburban railway network. Actions under this priority axis will focus on upgrading sections of TEN-T corridors traversing Croatia, namely Vb and X and in a smaller degree the upgrading of regional/suburban railway network. Also, this priority axis will support preparation and development of projects that will be implemented in the next programming period, provided that the projects in question are not railway or inland waterways projects on TEN-T. The priority axis will be co-financed by ERDF.

Priority axis 2 aims at upgrading Croatia's inland waterway system by establishing conditions for safe and reliable inland navigation, by ensuring that the waterways meet minimal navigation requirements and by improvement of ports. The main task within this priority axis is the preparation and development of projects that will be implemented in the next programming period and that are in line with the above-mentioned objective. The priority axis will be co-financed by ERDF.

Priority axis 3 supports the management and implementation of the OP and will be co-financed by ERDF.

5.2. OPERATIONAL PROGRAMME ENVIRONMENT

The Operational Programme Environment includes three priority axes. These are:

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

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

Priority Axis 3: Technical assistance.

Main objective of Priority axis 1 is to support development of integrated waste management system through investments in waste infrastructure, construction and/or reconstruction of the facilities and to support preparation and development of projects in the sector. Actions under this priority axis will focus on establishment of new waste management centres at county and regional levels and remediation of sites highly polluted by waste – existing landfills and hot spots. The priority axis will be co-financed by Cohesion Fund.

Main objective of Priority axis 2 is to enhance water utility infrastructure and the related services by investments in construction and/or reconstruction of the facilities, and to support projects preparation and development of projects in the sector. Actions under this priority axis will focus on establishment of modern water supply systems and networks and

Construction of wastewater treatment plants for domestic and industrial wastewaters and upgrading the sewerage network. The priority axis will be co-financed by Cohesion Fund.

Priority axis 3 aims at facilitating the effective and efficient management of the OP, strengthening of the administrative capacity and preparations for the next programming period. The priority axis will be co-financed by Cohesion Fund.

5.3. OPERATIONAL PROGRAMME REGIONAL COMPETITIVENESS

The Operational Programme Regional Competitiveness includes three priority axes. These are:

- Priority Axis 1: Development and upgrading of the regional infrastructure and raising the attractiveness of regions,
- Priority Axis 2: Enhancing Competitiveness of the Croatian Economy,
- Priority Axis 3: Technical assistance.

Priority axis 1 is focused on setting up and developing public infrastructure, namely business- and tourism-related infrastructure in order to increase the attractiveness of Croatian regions and to stimulate economic growth and job creation. Investments will focus on improving the efficiency, capacity, quality and attractiveness of existing business zones, new and existing business incubators, and other business support entities grouping and servicing SMEs; and enhancing the infrastructural capacity leading to increased tourism activity. Also, this priority axis will also target the preparation of larger infrastructure projects with regional dimension and of intraregional importance targeting specific regional development needs. The priority axis will be co-financed by ERDF.

Priority axis 2 aims to provide better support to the development of SME competitiveness by assisting the sustainable growth of productivity, reinforcement of SMEs and their ability to compete in international markets and improving key elements ensuring a positive business climate as a way of increasing regional competitiveness and faster economic growth. This Priority axis also aims to improve overall competitiveness of the Croatian economy by improving conditions for innovation in the public RDI sector and thus support the generation of the pool of new ideas and technological solutions, which form the basis for economic growth and establishment of a competitive economy and will support the creation and growth of technology as well as knowledge-based SMEs. The priority axis will be co-financed by ERDF.

Priority axis 3 aims at ensuring the supportive mechanism for the management of the OP, effective implementation as well as preparation of documentation for the next programming period. The priority axis will be co-financed by ERDF.

5.4. OPERATIONAL PROGRAMME HUMAN RESOURCES DEVELOPMENT

The Operational Programme Regional Competitiveness includes five priority axes. These are:

- Priority Axis 1: Support access to sustainable employment and adaptability of labour force,
- Priority Axis 2: Reinforcing social inclusion and integration of people at a disadvantage,
- Priority Axis 3: Enhancing human capital in education, research and development
- Priority Axis 4: Technical assistance
- Priority Axis 5: Strengthening the role of civil society for better governance.

Priority axis 1 aims to achieve the continuous growth of the employment rate as well as the development of a more effective and efficient labour market as an essential precondition of the competitive economy. Specific objectives of this priority axis are: to reduce existing unemployment and the “threat” of new unemployment and also to promote the reintegration of the unemployed by supporting the design and implementation of both active and passive labour market measures that target the specific conditions of the Croatian labour market, to support the development of the capacity of Croatia’s public institutions in the employment field by raising quality of service provided by Croatian employment service and to increase adaptability of SMEs and crafts by delivering essential professional entrepreneurial knowledge and skills both of employees and owners of enterprises/crafts. The priority axis will be co-financed by ESF.

Priority axis 2 aims to reinforce social inclusion of disadvantaged groups and people with special needs. Main objective of the interventions under this priority axis is to promote social inclusion by supporting access to employment as well as access to education to the disadvantaged and groups with special needs. Simultaneously, this priority axis will be supporting the development of social services and the capacity of their providers in combating social exclusion and poverty to improve employment opportunities and opportunities for reconciliation of work and family life. Further on, the priority axis intends to improve the social inclusion of disadvantaged persons in educational institutions and support for all necessary interventions in the educational system, in order to be supportive of the needs of all groups and provide the same opportunities for education and the same quality of education for all groups in society. The priority axis will be co-financed by ESF.

Priority axis 3 is devoted to enhancing human capital in education and in research and development. Quality of educational services will be improved by implementing reforms based on strategies, and will support further interventions aimed at improving the quality and efficiency of the educational system and its alignment with the labour market needs, with a view of ensuring a highly qualified and adaptable workforce . Additionally, the included interventions will further develop the Croatian Qualifications Framework in order to support lifelong learning concept. Finally, support will be provided for networking activities between higher education institutions, research and technological centres and enterprises. The priority axis will be co-financed by ESF.

Priority axis 4 is covering all necessary activities for the management, programming, evaluation and dissemination of information and publicity of the OP as well as providing all necessary scientific and technical expertise for the preparation of the next programming period. The priority axis will be co-financed by ESF.

Priority axis 5 intends to strengthen the role of civil society for better governance by enhancing the quality of social dialogue as well as to support and reinforce the civil society organizations for socio-economic growth and democratic development. The priority axis will be co-financed by ESF.

5.5. COMPLEMENTARITY AND DEMARCATION ISSUES

5.5.1. Coordination between Operational Programmes

Interventions envisioned through each of the four OPs are complementary and make up a coherent system contributing to the three strategic objectives of the NSRF:

- Promoting a competitive economy based on market integration, institutional reforms and sustainable development

- Improving the environment for job creation and employability
- Balanced regional development and improvement of living conditions

OPs have been prepared in such a way that they mutually supplement the measures envisioned in each of them, since the performance of all four sectors together (transport, environment, regional competitiveness and human resources development) is a prerequisite for achieving sustainable development.

The NSRF strategic objectives benefit from synergies between the OPs that are co-financed through different structural and Cohesion Funds (ERDF, ESF and CF). The following types of synergies could be identified:

1. Measures envisioned under the Transport OP complement other OPs in the way that they contribute indirectly by ensuring better connectivity and communication. Development of basic infrastructure is an important precondition for economic development, increase of productive investments and entrepreneurship activities. As such, the Transport OP is complimentary to the Regional Competitiveness OP in the way that these investments will create opportunities to raise the attractiveness of regions and contribute to the development of economic activity.
2. The transport sector has a major influence on the environment. The two priorities of the Transport OP complement environmental concerns, such that the orientation is towards promotion of multi-modal transport and shifting away from polluting road to less polluting and energy efficient rail and river transport modes. However, there is no overlapping with the Environment OP.
3. The Environment OP is complementary to the Regional Competitiveness OP by way of improving the basic communal infrastructure, which is a precondition for economic development, attraction of investment and quality of life. The two OPs are complimentary, with the difference being in the types of investments and targeted beneficiaries; while the Regional Competitiveness OP focuses more on the private sector, the Environment OP is concerned with provision of public utilities. Demarcation criteria are based on the types of investments and final beneficiaries.
4. Close complementarity between Priority Axis 2 of the Regional Competitiveness OP and Priority Axis 1 of the Human Resources Development OP can be identified. Regional Competitiveness OP provides direct support to established SMEs by co-financing investments into innovative technologies, new product development, higher quality production, new equipment, construction and promotional activities. However, different from the Human Resources Development OP, it will provide assistance in raising general skills of the entrepreneurs only to a limited extent, for e.g. those necessary to accompany usage of new equipment. The Human Resources Development OP operations focus on raising the general level of entrepreneurial skills by providing those trainings, especially where facing a great threat of unemployment due to inadequate knowledge and skills. Start-ups will be supported too, primarily as means of supporting self-employment. The Regional Competitiveness OP is clearly oriented towards only those SMEs that are established and operating and will also focus on financing consultancy services to SMEs, also as means of developing this services market sector in Croatia. Demarcation criteria are based on the different types of support given.
5. Priority Axis 3 of the Human Resources OP is complementary to the Priority Axis 3 of the Regional Competitiveness OP. The Human Resources Development OP intends to provide research grants for young researchers as well as to enable better intersectoral cooperation and transfer of knowledge and skills, while the Regional Competitiveness OP intends to provide co-financing for R&D and technology transfer activities, as well as R&D infrastructure, which is a pre-requisite for Human Resources Development investments.

The above are indicative demarcation areas and will be further qualified within the Operational Programmes. The table in Annex 3 provides further details on complementarity and demarcation issues per fields of intervention covered by the four OPs.

5.5.2. Coordination with IPARD and EFF

The Rural Development Strategy 2008 – 2013 and the National Strategic Plan for Fisheries 2007-2013 (NSP) constitute the two programming documents that describe Croatia's strategies for the development of the agricultural sector and rural areas, as well as the fisheries sector and fisheries areas. They are implemented through the IPARD programme 2007-2013 and the Operational Programme for Fisheries 2007-2013 (co-financed by the European Fisheries Fund, EFF).

IPARD will continue in 2013 after the accession of Croatia to the EU, under the provisions of the Accession Treaty Annex IV, which stipulates temporary additional rural development measures for Croatia.

The strategy and objectives of the programming documents and two corresponding OPs are entirely coherent and complementary with the NSRF and the four OPs to be financed by the structural and Cohesion Funds during 2013.

The IPARD programme provides support for sustainable agricultural and rural development measures within defined priority areas. The identified development priority areas of IPARD are as follows:

- Priority Axis 1: Improving market efficiency and implementation of Community standards
- Priority Axis 2: Preparatory actions for implementation of the agri-environmental measures and local rural development strategies
- Priority Axis 3: Development of rural economy

The three priority axes focus on the economic development of specific sub sectors and/or following a territorial approach. General objectives of the IPARD programme are also linked to supporting diversification of economic activities, development of small and medium-sized entrepreneurship and environment protection, in a way that is complimentary particularly with the Regional Competitiveness OP and the Environment OP. The following types of synergies are identified between IPARD and the OPs covered by NSRF:

1. Concerning investments in the field of waste management, the Priority Axis 1 of the Environment OP envisions investments in waste management centres. Small-scale waste management projects in rural localities focused on own needs of agricultural holdings are possible within the IPARD programme, thus complementing the objectives of the Environment OP.
2. Between Priority Axis 2 of the Environment OP and IPARD measure 301 "Improvement and development of rural infrastructure" with respect to sewerage and wastewater treatment. The IPARD programme enables small-scale investments in construction and/or reconstruction of sewage systems and/or wastewater treatment plants in rural localities, however only for local self-government units with less than 10,000 inhabitants, which are not included in the Environment OP. Measure 2.2 in the Environment OP applies for agglomerations of more than 2,000 population equivalent (which corresponds to more than 37,000 inhabitants), which means that both programmes support similar activities but for different eligible beneficiaries. In that respect it should be also mentioned that measure 301 of the IPARD programme is currently being implemented in Croatia and that Guide for Applicants lists all eligible

municipalities and cities under 10,000 inhabitants, which further minimise possible overlapping between Programmes. Demarcation criteria are based on the number of inhabitants in the area (i.e. local self-government unit). Additional demarcation can be established as the level of the support granted which is in case of IPARD programme below EUR 1 M per project unlike for the Environment OP.

3. Under the Priority axis 2 of the Regional Competitiveness OP direct support to SMEs in tourism for investments in assets related to the construction, modernization and upgrading of the accommodation and complementary facilities will be provided, a measure that should increase the competitiveness of the overall tourism sector. IPARD measure 302 “Diversification and development of rural activities” allows support for rural tourism and is primarily focused on development and diversification of rural activities for micro SMEs while focus is put on small-scale farm tourism i.e. farmers and producers of agricultural and other rural products who diversify on tourism as an additional economic activity to market their products directly to the final customer and to increase the quality of their living standard and life in the rural areas. It addresses rural areas only (i.e. only applicants and projects in such areas are eligible for funding), in line with the relevant national regulations defining such areas. Demarcation for similar type of actions is based on a combination of spatial-geographic, economic and administrative criteria linked to the area, type and size of projects.

The above are indicative demarcation areas and will be further qualified within the Operational Programmes. The table in Annex 3 provides further details on the complementarity between OPs and IPARD.

The strategy proposed by the Fisheries OP is based on the elements of the NSP and the objectives laid down in Article 4 of the ERF Regulation. The overall objective of the Fisheries OP is to achieve a competitive, modern and dynamic fisheries and aquaculture sector through a sustainable exploitation of resources. The funding will be used for the following objectives:

- Contributing to achievement of a sustainable balance between fishing capacity and available resources;
- Modernisation and increase of production and strengthening of competitiveness of aquaculture;
- Upgrading the system of support of administration and the sector for using structural support.

Croatia intends to implement 5 measures from 3 axes of the Fisheries OP, including technical assistance. ERF Axis 1 provides funds for adaptation of the fishing fleet. Croatia shall implement the measures related to permanent and temporary cessation of fishing activities. ERF Axis 2 funds are primarily aimed at aquaculture, processing and marketing of fisheries and aquaculture products. Due to the fact that processing and marketing of products are partially covered by another funding source (IPARD), only the measure of productive investments in aquaculture and the aqua-environmental measures shall be implemented. However here, the exact demarcation lines between Measure 2.1. “Productive investments in aquaculture” and the Priority Axis 2 of the Regional Competitiveness OP under which direct support for productive investments to SMEs will be provided are still to be defined (scale and budget of projects, type of final beneficiaries, nature and the specific objectives of projects are being considered). ERF Axis 5 will be used for supporting the administration and the stakeholder organizations involved in the implementation of the ERF activities (for e.g. raising of awareness, training activities with a purpose of enhancing knowledge about the structural policy in fisheries), however here there is no risk of overlapping.

The sectoral priorities of the two programmes (IPARD programme and Fisheries OP) go towards improvement of competitiveness of their respective sectors and contribute to the

overall objective of the NSRF which is to accelerate economic growth and foster employment with the prospect to achieve real convergence, as well as to the three strategic objectives of the NSRF.

6. FINANCIAL PLAN

6.1. FINANCIAL ALLOCATIONS

The following table presents a distribution of EUR 438,2 million per Fund and per Operational Programme in 2013.

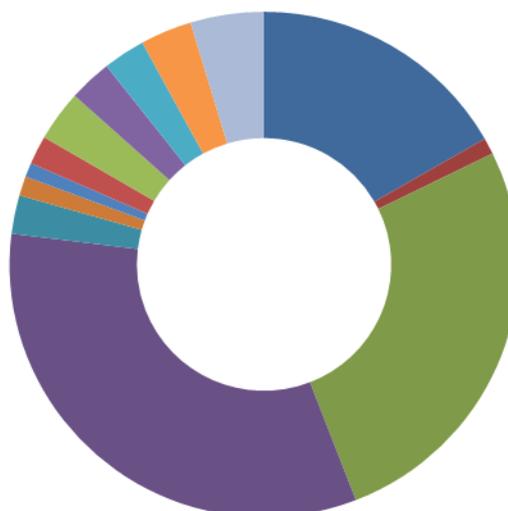
TABLE 6-1: Indicative financial allocations per Fund and per OP (in EUR)

OPERATIONAL PROGRAMME	FUND	Indicative amount
TRANSPORT	ERDF	120.000.000,00
ENVIRONMENT	CF	149.800.000,00
REGIONAL COMPETITIVENS	ERDF	108.400.000,00
HUMAN RESOURCES DEVELOPMENT	ESF	60.000.000,00
TOTAL NSRF		438.200.000,00

The following figure presents a breakdown of the allocated amount by themes as given per Annex 2 of the Commission Regulation (EC) No 1828/2006.

FIGURE 6-1: Breakdown by themes

Environmental protection and risk prevention	32,82%
Transport	26,36%
Research and technological development (R&TD), innovation and entrepreneurship	16,71%
Technical assistance	4,66%
Strengthening institutional capacity at national, regional and local level	3,28%
Improving the social inclusion of less-favoured persons	3,24%
Improving human capital	2,74%
Mobilisation for reforms in the fields of employment and inclusion	2,68%
Tourism	2,47%
Improving access to employment and sustainability	1,83%
Culture	1,24%
Information society	1,05%
Increasing the adaptability of workers and firms, enterprises and entrepreneurs	0,91%



6.2. LISBON EARMARKED EXPENDITURE

Table 6-2 summarizes the estimated indicative allocation of EU contribution in the categories of intervention that contribute to the Lisbon Strategy, according to Annex IV of the Council Regulation (EC) No 1083/2006 and shows, in percentage form, the contribution of each code to the formation of the total indicative allocation for the NSRF.

TABLE 6-2: Indicative allocation of EU contribution per intervention category contributing to Lisbon strategy

CODE	INTERVENTION CATEGORY DESCRIPTION WITH CONTRIBUTION TO LISBON STRATEGY ("EARMARKING CODES")	NSRF 2013	
		AMOUNT IN EUR (EU CONTRIBUTION)	CONTRIBUTION TO INDICATIVE NSRF ALLOCATION
	Research and technological development (R&TD), innovation and entrepreneurship	73.232.300	16,71%
1	R&TD activities in research centres	8.812.900	2,01%
2	R&TD infrastructure (including physical plant, instrumentation and high-speed computer networks linking research centres) and centres of competence in a specific technology	23.902.200	5,45%

3	Technology transfer and improvement of cooperation networks between small businesses (SMEs), between these and other businesses and universities, postsecondary education establishments of all kinds, regional authorities, research centres and scientific and technological poles (<i>scientific and technological parks, technopoles, etc.</i>)	10.840.000	2,47%
4	Assistance to R&TD, particularly in SMEs (<i>including access to R&TD services in research centres</i>)	2.601.600	0,59%
5	Advanced support services for firms and groups of firms	4.962.000	1,13%
6	Assistance to SMEs for the promotion of environmentally-friendly products and production processes (<i>introduction of effective environment managing system, adoption and use of pollution prevention technologies, integration of clean technologies into firm production</i>)	7.046.000	1,61%
7	Investment in firms directly linked to research and innovation (<i>innovative technologies, establishment of new firms by universities, existing R&TD centres and firms, etc.</i>)	1.734.400	2,25%
8	Other investment in firms	9.864.400	0,40%
9	Other measures to stimulate research and innovation and entrepreneurship in SMEs	3.468.800	0,79%
Information society		4.606.600	1,05%
14	Services and applications for SMEs (<i>e-commerce, education and training, networking, etc.</i>)	2.872.600	0,66%
15	Other measures for improving access to and efficient use of ICT by SMEs	1.734.000	0,40%
Transport		115.520.000	26,36%
16	Railways	40.000.000	9,13%
17	Railways (TEN-T)	74.160.000	16,92%
32	Inland waterways (TEN-T)	1.360.000	0,31%
Increasing the adaptability of workers and firms, enterprises and entrepreneurs		4.000.000	0,91%
62	Development of life-long learning systems and strategies in firms; training and services for employees to step up their adaptability to change; promoting entrepreneurship and innovation	2.000.000	0,46%
64	Development of specific services for employment, training and support in connection with restructuring of sectors and firms, and development of systems for anticipating economic changes and future requirements in terms of jobs and skills	2.000.000	0,46%
Improving access to employment and sustainability		8.000.000	1,83%
65	Modernisation and strengthening labour market institutions	3.000.000	0,68%
66	Implementing active and preventive measures on the labour market	3.000.000	0,68%
68	Support for self-employment and business start-up	2.000.000	0,46%
Improving the social inclusion of less-favoured persons		14.200.000	3,24%

71	Pathways to integration and re-entry into employment for disadvantaged people; combating discrimination in accessing and progressing in the labour market and promoting acceptance of diversity at the workplace	14.200.000	3,24%
Improving human capital		12.000.000	2,74%
72	Design, introduction and implementation of reforms in education and training systems in order to develop employability, improving the labour market relevance of initial and vocational education and training, updating skills of training personnel with a view to innovation and a knowledge based economy	5.000.000	1,14%
74	Developing human potential in the field of research and innovation, in particular through post-graduate studies and training of researchers, and networking activities between universities, research centres and businesses	7.000.000	1,60%
TOTAL contribution for the Convergence objective		231.558.900	52,84%
TOTAL NSRF		438.200.000	100%

Regarding the ratio of investments into “earmarked” categories amounting 52,84% of the total allocation for the NSRF, it is worth noting that another 33% of the total allocation is planned under the categories related to environmental protection and risk prevention which are not Lisbon “earmarked” but represent a priority in the specific transitional circumstances and are enabling large and costly investments into waste management, distribution of water and water treatment.

6.3. EX ANTE VERIFICATION OF ADDITIONALITY

Following the provisions of Article 15 of the Council Regulation (EC) No 1083/2006 and in line with the Commission methodological paper giving guidelines on the calculation of public or equivalent structural spending for the purposes of additionality, the ex ante verification of compliance with the additionality principle has been carried out.

The following table presents the results of the verification process and gives information on the level of public or equivalent structural expenditure in Croatia in areas eligible for receiving Structural Funds assistance to be maintained during 2013. The calculation is based on the level of public or equivalent structural expenditure originating from the State budget, extrabudgetary users at the national level and relevant public companies in areas eligible for receiving Structural Funds assistance in the reference period, i.e. 2010-2011. The calculation also reflects the evolution of the macroeconomic situation and main macroeconomic indicators in the recent and upcoming period.

Public or equivalent structural expenditure in 2013 is expected to decrease by 4% in comparison to the actual annual average expenditure registered in the 2010-2011 period. However, the estimated - reduced level of eligible national expenditure in 2013 indicates an increase in comparison to the expenditure realized in 2011. More specifically, in the reference period, significant worsening of macroeconomic conditions, as well as a decrease of the State budget expenditures and public companies' investments has been recorded. In 2011, a lack of economic recovery prolonged the uncertainty of the economy, resulting in further reduction of the eligible expenditure compared to 2010, both at the level of general

government and especially of public companies. After further contraction of the GDP in 2012, the ending of a negative trend and the beginning of a gradual recovery of the economic activity is expected in 2013, with the real growth of 0.7% of GDP, increased level of general government expenditure and of gross fixed capital formation.

During the targeted period the financial assistance from the Structural Funds will be limited to the amount of pre-financing and amounts 86,5 MEUR. Therefore, the Structural Funds will not become as relevant contributors for public investment in 2013 as they will in the years to come.

The figures in the table are given for the whole 2013, i.e. they represent a targeted level of annual expenditure but will be verified ex post (in 2017) only for the second half of the year in question.

TABLE 6-3: Ex ante verification of additionality
Summary financial table of public or other equivalent structural expenditure in Croatia (EUR, 2011 prices)

1	Annual in 2013 NSRF (ex ante)						Annual average in 2010-2011 (actual)					
	Total	Of which public companies	NSRF		Outside NSRF	Total	Total	Of which public companies	Pre-accession assistance		Outside pre-accession assistance	Total
	Nat, + EU	Nat, + EU	EU	Nat,	Nat,	Nat,	Nat, + EU	Nat, + EU	EU	Nat,	Nat,	Nat,
	2=4+5+6	3	4	5	6	7=5+6=2+4	8=10+11+12	9	10	11	12	13=11+12=8-10
Basic infrastructure	511,882,888	117,786,561	0	0	511,882,888	511,882,888	594,446,243	183,744,087	26,998,709	12,467,242	554,980,292	567,447,534
Transport	207,183,782	61,821,475	0	0	207,183,782	207,183,782	229,147,472	64,578,130	10,805,840	6,949,028	211,392,604	218,341,632
Telecommunications & information society	29,147,572	2,029,842	0	0	29,147,572	29,147,572	26,205,483	2,879,913	1,759,304	272,079	24,174,100	24,446,179
Energy	40,387,690	33,895,128	0	0	40,387,690	40,387,690	105,023,886	97,034,585	0	0	105,023,886	105,023,886
Environment & water	200,132,519	20,040,116	0	0	200,132,519	200,132,519	199,467,335	19,251,459	14,433,565	5,246,135	179,787,635	185,033,770
Health	35,031,325	0	0	0	35,031,325	35,031,325	34,602,067	0	0	0	34,602,067	34,602,067
Human resources	144,076,834	0	0	0	144,076,834	144,076,834	153,880,422	0	9,644,920	1,685,950	142,549,552	144,235,502
Education	51,179,169	0	0	0	51,179,169	51,179,169	61,594,037	0	4,840,144	752,270	56,001,623	56,753,893
Training	41,276,084	0	0	0	41,276,084	41,276,084	40,554,077	0	4,804,776	858,311	34,890,990	35,749,301
RTD	51,621,581	0	0	0	51,621,581	51,621,581	51,732,308	0	0	75,369	51,656,939	51,732,308
Productive environment	105,399,349	0	0	0	105,399,349	105,399,349	111,062,943	0	5,240,385	747,130	105,075,428	105,822,558
Industry & services	58,650,357	0	0	0	58,650,357	58,650,357	65,522,582	0	5,196,562	732,524	59,593,496	60,326,020
Tourism & culture	46,748,992	0	0	0	46,748,992	46,748,992	45,540,361	0	43,823	14,606	45,481,932	45,496,538
Others	142,628,316	0	86,520,000	23,274,439	32,833,877	56,108,316	42,481,250	0	8,752,427	649,494	33,079,329	33,728,823
Administrative capacity development	16,836,594	0	0	0	16,836,594	16,836,594	26,443,748	0	8,473,038	640,092	17,330,618	17,970,711
Social infrastructure & related services	15,997,283	0	0	0	15,997,283	15,997,283	16,037,502	0	279,389	9,402	15,748,711	15,758,112
Non classifiable*	109,794,439	0	86,520,000	23,274,439	0	23,274,439	0	0	0	0	0	0
Total	903,987,387	117,786,561	86,520,000	23,274,439	794,192,948	817,467,387	901,870,858	183,744,087	50,636,441	15,549,816	835,684,601	851,234,417

* The category refers to the amount of national co-financing under the pre-accession assistance in 2013 and the amount of pre-financing to be received under the NSRF

7. INSTITUTIONAL FRAMEWORK

7.1. OVERVIEW OF INSTITUTIONAL FRAMEWORK

This chapter describes the institutional framework for the use of EU structural instruments in 2007-2013 programming period in Croatia defined in accordance with the provisions laid down in Council Regulation No 1083/2006 and set up by national legal acts. These are:

- Law on the Institutional Framework for the use of EU structural instruments in the Republic of Croatia⁵⁶, defining the institutional framework as well as functions and responsibilities of the bodies in the management and control system set up the period 2007-2013. Under this Law the following bodies are established: Coordinating Body, Audit Authority, Certifying Authority, Managing Authority, Intermediate Bodies level 1 and Intermediate Bodies level 2. The establishment of these bodies ensures the implementation of all the responsibilities of Croatia as a member state as defined per Council Regulation No 1083/2006.
- Decree on the bodies in the management and control system for use of EU structural instruments in the Republic of Croatia⁵⁷, allocating the functions and responsibilities of Coordinating Body, Audit Authority, Certifying Authority, Managing Authority, Intermediate Bodies level 1 and Intermediate Bodies level 2 to national institutions. They are designated horizontally at the level of the entire management and control system and at the level of Operational Programmes and/or their priority axes and/or planned interventions, depending on the specific nature of individual Operational Programme. Intermediate Body level 1 and Intermediate Body level 2 are established for certain Operational Programme if the Managing Authority of this Operational Programme is delegating part of its functions to the Intermediate Body level 1 or Intermediate Body level 1 and Intermediate Body level 2, whereas the Managing Authority retains full responsibility for managing the Operational Programme and performing all functions of the Managing Authority.

More detailed descriptions of delegated functions, tasks and responsibilities are provided within Organisational Development Strategies prepared at the level of each horizontal body in the system and at the level of each individual OP for all the bodies involved in the implementation of the respective OP.

Instrument for Pre-Accession Assistance (IPA) serves as a precursor to the Structural Instruments, both in terms of programme preparation and implementation procedures, and in relation to the institutional set-up required for the programme management. The institutional set-up for the implementation of EU funds in Croatia post-accession is therefore built on the system in place for the management of IPA pre-accession assistance, in order to preserve stability and ensure value added of IPA as the principal tool of preparation for the EU Cohesion policy but also with the aim of ensuring smooth and effective transition from one system to another. Institutions currently involved in the management of EU pre-accession assistance will therefore to the greatest extent possible preserve their present role and tasks in managing the Funds post-accession.

However, new institutions will be introduced into the system, where necessary. This choice will be made for the institutions that have a firm basis in the policy-making and management of the national schemes and only upon verification of capacities required to fulfil their future role.

⁵⁶ OG 78/2012

⁵⁷ OG 97/2012

TABLE 7-1: Overview of bodies in the management and control system for use of EU structural instruments in Croatia in the period 2007-2013

Horizontal functions		
ROLE	INSTITUTION	FUND
Coordinating Body	Ministry of Regional Development and EU Funds	all
Audit Authority	Agency for the Audit of European Union Programmes' Implementation System	all
Certifying Authority	Ministry of Finance	all

OP Transport		
ROLE	INSTITUTION	FUND
Managing Authority	Ministry of Maritime Affairs, Transport and Infrastructure	ERDF

OP Environment		
ROLE	INSTITUTION	FUND
Managing Authority	Ministry of Environmental and Nature Protection	CF
Intermediate Bodies level 1	Ministry of Agriculture	CF
Intermediate Bodies level 2	Environmental Protection and Energy Efficiency Fund	CF
	Croatian Waters	
	Central Finance and Contracting Agency	

OP Regional Competitiveness		
ROLE	INSTITUTION	FUND
Managing Authority	Ministry of Regional Development and EU Funds	ERDF

Intermediate Bodies level 1	Ministry of Entrepreneurship and Crafts	
	Ministry of Science, Education and Sports	
	Ministry of Economy	
Intermediate Bodies level 2	Central Finance and Contracting Agency	

OP Human Resources Development		
ROLE	INSTITUTION	FUND
Managing Authority	Ministry of Labour and Pension System	ESF
Intermediate Bodies level 1	Ministry of Social Policy and Youth	
	Ministry of Science, Education and Sports	
	Governmental Office for Cooperation with NGOs	
Intermediate Bodies level 2	Croatian Employment Service	
	Agency for Vocational Education and Training and Adult Education	
	National Foundation for Civil Society Development	

7.2. OVERALL COORDINATION

The overall compliance with principles of assistance, strategic approach and effectiveness of the assistance, setting up the management and control system, defining the arrangements for monitoring, as well as coordination with the European Commission are ensured by the MRDEUF, designated Coordinating Body.

More specifically, MRDEUF:

- Ensures that the assistance from the Funds is complementary to national actions and other financial instruments of the Community, compliant with relevant EU regulations, consistent with policies and priorities of EU as well as coordinated with EAFRD, EFF and the interventions of the EIB and of other existing financial instrument in order prevent double financing

- Organises and coordinates the preparation and/or revision of National strategic reference framework and related Operational Programmes and is responsible for their submission to EC,
- Ensures the partnership, develops partnership structures and procedures and coordinates the dialog in the process of preparation, implementation, monitoring and evaluation of Operational Programmes;
- Monitors the progress of implementation of NSRF and prepares the appropriate strategic reports;
- Prepares the methodology and strategy for evaluation of Operational Programmes, develops evaluations plans, coordinates, organizes or performs evaluations related to the use and implementation of structural instruments, ensures that general public is familiarized with the results and ensures implementation of activities;
- Sets up the methodology for monitoring of revenue-generating projects;
- Sets up, monitors and improves management and control system;
- Coordinates the activities related to the description of the management and control systems (subject to the assessment of management and control systems by the EC);
- Prepares the Rules governing the activities of the bodies in the system related to:
 - System set up and improvements of the system;
 - Strategic planning and programming;
 - Conditions for the preparation and implementation of projects;
 - Selection of projects and granting assistance;
 - Forecasting and monitoring of payments;
 - Evaluation and closure of Operational Programmes;
 - Audits;
 - Information and visibility;
 - Use of technical assistance.
- Monitors the compliance with the Rules and ensures the exchange of experiences and communication among the bodies in the system;
- Provides ex ante approval of Manuals of Procedures prepared by the bodies in the system on the basis of the Rules;
- Coordinates the preparation and revision of project selection criteria in cooperation with Managing Authorities and submits them for approval to the Monitoring Committee set up at the level of Operational Programme;
- Prepares the communication plan and coordinates the implementation of information and publicity measures to order to ensure its proper implementation;
- Collects and registers the information on audits, provides the same to the Certifying Authority and coordinates the implementation of audit recommendations;
- In cooperation with Managing Authorities decides on the composition of the Monitoring Committee set up at the level of Operational Programme and participates in the work of these Monitoring Committees;
- Ensures the electronic exchange of data with EC through computer system for data exchange established by the EC;
- In cooperation with Certifying Authority, Managing Authorities, Intermediate Bodies level 1 and Intermediate Bodies level 2, develops and improves Management Information System (MIS);
- Ensures representation of the Republic of Croatia in committees and other working structures of the Commission and the Council and ensures dissemination of the information on the activities performed therein.

7.3. MONITORING

In view of accumulation, summarising and presenting the data of the Structural Funds and Cohesion Fund implementation, Croatia uses a single Management Information System (MIS). The scope of the MIS is twofold and its purpose is to manage Operational Programmes and projects, as well as to serve as financial control mechanism to enable the smooth processing of payments. The MIS ensures that all the data, necessary for financial management, monitoring, supervision, audit and evaluation are collected and secured as required by Article 60(c) of *Council Regulation No 1083/2006*. It also ensures the electronic exchange of data between Managing Authority and the EC as foreseen in Article 66(3) and 76(4) of *Council Regulation No 1083/2006*.

MIS provides a possibility to monitor the operational data and financial information on:

- Implementation of separate projects, financed from Structural Funds and Cohesion Fund;
- Progress of implementation of separate Operational Programmes;
- General progress of implementation of the assistance under the Convergence Objective;
- Verifications of results, detected irregularities, and audit.

MIS facilitates implementation of the following functions:

- Management: placement of the data on financial plans and indicators of Operational Programmes into computer system, forecasts and monitoring of financial plans and indicators, supervision of obligations and execution of payment plans, control of the N+3 rule;
- Administration: project registration, administration of agreements, forecasts on projects implementation and supervision of their execution, registration of verification results, control of eligibility of expenditure and payment. This function also includes the provision of accumulated data enabling for an easy identification of project implementation and payments problems;
- Accountability: provision of information on progress of projects, elaboration of summaries for reports, provision of information on the expenditure, collection of information necessary for execution of control, audit, evaluations, submission of reports to the Commission via electronic media (for audit purposes).

The system allows for a multi-user group environment with distinct roles and tasks.

MIS is managed centrally by the Coordinating Body and developed in co-operation with: Managing Authorities, Intermediate bodies level 1, Intermediate bodies level 2, Certifying Authority and Audit Authority. The system issues numbers of standard and customised reports to meet the needs of the various data groups, both on an ad hoc and/or regular basis. It is the main source of information necessary for the preparation of annual reports and final reports on implementation of the Operational Programme by the Managing Authorities. It is envisaged that data placement commence in July 2013.

In compliance with the requirements of the *Council Regulation No 1083/2006* and for the purposes of ensuring the quality of the implementation of the Operational Programme, there will be a Monitoring Committee established for each Operational Programme. Chaired by the Managing Authority, it will comprise of representatives of Coordinating Body, Certifying Authority, Audit Authority, Intermediate Bodies level 1 and Intermediate Bodies level 2, partners at national, regional and local level and in the economic, social, environmental or other spheres, relevant NGOs, and other national and regional organizations interested in active participation in OP implementation. Representatives of the European Commission shall participate in an advisory capacity in the Monitoring Committee; when appropriate,

delegates of the European Investment Bank and European Investment Fund or other financing institutions will also be invited. Managing Authority and the Monitoring Committee shall carry out monitoring by reference to indicators specified in the Operational Programme.

7.4. EVALUATION

In line with the requirements of *Council Regulation No 1083/2006*, Articles 37, 47, 48, 49, Croatia is responsible for ensuring that an independent ex ante evaluation for each Operational Programme is carried out, with the aim to optimise the allocation of budgetary resources under Operational Programmes and improve their quality. They shall identify and appraise the disparities, gaps and potential for development, the goals to be achieved, the results expected, the quantified targets and the coherence of the programming documents. Four separate ex ante evaluations have been organized by the Coordinating body and carried out in August 2012 on four OPs receiving Structural and Cohesion Funding in 2007-2013 programming period. Specific recommendations regarding further improvements of the text of Operational Programmes as well as the related monitoring indicators have been given in four individual ex ante evaluation reports. Recommendations have been taken into account during the revision of OPs' drafts. Evaluation reports are annexed to the OPs and therefore public information.

Although not a formal requirement, based on the allowances of the regulatory framework for the 2007–2013 financial perspective, the Contracting Authority launched as part of Project EuropeAid/130401/D/SER/HR the ex ante evaluation of the NSRF, seeking to provide independent analysis and a review of the programming document in order to study the existing policy challenges and needs and to assess the strategic choices for the allocation of Structural and Cohesion Funds following Croatia's accession to the EU on July 1st, 2013. The NSRF's evaluation set out the five core analytical tasks:

- Appraisal of the socio-economic sectoral analysis in terms of identified strengths and weaknesses, and the relevance of the overall situation and needs assessment and NSRF-related SWOT analysis;
- Appraisal of the external and internal consistency of the strategy and the intervention logic underlying the NSRF's strategic objectives and thematic priorities and of their degree of contribution to the thematic objectives of the SF Regulation;
- Appraisal of appropriateness and clarity of indicators, as well their relevancy to specificities of the NSRF interventions in order to ascertain its potential overall impact;
- Analysis of expected impacts and their alignment and consistency with the budgetary allocation over the NSRF's objectives;
- Assessment of the quality and appropriateness of the programme management structures and monitoring arrangements foreseen for the NSRF.

The main conclusions of the ex ante evaluation of the NSRF are presented below.

Conclusion 1. The prospective appraisal of the needs assessment and the SWOT analysis of the NSRF found that they:

- Have relevant scope from the point of the interventions (cover the topics that have influence or possible impact on the strategic choices, objectives and investment priorities of the NSRF) and use qualitative and quantitative data that support and prove conclusions of the analysis in a convincing manner;
- Are addressing all key macroeconomic parameters of Cohesion policy in Croatia, however there is a need to include updated information on the contraction of GDP and deteriorating conditions in the labour market during 2012,

- Are comprehensive, based on full and appropriate background data (structural indicators), and provide a holistic picture of the Croatian economy-sectors and communities;
- Are logically interlinked with the identified needs and are properly codified by the SWOT quadrants, with some qualifications;
- Enable the needs of particular stakeholder groups, and regions to be differentiated and addressed;
- Have a European perspective that makes issues and conclusions comparable with the status of the topic in EU,
- Do not take account of several crucial intervening factors, nor of any lessons from past interventions.

Conclusion 2. The strategic orientation of the NSRF, including the overall and strategic objectives and the thematic priorities is very elaborately structured and clearly explained, with a well-structured outline of the intervention logic. Also, the NSRF's external coherence to EU, as well to the pertinent national policies is documented by its design process and content and the review of planned forms of intervention per thematic priority validates the intervention logic from the envisaged actions to the expected results. However, given the unique characteristics of the NSRF in terms of a shortened timeframe of implementation and limited funding resources, the statements of intent at the level of the overall and the strategic objectives are very broad and ambitious in nature compared with the select and narrow focus of interventions under the OPs.

Conclusion 3. The NSRF contains a limited number of indicators with quantifiable targets in principle to be achieved by the end of the programming period. Some elements of the indicator system are well developed, manageable and useful, particularly involving the first two thematic priorities (Thematic priority 1: Development of modern transportation networks and increased accessibility of the regions, Thematic priority 2: Improvement of environmental infrastructure and quality of related services), which set out indicators, which are appropriate and relevant to all interventions. However the indicators for the other two thematic priorities (Thematic priority 3: Higher competitiveness of SMEs and support to knowledge-based economy, Thematic priority 4: Improvement of labour market efficiency, development of the human capital and reinforcing social inclusion) would benefit from further refinement because in most cases these are aggregated indicators that cannot be directly attributable to NSRF interventions. This shortcoming and the comparatively small scale of financial resources mean that it may be difficult to assess the likely result of the NSRF under these priorities.

Conclusion 4. The institutional set-up for the NSRF includes a 3-level and multi-institutions management structure which appears to be complicated, but it provides continuity and is safeguarded given that Ministry of Regional Development and EU Funds and the Ministry of Finance, have been ensuring a coordinated and strategic approach in setting up the relevant institutional framework for the implementation of the EU post-accession funds. However, the practice of IPA puts emphasis on project-level management tasks while the management of the Structural Funds will require an essential shift of focus of preparation from proper project management to preparation for Programme level management tasks. Thus, clear guidance on the arrangements to provide for and involve partners in implementation, project pipeline development and project selection is required combined with securing sufficient administrative capacity.

Based on the main findings and conclusions, the ex ante evaluators gave the following recommendations:

Recommendation 1.

- Update estimates of macroeconomic indicators with recent figures which reflect policy tightening in response to continuing debt reduction by households and businesses,

declining domestic demand and slowing exports to the euro area, with real GDP growth in Croatia coming close to a halt.

- Update data on declining labour force participation and rising unemployment to better assess conditions and prospects for structural reforms in the labour market.
- Include background data on intervening factors, such as administrative capacity, ICT penetration and energy consumption. Also, on past EU or other donor-funded interventions in Croatia.
- Minor adjustments are to be made in the NSRF-related SWOT analysis to better reflect the content of its elements.

Recommendation 2. To ensure a coherent, 'strategic' logic between the planned areas of interventions under the OPs, with the thematic priorities following on from the NSRF's strategy, the overall and the strategic objectives should be reconsidered with the aim of streamlining and harmonising their content. Alternatively, the current formulation of NSRF's overall and strategic objectives could be set in transitional terms, linking more explicitly the continuation of policy under IPA with broader national objectives and those of the 2014-2020 financial perspective.

Recommendation 3. Particular efforts should be put into developing indicators for the two thematic priorities (Thematic priority 3: Higher competitiveness of SMEs and support to knowledge-based economy, Thematic priority 4: Improvement of labour market efficiency, development of the human capital and reinforcing social inclusion), which currently do not enable target setting. More information on target estimation could be provided, in particular whether monitoring can rely on an existing data set, whether new data will need to be generated via a macroeconomic model, or whether only estimates will be available.

Recommendation 4. Coordination arrangements regarding implementation, project pipeline development and project selection should be considered and detailed in the NSRF, as effective institutional coordination is one of the most challenging elements of horizontal and vertical implementation in addition to ensuring that sufficient capacity exists for the range of interventions listed under OPs to be implemented and the NSRF's funds absorbed.

The conclusions and recommendations of the ex ante evaluation have been taken into account upon revising the NSRF.

The EC shall carry out an ex post evaluation for each objective in close cooperation with the Member State and Managing Authorities. Ex post evaluation shall cover all the OPs under each objective and examine the extent to which resources were used, the effectiveness and efficiency of Fund programming and the socio-economic impact. It shall be carried out for each of the objectives and shall aim to draw conclusions for the policy on economic and social cohesion. It shall identify the factors contributing to the success or failure of the implementation of Operational Programmes and identify good practice. Ex post evaluation shall be completed by 31 December 2016.

During the programming period, evaluations linked to the monitoring of OP may be carried out in particular where that monitoring reveals a significant departure from the goals initially set with a view to explore in more detail the reasons behind the under-performance. This may lead to the revision of the OP with an on going evaluation acting as an input to the broader decision-making process. This type of evaluation shall also be carried out where proposals are made for the revision of Operational Programmes due to major or unexpected developments in the external environment of the programme or significant changes in policy. The results of the on going evaluation shall be sent to the Monitoring Committee for the Operational Programme and to the Commission.

In March 2012 the Government of Croatia adopted an Evaluation Strategy for EU structural instruments which defines the following priorities: (1) strengthening evaluation capacity in key institutions involved in management of EU structural instruments, (2) compliance with the requirements related to evaluation in 2007-2013 as well as 2014-2020 programming period and (3) promoting the evaluation in decision-making process.

Croatia has prepared four Evaluation plans, presenting the indicative evaluation activities which it intends to carry out at different phases of implementation, at the level of each OP receiving Structural and Cohesion Funding in the period 2007-2013. Their implementation is the responsibility of the Managing Authorities.

7.5. FINANCIAL FLOWS

This chapter describes the main procedures for mobilization and circulation of financial flows in order to ensure their transparency while implementing Operational Programmes. The system described herein is common for all EU structural assistance administered in Croatia according to the Convergence objective; therefore, it will be equally applied to all Operational Programmes under the aforementioned objective. The following two essential aspects of the financial flow system may be distinguished: a) co-financing of actions by EU structural assistance and national funds; b) the cycle of movement of EU funds to beneficiaries.

The national co-financing of EU structural assistance will be ensured from the resources of the state budget, other national public contribution, municipal budgets, and beneficiaries' own funds.

The integrated planning of EU structural assistance in the state budget will ensure the potential of the national co-financing of EU structural assistance. The state budget preparation and provision for EU structural assistance and national co-financing is ensured in accordance with the applicable Instruction for preparation of state budget of Republic of Croatia for certain period (issued by the State Treasury of the Ministry of Finance), and forms part of overall procedure related to preparation of the state budget. As a rule, the funds from EU structural assistance designated for allocation to a particular economic sector will be included into the annual budget of a relevant budget user- Intermediate body level 1 (usually – a relevant ministry), responsible for co-ordination of the state policy in this area, by integrating these funds into budget appropriations.

The European Commission will transfer EU structural assistance funds to a separate bank account opened specially for each fund with the Croatian National Bank and administered by the State Treasury of the Ministry of Finance. These funds will be transferred to the single treasury account, which is located in the Croatian National Bank. These funds will be transferred to beneficiaries through the State Treasury Financial Information System (STFIS). STFIS is designed to process all transactions relating to all phases of the budgetary cycle. All budget users are connected into a single financial - information system - STFIS through which State Treasury may conduct transactions. Beneficiaries will submit payment applications to the Intermediate body level 2 that will verify the eligibility of expenditure declared by the beneficiaries to be financed from EU structural assistance funds, following the procedure established in the common rules adopted by Coordinating Body (MRDEUF) and relevant instructions of the Managing Authority.

After setting the amounts specified in payment applications eligible for financing from EU structural assistance funds, the budget user - Intermediary body, will prepare the requests for payment (RfPs) to the State Treasury for the amounts to be proceeded in STFIS. After preparation of the RfP in STFIS, the process of verification and validation of the RfP will take

place following the general procedure for payment of the state budget funds. After receipt of a proper RfP for a particular state budget appropriation item, under which expenditure of EU structural assistance is planned, the State Treasury of the Ministry of Finance will transfer the amount of EU structural assistance funds specified in the RfP from a single treasury account directly to the beneficiary.

Thus, transparency of the cycle of movement of EU funds down to beneficiaries shall be ensured by the mentioned several key measures:

- After EU structural assistance is integrated into the state budget, during its payment the general control measures for payment of the state budget funds shall be applied;
- EU funds, using STFIS, will be transferred directly to beneficiaries, thus enhancing the performance of the audit trail principle, also allowing to implement the principle laid down in the Council Regulation No 1083/2006, stating that EU funds have to reach the beneficiary as soon as possible, in a most effective manner;
- The system will ensure that in all cases EU funds for beneficiaries will be transferred only after verification and validation of amounts eligible for financing from EU structural assistance funds by the procedure established by the Coordinating Body (MRDEUF) and instructions of the Managing Authority.

STFIS will also ensure that all interest accrued on EU structural assistance transferred to Croatia in advance will be designated as public national co-financing.

Flowchart of financial flows is presented in Annex 4.

7.6. CERTIFICATION OF EXPENDITURE

In line with the provisions of Article 59 and 61 of *Council Regulation No 1083/2006*, Croatia has designated the Ministry of Finance as the Certifying Authority to certify statement of expenditure and applications for payment before they are sent to the Commission. Certifying Authority performs the following functions:

- Draws up and submits to the Commission certified statements of expenditure and applications for payment;
- Certifies the expenditure;
- Ensures for the purposes of certification the receipt of adequate information from the Managing Authority on the procedures and verifications carried out in relation to expenditure included in statements of expenditure;
- Takes account for certification purposes of the results of all audits carried out by and under the responsibility of the Audit Authority;
- Maintains accounting records in electronic form of expenditure declared to the Commission;
- Keeps an account of amounts recoverable and of amounts withdrawn following cancellation of all or part of the contribution for a project;
- Provides the Commission with the provisional forecast of the applications for payments;
- Provides the Commission with the statement on withdrawn and recovered amounts, pending recoveries and irrecoverable amounts.

Certifying Authority does not intend to delegate its functions to other bodies.

7.7. AUDIT

In line with the provisions of Article 59 and 62 of *Council Regulation No 1083/2006*, Croatia has designated the Agency for the Audit of European Union Programmes' Implementation System (ARPA) as the Audit Authority, body functionally independent from the Managing Authority and the Certifying Authority responsible for external audit of the proper and efficient functioning of the management and control system. Audit Authority, performs the following functions:

- Ensures that audits are carried out to verify the efficient functioning of the management and control system;
- Ensures the execution of audits of operations on the basis of an appropriate sample in order to verify expenditure declared;
- Prepares and submits to the Commission audit strategy;
- Prepares and submits to the Commission annual control report and final control report;
- Issues an opinion as to whether the System is functioning properly and effectively in order to provide reasonable assurance that statements of expenditure presented to the Commission are accurate and there is a reasonable belief that the subject transactions are legal and regular;
- Where applicable, submits to the Commission a declaration for (partial) closure assessing the legality and regularity of the expenditure concerned;
- Prepares internal written procedures for performance of its functions;
- During audits takes into account internationally accepted audit standards;
- Enters relevant data in MIS and ensures exchange of data with the Commission through the SCF2007;
- Stores documents and record of the performance of functions to ensure adequate audit trail;
- Performs compliance assessment of the management and control system for each Operational Programme and prepares a report setting out the results of the assessment and giving an opinion on the compliance of the management and control system with relevant EU Regulations.

The Audit Authority does not intend to delegate its functions to other bodies.

The annual control reports covering the periods from 1 July 2013 to 30 June 2014, from 1 July 2014 to 30 June 2015 and from 1 July 2015 to 30 June 2016 shall be submitted to the Commission by 31 December 2014, 31 December 2015 and 31 December 2016, respectively. The information concerning the audits carried out after 1 July 2016 shall be included in the final control report supporting the closure declaration. A closure declaration supported by the final control report, shall be submitted to the Commission by 31 March 2018.

7.8. ACTIONS ENVISIONED FOR REINFORCING ADMINISTRATIVE EFFICIENCY

Administrative capacity is crucial for efficient and effective utilisation of EU funds; the experience with the simultaneous management of CARDS, Phare, ISPA and IPA, and the preparation for Structural and Cohesion Funds has testified to the fact that Croatia needs to ensure a larger number of qualified and motivated staff if it wishes to successfully implement operational programmes, in parallel with the management of the remaining pre-accession assistance in the first years of EU accession. This issue is being addressed in the organisational development strategies that the future Managing Authorities and bodies with horizontal responsibilities are preparing.

With the aim of ensuring high rates of absorption of EU funds and effective use of Cohesion Policy Instruments, in the forthcoming period activities of the public administration will be continued related particularly to the strengthening of administrative capacities of institutions in the system of management and control and the capacities of potential beneficiaries at national, regional and local level working on project preparation and implementation, as well as activities of preparing a broad portfolio of mature projects. As a result, the implementation of these activities includes the ensuring of sufficient management implementation capacities, both by the retention of the existing and by employment of new staff, maintaining training for potential trainers and the identification of relevant experts as future trainer, i.e. ensuring permanent training to the staff to develop adequate knowledge and skills. This is also ensured through a continuation of the implementation of the existing training programmes and the development of new ones in accordance with the identified needs at all levels. This will also be addressed through the provision of systematic training and capacity building measures under the technical assistance priority axes of individual operational programmes.

The Government of the Republic of Croatia has made significant efforts for ensuring adequate institutional capacity for absorption of EU funds in the final pre-accession period and for the first year of Structural Funds implementation. In July 2012 the Government of the Republic of Croatia has adopted a Decision⁵⁸ with the aim to strengthen the capacities of the institutions managing EU funds in Croatia by reassigning or employing 232 civil servants and employees.

However, the administrative capacities were still not sufficiently strengthened, thus in December 2012 the Government adopted a new Decision⁵⁹ regarding the employment of additional 204 new civil servants and employees (to reach the planned number from the first Decision) on the basis of public vacancies, with the aim to have all vacancies opened by 31 December 2012 and the employment completed by 31 March 2013. Additional staff has been employed for managing EU funds in Croatia and on 31 March 2013 an increase of staff was recorded: additional 87 civil servants and employees were permanently employed through vacancies and 13 persons have been reassigned by internal transfer. Remaining staff is to be employed in the upcoming period, as a number of employment procedures are still on-going.

Through the Twinning project "Strengthening the capacity for effective management of EU structural instruments" MRDEUF conducted the training cycle "Management and Control System for EU Structural Funds and Cohesion Fund for 2007-2013", aimed at strengthening the current capacity of institutions that are part of the system. The training cycle consists of 10 modules (in the duration from one to three days) in the following areas: Management and Control System for the Use of EU Structural Instruments in the Republic of Croatia for the Financial Perspective 2007-2013 (legal framework and institutional set-up); Grant Agreements in SCF – Contracting and Management; Project Management Verifications; Role and Responsibility of Management Authority; Execution of Payments; Certification of Expenditure; Managing Non-Compliances and Recoveries. Additional trainings have been provided on horizontal issues, such as public procurement and state aid, and some were organized in cooperation with the European Commission. The trainings will continue in the

⁵⁸ Decision about the activities that ministries and other institutions involved in the implementation of the IPA program should take in the year 2012 in order to obtain permission to work in the system for the management of pre-accession programs of the European Union, without prior (ex ante) control by the Delegation of the European Union, and the permission to work in the system for the implementation of EU funds in the Republic of Croatia, Class: 400-01/05-02/01, Ref. No.: 5030125-12-13 of 26 July 2012.

⁵⁹ Decision on the employment through vacancy public in the ministries and other institutions involved in the implementation of the IPA Programme, in order to obtain permission to work in the system for the management of pre-accession programmes of the European Union, without prior (ex ante) control by the Delegation of the European Union, and the permission to work in the system for the implementation of EU funds in the Republic of Croatia, Class: 400-01/12-01/13, Ref. No.: 50301-25/25-12-5, of 6 December 2012.

forthcoming period in order to enable capacity development of new staff in the system, as well as strengthening of the capacity of the currently employed civil servants and employees.

The strengthening of human resources at regional and local level will focus on the strengthening of capacities of potential beneficiaries in the preparation and implementation of their projects. This will enable them to gradually adapt to the more demanding conditions and criteria, which they will have to meet in applying for and in using the funds.

Also, Croatian ministries are providing support in terms of providing technical assistance and preparation of project/technical and tender documentation and planning project implementation co-financing of national strategic projects and regional development projects on the one hand, and projects in assisted areas on the other. Project preparation or more precisely, the preparation of project/technical and tender documentation in the sectors covered by the 2007-2013 operational programmes are financed both from the national budget funds, as well as from the EU funds.

This whole process is constantly monitored by the newly established inter ministerial Working Group for EU Funds at the Croatian Government. Its activity includes the monitoring and evaluation of the preparation and implementation of projects which are financed and which will be financed from EU funds and the adoption of proposals with the objective of eliminating administrative and other difficulties for the preparation and implementation of projects at all levels as well as the designing of the financial schema for the financing of project preparation and the co-financing of their implementation.

ANNEXES

Annex 1. Basic Statistical Data

Table 1: Basic macroeconomic indicators for Croatia

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Real GDP growth rate, %	5.4	4.1	4.3	4.9	5.1	2.1	-6.9	-2.3	0.0 ^p	-2.0 ^p
GDP, current prices, EUR million ¹	30,265	33,009	36,034	39,745	43,390	47,543	44,781	44,441	44,412 ^p	43,929 ^p
GDP per capita, EUR	6,816	7,436	8,112	8,951	9,781	10,722	10,111	10,372	10,365 ^p	10,252 ^p
CPI, end of period, %	1.8	2.1	3.3	3.2	2.9	6.1	2.4	1.1	2.3	3.4
Nominal net monthly wage, EUR ²	521	557	591	628	660	717	713	720	732	726
ILO Unemployment rate, %	14.3	13.8	12.7	11.8	9.0	8.4	9.1	11.8	13.5	15.9
General government balance, % of GDP	-4.5	-4.3	-4.0	-3.0	-2.5	-1.4	-4.1	-4.9	-5.1	-3.8
General government debt, % of GDP ³	35.4	37.6	38.2	35.4	32.9	29.3	35.8	42.2	46.7	53.7
Average exchange rate EUR/HRK	7.56	7.50	7.40	7.32	7.34	7.22	7.34	7.29	7.43	7.52
Current account balance, % of GDP ⁴	-5.1	-4.1	-5.3	-6.7	-7.3	-9.0	-5.1	-1.0	-0.9	-0.6
Foreign Debt, % of GDP ⁵	65.7	69.5	72.1	74.8	77.7	85.4	101.0	103.6	101.8	101.4
Tourist nights, annual change, %	4.3	2.5	7.6	3.1	5.7	2.0	-1.4	0.2	7.0	4.0
Growth rate of construction works, %	22.8	2.0	-0.8	9.3	2.4	11.8	-6.5	-15.9	-9.1	-11.8
Industrial production, annual change, %	4.0	3.6	5.1	4.5	5.6	1.6	-9.0	-1.5	-1.3	-5.4
Retail trade, real annual change, %	3.7	2.6	2.8	2.1	5.3	-0.5	-15.3	-1.8	1.0	-4.2

Source: Eurostat, Croatian Bureau of Statistics, Croatian National Bank, Ministry of Finance

p - provisional data

1 - Data is calculated by applying the average annual exchange rate (HRK/EUR) to the GDP in HRK.

2 - Data for 2012 refer to the period January – September 2012.

3 - From 2008 general government debt does not include debt of HAC (Croatian Motorways Ltd). In 2012 the Government has taken over the shipyards guaranteed debt into public debt.

4 - Data for 2012 refer to Q3 2012 and represent a cumulative sum of the last four quarters.

5 - External debt from 2008 is calculated based on the new system of reporting, in place since the beginning of 2013. In order to have comparable data, the external debt position for 2007 has also been calculated according to this system. Data for 2012 refer to September 2012.

Table 2: Structure of the gross value added per economic sector, by the NCEA⁶⁰ 2007 and gross domestic product, at current prices (in EUR million)

Year	Agriculture, forestry and fishing (A)	Mining and Quarrying, Manufacturing; Electricity, gas steam and air conditioning supply; Water supply; sewerage, waste management and remediation activities (B, C, D, E)	Construction (F)	Wholesale and retail trade, repair of motor vehicles and motorcycles; Transport and storage; Accommodation and food services (G, H, I)	Information and communication (J)	Financial and insurance activities, Real estate activities (K, L)	Professional, scientific and technical activities; Administrative and support service activities; Public administration and defence, compulsory social security; Education; Human health and social work activities; Arts, entertainment and recreation; Other service activities; Activities of households as employers; Activities of extraterritorial organisations and bodies (M, N, O, P, Q, R, S, T, U)	GVA (basic prices)	Taxes on products less subsidies on products	GDP (market prices)
2000	1,255	4,682	978	3,851	937	2,789	4,889	19,381	3,952	23,333
2001	1,384	4,943	1,196	4,529	1,122	3,135	5,063	21,373	4,365	25,738
2002	1,496	5,216	1,385	5,195	1,264	3,401	5,516	23,473	4,716	28,189
2003	1,325	5,470	1,778	5,882	1,280	3,741	5,830	25,307	4,958	30,265
2004	1,560	6,169	2,124	6,237	1,385	4,037	6,384	27,895	5,114	33,009
2005	1,543	6,505	2,410	6,890	1,500	4,611	7,098	30,558	5,476	36,034
2006	1,747	6,952	2,721	7,556	1,635	5,171	7,905	33,686	6,059	39,745
2007	1,804	7,376	2,983	8,065	1,732	6,155	8,844	36,959	6,430	43,390
2008	2,035	7,796	3,459	8,818	2,036	6,690	9,796	40,631	6,912	47,543
2009	1,963	7,520	3,059	7,710	1,951	6,643	9,658	38,503	6,278	44,781
2010	1,873	7,677	2,552	7,651	1,930	6,671	9,670	38,024	6,417	44,441
2011 ^p	1,852	7,859	2,297	7,764	1,852	6,804	9,665	38,094	6,319	44,412
2012 ^p	1,861	7,775	2,019	7,599	1,770	6,648	9,629	37,301	6,628	43,929

Source: Croatian Bureau of Statistics

p – provisional data

⁶⁰ NCEA (National Classification of Economic Activities) represents standardized national classification of various economic activities done for statistical purposes.

Table 3: Structure of the gross value added (GVA) per economic sector (share of total GVA), in current prices

Year	Sector of the Economy			
	Primary	Secondary	Tertiary	Quaternary
2000	6.48	29.20	34.26	30.06
2001	6.48	28.72	35.86	28.94
2002	6.38	28.12	36.62	28.88
2003	5.24	28.64	38.03	28.10
2004	5.59	29.73	36.83	27.85
2005	5.05	29.17	37.64	28.14
2006	5.19	28.71	15.37	28.32
2007	4.88	28.03	38.48	28.61
2008	5.01	27.70	38.17	29.12
2009	5.10	27.47	37.28	30.15
2010	4.88	26.66	37.33	30.23
2011 ^p	4.81	26.37	37.83	29.90
2012 ^p	4.89	25.72	37.41	29.93

Source: Croatian Bureau of Statistics

p – provisional data

Note: The economic activities (according to NCEA classification) have been categorised into the four sectors of the economy in the following way: the primary sector (activity A), the secondary sector (activities B, C, D, E and F), the tertiary sector (activities G, H, I, K and L) and the quaternary sector (activities J, M, N, O, P, Q, R, S, T, U). The structure of each activity is showed in the previous Table 2.

Annex 2. Structural indicators and quantified targets on the level of thematic priorities

The quantified targets presented in the following tables are consistent with the EC methodological framework and were based on a “bottom-up” approach, taking into account the contribution of indicators included at OP level. The set of indicators has been developed on the basis of the principle of proportionality and includes a limited number of output and result indicators, per thematic priority.

Thematic priority 1: Development of modern transportation networks and increased accessibility of the regions

INDICATOR	UNIT	BASE VALUE	SOURCE/YEAR	TARGET 2016
Number of people with access to improved transport services due to the development of the regional/suburban railway transport	Thousand passengers / yr	0	HŽ statistics (MA assessment) / 2006	3,800
Decreased rail time travel between Zagrebačka and Bjelovarsko –Bilogorska County	Minutes	100	HŽ statistics (MA assessment) / 2006	70
Km of monitored inland waterway network	Km	151,5	Final/progress report / 2007	534,5

Thematic priority 2: Improvement of environmental infrastructure and quality of related services

INDICATOR	UNIT	BASE VALUE	SOURCE/YEAR	TARGET 2016
Population served by the new waste management centres	Nr	0	MENP, final beneficiary	580,000
Reduction of waste deposited in the landfills (county level)	%	0	MENP, Final beneficiary (2007)	70
Reduction of waste deposited in the landfills at national level, as a result of newly opened waste management centres	%	0	MENP, Final beneficiary (2007)	11
Area rehabilitated of the landfill body	m2	0	EPEEF	61,546
Population connected to new / rehabilitated public water supply network	Nr	0	MoA, PUC, project monitoring reports (2007)	20,000
Population connected to new / rehabilitated sewerage network	Nr	0	MoA, PUC, project monitoring reports (2007)	44,550
Population served by the new WWTP (capacity of WWTP)	Nr	0	MoA, PUC, project monitoring report (2007)	472,500 PE

Thematic priority 3: Higher competitiveness of SMEs and support to knowledge-based economy

INDICATOR	UNIT	BASE VALUE	SOURCE/YEAR	TARGET 2016
Gross jobs created	Number of FTE	0	MA, final beneficiary	230
SMEs established within new/upgraded infrastructure	Number	0	MA, final beneficiary	60
Visits in assisted cultural and tourism facilities increased	Number	0	Counties' Office for Statistics,	18,000
Leveraged private investments (SMEs)	Mil EUR	0	MA, final beneficiary	70
Number of overnights in assisted facilities	Number	0	MA, final beneficiary	100
Duration of the tourist season in days in assisted facilities	Number	0	MA, final beneficiary	1,500
Cooperation agreements between HEIs and PROs and business/industry signed	Number	0	MA, final beneficiary	15
Scientific publications among top 10% most cited publications worldwide as % of total scientific publications of the country	% of contribution increased at national level	3,07%	MA, final beneficiary	4

Thematic priority 4: Improvement of labour market efficiency, development of the human capital and reinforcing social inclusion

INDICATOR	UNIT	BASE VALUE	SOURCE/YEAR	TARGET 2016
Number of persons participating in the active labour market policy measures	Number	0	MA, final beneficiary	6,000
Number of Employment Partnerships established, HRD Strategies developed and accepted by the county assemblies	Number	8	MA, final beneficiary	21
Number of lifelong career guidance established	Number	0	MA, final beneficiary	7
Number of disadvantaged persons participated into targeted educational services	Number	0	MA, final beneficiary	600
Number of curricula developed based on learning outcomes	Number	0	MA, final beneficiary	200
Number of adult learners trained in modernised existing/new adjusted AE programmes leading to the more active participation in the labour market	Number	0	MA, final beneficiary	3,000
National information System for Science and Higher Education developed	Number	0	MA, final beneficiary	1
Number of researchers who participated in interventions within programme	Number	0	MA, final beneficiary	100
Number of support structures for CSOs established at regional and local levels	Number	0	MA, final beneficiary	15
Number of new volunteer programs managed by CSOs in Croatia	Number	0	MA, final beneficiary	40

No of motivational programmes aimed at socially excluded groups	Number	0	MA, final beneficiary	5
Number of CSOs participating in capacity building activities for social services delivery	Number	0	MA, final beneficiary	15

Annex 3. Complementarity between OPs and demarcation between activities supported by ERDF, CF, ESF and IPARD for 2013

In accordance with Article 27(5)(b) of the Council Regulation 1083/2006 each Member State, in their NSRF, may indicate the mechanisms for ensuring coordination between ERDF, ESF, European Agricultural Fund for Rural Development (EAFRD), the European Fisheries Fund (EFF) and other financial instruments. Croatia will put in place appropriate mechanisms that will ensure appropriate demarcation and that there is no duplication of interventions among the different funds.

FIELD OF INTERVENTION	TOP	EOP	RCOP	HRDOP	IPARD
Transport infrastructure	X Railway network on TEN-T corridors and regional and suburban railway network; Inland waterway system				X Public local unclassified roads; Fire-prevention roads with elements of forest road
Waste management and contaminated sites		X Waste management centres; Elimination of sites highly polluted by waste			X Small-scale waste management projects in rural localities focused on own needs of agricultural holdings, which are not included in the EOP
Wastewater and sewerage systems		X Large-scale, integrated regional projects in urban and some rural agglomerations (over 37,000 inhabitants)			X Small-scale projects in rural localities below 10,000 inhabitants, which are not included in the EOP
Business related infrastructure			X Business support infrastructure of regional and local dimension		
Tourism			X Public tourism infrastructure including cultural heritage objects; SMEs in the tourism sector		X Rural tourism (only in the areas where there is an adopted PURs and/or ROPs and/or CDSs which defines rural tourism as development sector, otherwise area is excluded)

Direct support to small and medium-sized enterprises for productive investments			X Productive investments for already established SMEs		X Productive investments for agricultural products processing and food industry (for agricultural holdings)
Consultancy services			X Business advisory services for SMEs		
R&D, Technology transfer			X Technology transfer activities of HEIs and PROs; R&D infrastructure	X Development of human potential in R&D	
Education and training			X Limited trainings for SMEs (e.g. accompanying usage of new equipment etc.)	X ESF-type interventions including: Mediation, vocational guidance and education/training programmes for the unemployed; Entrepreneurial skills for SMEs and crafts; Enhancing the education system	
Social interventions / Social inclusion				X Improvement of quality of CES; Access to employment for disadvantaged groups; Social inclusion in education; Development of social services	
Civil society				X Strengthening the human and organisational capacities of social partners; Capacity building of CSOs	

Technical assistance	X OP specific support	X OP specific support	X OP specific support	X OP specific support	X Programme specific support
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Legend:

- TOP Transport Operational Programme
- EOP Environment Operational Programme
- RCOP Regional Competitiveness Operational Programme
- HRDOP Human Resources Development Operational Programme
- IPARD Instrument of Pre-Accession Rural Development Programme
- PUR Total development programme
- ROP Regional operational programme
- CDS County development strategy
- HEIs Higher education institutions
- PRO Public research organisation
- CES Croatian Employment Service
- CSO Civil society organization

Annex 4. Financial Flows

