



Republic of Croatia

**REGIONAL COMPETITIVENESS OPERATIONAL PROGRAMME**

**2007 – 2009**

**2007HR16IPO001**

**INSTRUMENT FOR PRE-ACCESSION ASSISTANCE**

September 2007

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## SUMMARY OF REGIONAL COMPETITIVENESS OPERATIONAL PROGRAMME

### Introduction to the OP Regional Competitiveness

Within the overall aim of ensuring that the relevant institutions of the Republic of Croatia achieve readiness for eventual EU membership and develop institutional capacity and practical experience with the management of investments similar to those co-financed by the European Regional Development Fund (ERDF), the Regional Competitiveness Operational Programme (RCOP) shall serve as a basis for using the EU pre-accession assistance for the purpose of achieving the strategic priority of promoting social and economic cohesion within Croatia, based on an improved overall competitiveness. The Operational Programme (OP) does so in accordance with eligible areas defined in the IPA Implementing Regulation<sup>1</sup> and the priority areas identified in the Multi-Annual Indicative Programming Document (MIPD)<sup>2</sup> for Croatia.

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<sup>1</sup> Commission Regulation (EC) No 718/2007 implementing Council Regulation No 1085/2006.

<sup>2</sup> Commission Decision C(2007)2566 adopted on 20 June 2007.

## GLOSSARY

ASSC	Areas of Special State Concern
BICRO	Business Innovation Centre of Croatia
BIOCentar	Biosciences Technology Commercialisation and Incubation Centre
BIOS	Business Incubator Osijek
BRI	Business Related Infrastructure
CADSES	Central European Adriatic Danubian South-Eastern European Space
CAP	Communication Action Plan
CARDS	Community Assistance for Reconstruction, Development and Stabilization
CARNet	Croatian Academic and Research Network
CBC	Cross-Border Cooperation
CBS	Croatian Bureau of Statistics
CEA	Croatian Employers Association
CEFTA	Central European Free Trade Association
CEPOR	Centre for SME and Entrepreneurship Policy
CFCA	Central Finance and Contracting Agency for EU Programmes and Projects
CIP	Competitiveness and Innovation Programme
CODEF	Central State Office for Development Strategy and Coordination of EU Funds
CSAOeC	Central State Administrative Office for e-Croatia
CSG	Community Strategic Guidelines
DFID	Department for International Development
EC	European Commission
ECD	Delegation of the European Commission
ECI	European Creativity Index
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EICs	Euro Info Centres
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
EURATOM	European Atomic Energy Community
EUROSTAT	European statistics
FDI	Foreign Direct Investment
FP6	6 <sup>th</sup> Framework Programme for Research and Technological Development
FINA	Croatian Financial Agency
FP7	7 <sup>th</sup> Seventh Framework Programme for Research and Technological Development
GDP	Gross Domestic Product
GERD	Gross Domestic Expenditure on R&D
GfK	Gesellschaft für Konsumforschung
GLP	Good laboratory Practice
GTZ	Office for Economic Co-operation of the Republic of Germany - Deutsche Gesellschaft für Technische Zusammenarbeit
GVA	Gross Value Added
HAMAG	Croatian Agency for Small Enterprises
HBOR	Croatian Bank for Reconstruction and Development
HGK	Croatian Chamber of Economy
HIS	Croatian Innovation System Council
HIT	Croatian Institute of Technology
HITRA	Croatian Program for Innovative Technological Development
HOK	Croatian Chamber of Trades and Crafts
HRDOP	Human Resources Development Operational Programme

HSZ	Croatian Co-operatives Association
HUP	Croatian Employers Association
HUP	National Centre for Clusters
I3	Institute for Informatics Innovation
IBRD	International Bank for Reconstruction and Development
ICPR	Investment Certification Program for Regions
ICT	Information and Communication Technologies
ICT PSP	Information and Communication Policy Support Programme
ILO	International Labour Organization
IMO	Institute for International Relations
INTERREG	Community Initiative concerning Interregional Co-operation in the EU
IPA	Instrument for Pre-accession Assistance
IPARD	Integrated Programme for Agriculture and Rural Development
IPR	Intellectual Property Rights
IRCRO	Research and Development Programme (BICRO programme)
IRCs	Innovation Relay Centres
ISO	International Organisation for Standardisation
ISPA	Instrument for Structural Policies for pre-Accession
IWG	Inter-Ministerial Working Group
KONCRO	Business Competitiveness Upgrading Programme (BICRO programme)
LAU	Local Administrative Units (original, fr. Unités Administratives Locales)
MAFWM	Ministry of Agriculture, Forestry and Water Management
MELE	Ministry of Economy, Labour and Entrepreneurship
MEPPPC	Ministry of Environmental Protection, Physical Planning and Construction
MFWVIS	Ministry of Family, War Veterans and Intergenerational Solidarity
MIFF	Multi -Annual Indicative Financial Framework
MIPD	Multi-Annual Indicative Planning Document
MIS	Management Information System
MoFAEI	Ministry of Foreign Affairs and European Integration
MSES	Ministry of Science, Education and Sports
MSTI	Main Science and Technology Indicator
MSTTD	Ministry of Sea, Tourism, Transport and Development
NAO	National Authorising Officer
NCHE	National Council for Higher Education
NIPAC	National IPA Coordinator
NPAEU	National Programme of the Republic of Croatia for Accession to the EU
NSC	National Science Council
NSF	National Foundation for Science, Higher Education and Technological Development
NUTS	Nomenclature des unités territoriales statistiques
OECD	Organisation for Economic Co-operation and Development
OP	Operational Programme
OS	Operating Structure
PHARE	Pologne et Hongrie - Aide á Restructuration Economic
PPP	Public Private Partnership
PPS	Purchasing Power Standard
PRAG	Practical Guide to contract procedures for EC external actions
PSP database	Permanent Database of Foreign Assistance
RAZUM	Development of Knowledge-Based Enterprises (BICRO programme)
RCOP	Regional Competitiveness Operational Programme
RDAs	Regional Development Agencies
RDI	Research Development Initiatives
RIA	Regulatory Impact Assessment

ROPs	Regional Operational Programmes
R&TD	Research and Technology Development
SAA	Stabilisation and Association Agreement
SAPARD	Special Accession Programme for Agriculture and Rural Development
SCF	Strategic Coherence Framework 2007-2013
SDF	Strategic Development Framework 2006-2013
SIPO	State Intellectual Property Office
SMEs	Small and Medium Sized Enterprises
SMC	Sectoral Monitoring Committee
SSSH	Union of independent trade unions of Croatia
STP	Science and Technology Project
SWOT	Strengths Weaknesses Opportunities Threats
TEA index	Total Entrepreneurial Activity index
Tec Park Net	Technological Park Net
TEHCRO	Technology Infrastructure Development Programme (BICRO programme)
TEMPUS	Trans - European Mobility Scheme for University Studies
TEST	Technology-Related Research and Development Programme
TIPA	Trade and Investment Promotion Agency
TQM	Total Quality Management
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VENCRO	Venture Capital Programme (BICRO programme)
VET	Vocational Education and Training

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## 1. CONTEXT, CONSULTATION AND COORDINATION

### 1.1. NATIONAL POLICY AND SOCIO-ECONOMIC CONTEXT

The concept of competitiveness is multifaceted and covers a wide range of inter-related policies, which, among others, include entrepreneurship, research and development (R&D) and innovation and human resources (education and employment policies). Following the provisions within the IPA Implementing Regulation<sup>3</sup> and the Multi-annual Programming Document, the Regional Competitiveness Operational Programme (RCOP) is primarily focused on the sector of SMEs and R&D and innovation. It does so by addressing shortcomings at the national level as well as by investing into growth potential of regional economies, particularly those lagging behind the national average. The sustainability of investments is ensured in addition by parallel investment into the human resources component of competitiveness – through complementarity with the Human Resources Development Operational Programme (HRDOP).

The following section sets out the current context of policy areas relevant for the RCOP.

#### 1.1.1. Socio-economic context<sup>4</sup>

Interventions enabled through IPA and more specifically those envisaged in the framework of the RCOP are taking place in a specific socio-economic context. This context consists of a sound macro-economic policy, significant socio-economic disparities across Croatian counties<sup>5</sup>, and a number of structural challenges underpinning economic competitiveness.

In terms of competitiveness on the international level in the recent period Croatia has significantly improved its position. The Global Competitiveness Report 2006-2007, prepared by the World Economic Forum, ranked Croatia 51<sup>st</sup>, which signifies a leap of 13 places compared to last year's 64<sup>th</sup> place.

Croatia's macroeconomic position is characterised by stable growth, an improving fiscal stance, low inflation, stable exchange rate and declining unemployment rate. Overall, the macroeconomic policy mix was largely adequate, but fiscal consolidation needs to be strengthened, since fiscal and external deficits still pose potential risks to macroeconomic stability.<sup>6</sup>

Since the mid 90s, Croatia has witnessed a steady growth of GDP and in the period 1995-2006 the average real GDP growth rate amounted to 4.4%. Real annual GDP growth rate reached 4.8% in 2006. GDP growth was primarily driven by domestic demand and consumption.<sup>7</sup> In 2006, GDP per capita amounted to € 7,704 in current prices, enabling Croatia to reach around 50% of the EU-27 average GDP per capita (in PPP)<sup>8</sup>, while preliminary estimates with the grey economy included point towards a level of income close to 60% of the EU 27 average.

The unemployment rate measured by the ILO labour survey methodology has continued its steady decline. In 2000 it amounted to 16.1% and kept falling in order to reach 12.7% in 2005. In 2006 it declined to 11.2%<sup>9</sup>. Services sector is leading in terms of job creation. The average nominal net wage totalled € 591 and in 2006 it increased to € 629<sup>10</sup>.

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<sup>3</sup> Commission Regulation (EC) No 718/2007 implementing Council Regulation No 1085/2006.

<sup>4</sup> Statistical data used in the document are those available in August 2007

<sup>5</sup> Regional self-government level in Croatia.

<sup>6</sup> Croatia 2006 Progress Report, the EC, p. 21.

<sup>7</sup> Croatia 2006 Progress Report, the EC, p. 18.

<sup>8</sup> Croatian Bureau of Statistics, Eurostat first releases. Note, however, that Croatian and EU statistics are not fully comparable since Croatia does not adjust GDP figures for the effects of the grey economy.

<sup>9</sup> Central Bureau of Statistics.

<sup>10</sup> Central Bureau of Statistics, Chamber of Commerce.

In 2006 the export of goods amounted to € 8.3 billion while imports of goods amounted to € 17.1 billion. In 2006, exports of goods have been growing faster than imports but not sufficiently enough to significantly change the export-import coverage.<sup>11</sup> The trade deficit reflects economic growth trends and import dependence of domestic economic activity.

Structural reforms have been initiated and positive steps can be noted, particularly having in mind the already strong services sector. The structure of gross value added (GVA) shows that in 2006, the primary sector contributed approximately 7.4% to the gross value added, secondary sector 24.5%, while tertiary sector contributed 68.1%. The SME sector has been an important factor in the process of structural reforms, especially in terms of new enterprise creation.

A generally positive situation and macro-economic trends are accompanied, however, by structural issues, which characterize the national economy and are perpetuated at the regional and local level. The rest of the section sets out the situation with regards to key elements underpinning competitiveness of national and regional/local economies in Croatia. Given the scope of regional socio-economic disparities in Croatia, the situation at the regional and local level is set out first, followed by an assessment of the situation characterizing the national economy. It is important to note the extent to which economic growth on all levels is premised on same or similar conditions so that solutions to an enhanced national competitiveness to a large extent apply and are relevant to an enhanced competitiveness at the regional and local level. This interrelatedness of sectoral, national and regional development efforts is understandable in a country as small and territorially diverse as is Croatia. It also follows that the nature and persistence of socio-economic problems and regional disparities in Croatia can only be effectively addressed through a combination of horizontal and territory-specific development incentives. This Operational Programme offers scope for precisely such an approach.

Socio-economic disparities within Croatia are measured statistically at the level of local and regional self-government units. There are 21 regional self-government units, called counties, of which one – the City of Zagreb – holds a double status of town and county. There is also a consistently growing number of local self-government units – towns (126) and municipalities (429), with a fivefold increase since 1990. Counties, towns and municipalities have their own (elected) representative and executive bodies.<sup>12</sup>

A comparison of the GDP per capita (in PPP) on county level shows wide discrepancies. In 2004 the most developed county had a GDP per capita 3.2 times higher than did the least developed one.<sup>13</sup> The three most developed locations in terms of GDP per capita are the City of Zagreb, the County of Istria and the County of Lika-Senj (Annex 1). Beyond these, only the County of Primorje-Gorski Kotar has reached the GDP per capita level above the Croatian average. The least developed counties are Vukovar-Srijem and Slavonski Brod-Posavina, where the GDP per capita levels are less than 60% of the national average. According to Central Bureau of Statistics, compared to the EU25 GDP per capita in 2004, Croatian counties range from 81% of the EU level in case of the City of Zagreb, to 27% in the Vukovar-Srijem and the Brod-Posavina Counties. It has to be noted that GDP at county level is difficult to calculate with sufficient accuracy and therefore presents only an indication of the level of economic development, which needs to be viewed in the light of other relevant economic data.<sup>14</sup> For this reason regional disparities are set out in detail in Annex 1 – across four development indicators: GDP per capita, change in population, educational attainment, and unemployment rate.

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<sup>11</sup> Imports of capital and intermediate goods comprise 60 percent of total imports with additional 15% of imports related to the imports of energy. These categories of imports are also the main generators of its growth.

<sup>12</sup> The criteria for determining self-government units, the scope of self-government and funding sources are specified by the relevant legal acts: Act on the Territories of Counties, Cities and Municipalities in the Republic of Croatia (Official Gazette no. 10/97, 124/97, 50/98, 68/98, 22/99, 42/99, 117/99, 128/99, 44/00, 129/00, 92/01, 79/02, 83/02, 25/03, 107/03 i 175/03); Act on Local and Regional Self-Government (Official Gazette no.33/01; 60/01;129/05); Act on Financing of Local and Regional Self-Government Units (Official Gazette no. 117/93, 69/97, 33/00, 127/00, 59/01, 107/01, 117/01, 150/02, 147/03).

<sup>13</sup> Source: Central Bureau of Statistics (see Annex 1 – Table 24)

<sup>14</sup> For example, the socio-economic situation in the Lika-Senj County is one of the most difficult ones in the country, which cannot be discerned from the GDP alone.

One of the causes of disparate development levels across counties (as well as between Zagreb and the rest of the country) is an unfavourable demographic situation, confirmed by data from the last available inter-census period (1991-2001). A widespread depopulation process thus characterizes most of Croatia's territory. In only five counties is the population size either growing or stagnating; in all other counties the trend is negative, mostly so in the County of Lika-Senj, where depopulation grew by 34.9% during the census period. A trend of rural-urban divide has also continued. It is characterised by a growing concentration of population in Zagreb and a few other macro regional and regional centres and narrow coastal areas, while other regions are being depopulated. The natural population decline during 1998-2001 in some rural areas was approximately five times higher than the national average.

Map 1: County (regional) self-government units in Croatia



Population disparity varies significantly across Croatian counties and between the capital and the rest of the country. Population density of the City of Zagreb is thus 7.5 times higher than in the second most populated County (Međimurje), and 15.5 times higher than the Croatian average (78.4 inhabitants per km<sup>2</sup>). If the City of Zagreb is exempted, the ratio of population density of the least populated county (Lika-Senj) to the most populated county (Međimurje) still remains at very high 1:16.2.

As mentioned, there is a direct and reciprocal relation between a territorial unit's population density and its economic opportunities. Enterprises and other legal persons contribute significantly to local revenues and tend to be situated in the most populated areas. A great number of counties and municipalities in Croatia face the problem of lack of development funds due precisely to their small tax base (number of inhabitants) on which many of these units are reliant upon for local income.

As a consequence, local and regional self-governments – especially those in the so-called Areas of Special State Concern<sup>15</sup> (see table 12) – greatly rely on financial transfers and aid from the national budget. The situation should improve over time, as the process of fiscal decentralization continues and comes to reflect the scope of policy decentralization. The Government has been addressing this issue since 2001 through a project of pursuing an overall *administrative decentralization*. Efforts are currently complemented with partner and expert input in a number of sectors (health, social care, environment, education, agriculture, fiscal capacity) – in the framework of a Decentralization Commission charged with the implementation of a Framework Decentralization Programme 2004-2007.

Another element underpinning cohesive growth across a territory is the availability of education and the level of education attained across Croatia. In the Third Cohesion Report the EC recognized advancement in education as a crucial factor in development and transition towards modern and high value added production. Whereas the Croatian labour force is relatively well educated and trained, very significant disparities exist at the level of counties. The City of Zagreb has the highest proportion of inhabitants with higher education compared to its total population (16.8%). Most people with higher education live in larger cities, which offer better employment possibilities. The concentration of educated people in the City of Zagreb is outstanding; Zagreb attracts almost twice as many highly educated people than any other county.

Given these trends, it is not surprising that significant disparity in unemployment rate across counties exists. While the most developed counties show relatively low unemployment rates<sup>16</sup> compared to the national average (which in 2005 amounted to 19.0%)<sup>17</sup>, the least developed counties show high unemployment rates. The lowest unemployment rates are featured in the County of Istria (8.8%) and the City of Zagreb (10.0%) while the highest is noted in the County of Vukovar-Srijem (33.6%)<sup>18</sup>.

Broadly correlated with the counties' employment share and GDP is the number of firms. Data on the location of economic activity on the county level, measured in terms of registered businesses, shows SMEs' concentration in a few major urban centres and their surrounding areas. Economic activity is, therefore, to a great extent linked to larger urban centres (Zagreb, Split, Rijeka) and areas that gravitate towards them. The lead belongs to the City of Zagreb, whose share in the total number of entrepreneurs in the year 2006 amounted to 33.1%. Another extreme is the Lika-Senj County, where this share was 0,6%<sup>19</sup>, followed by Požeško-Slavonska county with share of 0,7%<sup>20</sup>.

Quantitative figures on firm density across Croatian counties reflect also the more qualitative figures on regional entrepreneurial activeness, as measured by the Total Entrepreneurial Activity (TEA) index. Table no. 26 in Annex 1 shows that while there has been a positive trend across all regions, but their ranking has remained mostly unchanged – with Zagreb and the surrounding area, as well as Istria, Primorje and Gorski Kotar holding first and second place, while Slavonija and Baranja, along with Northern Croatia remain at the bottom.

In terms of realised income, in 2006 entrepreneurs from the area of the City of Zagreb contributed most (51.7%) to Croatia's total profit from the entrepreneurial sector. The share of other counties varies from 0,3% in Lika-Senj County to 4.8% in Istria County. Only six counties contribute considerably to the results of business

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<sup>15</sup> The Areas of Special State Concern are defined by the Law on the Areas of Special State concern (Official Gazette 44/96 and 26/03). These areas include the local selfgovernment units (municipalities and towns) which have been occupied during the Homeland War and those considered underdeveloped based on the economic, demographic and structural difficulties criteria as well as special criteria (border and areas contaminated with land-mines).

<sup>16</sup> Administrative unemployment rate, (see table 22).

<sup>17</sup> Administrative unemployment rate, (see table 22).

<sup>18</sup> See Annex 1.

<sup>19</sup> FINA, "Analysis of the financial results of entrepreneurs by counties", 2006

<sup>20</sup> FINA, "Analysis of the financial results of entrepreneurs by counties", 2006

activity in this sector on the national level. Although the share of loss in the business activity of the entrepreneurial sector at the national level between 2002 and 2004 decreased, a tendency of its growth was recorded in ten counties, indicating deterioration of business activity effectiveness in those counties.<sup>21</sup>

Similar disparities regarding economic activity are revealed in observing county data on gross value added (GVA). One third of the total GVA is created in the City of Zagreb. At the level of economic sectors, the dominance of the City of Zagreb becomes even more obvious. Almost half of the GVA of the financial and business service sector, mining and other social and personal services is created in the City of Zagreb. The capital is followed by the Primorje-Gorski Kotar, Split-Dalmatia, Istria, and Osijek-Baranja counties. The least GVA is created in the Counties of Lika-Senj, Požega-Slavonija, Šibenik-Knin and Virovitica-Podravina – only 2% of the national total.<sup>22</sup>

In addition to significant inter-county disparities, there is a very high level of disparities within counties as well. Disparities in terms of geographical, demographic, economic, social and other indicators are more significant at the level of municipalities (local self-government units) than of counties. Moreover, socio-economic disparities across Croatian counties continue to widen in most cases.<sup>23</sup>

Another significant element underpinning (and perpetuating) the trend of regional disparities is the legacy of the Homeland War (1990-1995). The war affected much of the country and consequences continue to be felt in a number of counties, whose local communities have since been targeted with special Government support. Nonetheless, the socio-economic situation continues to be the most critical in precisely these so-called Areas of Special State Concern (ASSC). On top of challenges common to most (non-urban) areas in Croatia, the ASSCs face the additional challenge of an unresolved legacy of war – namely, ensuring the return and the peaceful and sustainable integration of war refugees. These challenges result in a number of socio-economic problems in the ASSCs, including insufficient entrepreneurial capacity, lack of comprehensive business support, destroyed or inadequate business other infrastructure essential to economic rehabilitation, contamination of large areas with land-mines, insufficient social reintegration, lack of a coherent and consistent approach to economic revitalisation and ineffective partnerships for local economic development.

Prospects of economic growth and/or revival are further limited by a limited endogenous economic potential. Depopulation has had a negative effect on the structure of the population in these areas, which is mostly old and/or lacking skills satisfying higher market end needs. The SME base is scarce and economically weak, even though it carries economic growth in these areas. Many of the employees made redundant as the old industrial sector in these areas contracted in the 1980s in fact found new opportunities in the SME sector. A much larger wave of entrepreneurship followed the end of the war and the local economy began to rely more upon smaller-scale activities as the main job generation mechanism. However, the latest (post-1995) wave of new small enterprise creation appears to have few growth-oriented enterprises. Instead, it is characterized by “low entry barrier” SMEs engaged in trade, retail and local services. These enterprises often involve the most at-risk social groups, which have few resources, skills and opportunities to move into more growth-oriented activities.

The remainder of the section gives a brief assessment of the situation with regards to the competitiveness of the Croatian economy in general, particularly of those elements and areas of investment relevant to this OP.

The relative importance of the SME sector in Croatia has recently increased, as the SME sector had become a significant contributor to employment and GDP. Out of the total number of registered business entities in Croatia 99,4% are SMEs, which compares with EU-15 where SMEs account for 99.6% of enterprises. The

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<sup>21</sup> FINA, "Analysis of the financial results of entrepreneurs by counties", 2003-2007.

<sup>22</sup> Central Bureau of Statistics. see Annex 1.

<sup>23</sup> "New approach in development level assessment and categorisation of territorial units", IMO, Zagreb 2006; Table 27 in Annex 1.

sector's contribution to the GDP has been continuously increasing, up to some 44% by the end of 2006<sup>24</sup>, while its contribution to export reached 60% of total exports.

In 2002, the largest proportion of enterprises was concentrated in the trade sector (42.5%), followed by property and renting (16.8%) and the manufacturing sector (14.6%). Trade appears to have reached a peak and the data for 2003 show that it is declining compared with other sectors. In 2003, the average net salary in medium sized firms was 10.5% lower than in large enterprises. The equivalent figure was 24.8% lower in the case of small firms, partly due to lower productivity and/or competitiveness in attracting and employing of skilled labour force. On the other side, the available financial information suggests a positive trend concerning profitability which has been increasing from realising a loss of 16.5 MEUR in 2003 to obtaining profit of almost 484 MEUR in 2005.<sup>25</sup>

The SME sector in Croatia has played an important role in industrial restructuring, competitiveness and innovation, and in generating new employment. It has also been able to absorb a part of the many workers laid off by large enterprises, which have gone through a process of downsizing. In 1991 large enterprises employed 75% of the labour force in Croatia, but only 47% in 2003.<sup>26</sup> At the same time SMEs have steadily increased their share of employment to about 64,7% (including the craft sector) in 2006<sup>27</sup>, which is still lower compared to the EU15 figures (65.7%).<sup>28</sup>

Table 1: Number of Enterprises (1996-2006)

Entities	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Crafts	84,778	85,120	84,910	87,613	91,842	94,727	97,832	101,848	103,517	105,274	104,357
Cooperatives	1,125	1,042	972	728	693	705	801	903	1,081	1,292	1,442
Small and medium companies SMEs	61,582	64,231	61,502	59,398	60,505	60,801	62,841	67,925	68,019	68,856	78,068
<b>TOTAL SMEs</b>	<b>147,485</b>	<b>150,393</b>	<b>147,384</b>	<b>147,739</b>	<b>153,040</b>	<b>156,233</b>	<b>161,474</b>	<b>170,676</b>	<b>172,617</b>	<b>175,422</b>	<b>184,308</b>

Sources: Central Bureau of Statistics, Financial Agency and Croatian Crafts Register, Court Register

In describing the situation of the SME sector in Croatia the European Commission highlighted a challenge of insufficiently developed business environment. Some of the enterprises related indicators, such as the creation of new enterprises and the gross firm formation rate, reflect the opinion given by the Commission.

In the observed period the total number of SMEs has been slowly increasing. While the number of crafts has increased consistently, the number of SMEs and cooperatives experienced a decline prior to a recovery in 2001. From 2002 the positive trend was re-assumed and the number of new businesses has been growing constantly.

<sup>24</sup> EC Regular Progress Report 2005.

<sup>25</sup> FINA, "Analysis of the financial results of entrepreneurs by counties", 2003-2007

<sup>26</sup> FINA, "Analysis of the financial results of entrepreneurs by counties", 2003-2006.

<sup>27</sup> FINA, "Analysis of the financial results of entrepreneurs for year 2006", (2007)

<sup>28</sup> Data from FINA include crafts which are obliged to pay profit tax, compared to companies which are by default profit tax payers.

In terms of the type of entrepreneurial activity among the adult population, recent research<sup>29</sup> shows that the Total Entrepreneurial Activity (TEA) Index for beginners and new entrepreneurs in Croatia has grown from 3.62% to 6.11%.<sup>30</sup> From 2002 till 2006 the TEA index almost doubled and Croatia progressed from 32nd place out of 37 in 2002 to a central place on the list (18th out of 42 places in 2006). However, the number of entrepreneurs out of necessity is still greater than the number of those who became entrepreneurs because of a recognized business opportunity.<sup>31</sup>

Table 2: Selected indicators of entrepreneurial activeness: Croatia in European perspective

		2002	2003	2004	2005	
TEA, entrepreneurs, less than 42 months active	EU	5,1	4,87	5,12	5,26	
	Croatia	3,62	3,56	3,73	6,11	
	Croatia's rank	10/12	12/13	14/17	5/16	
Entrepreneurs, more than 42 months active	EU	5,38	5,23	5,45	5,74	
	Croatia	2,17	2,35	2,15	3,65	
	Croatia's rank	11/12	9/13	16/17	15/16	
Motivation	TEA Opportunity	EU	4,13	3,99	4,00	4,13
		Croatia	2,15	1,74	2,04	3,92
		Croatia's rank	12/12	12/13	17/17	15/16
	TEA Necessity	EU	0,65	0,76	0,92	0,87
		Croatia	0,85	0,59	1,57	3,09
		Croatia's rank	4/12	5/13	3/17	1/16

NB: Across the different years the number of countries included in the methodological assessment has varied, hence the variation in terms of ranking.

Source: Global Entrepreneurship Monitor 2002-2005 for Croatia, CEPOR, 2006

A potential source of enhanced knowledge and growth – i.e. of competitiveness – for Croatian enterprises is Foreign Direct Investment (FDI). FDI is becoming an increasingly important factor of development, in terms of job creation as well as of improvement in management and technological advancement. The largest part of FDI has so far taken the form of “brown field” FDI.

Another characteristic of FDI witnessed in Croatia is its geographic concentration in more developed areas, particularly in the capital (see Table 9 later on). Investors favour areas with a sufficiently developed basic infrastructure and a skilled labour force. Despite Government incentives for businesses in disadvantaged areas (ASSCs), they still face difficulties in attracting significant investor interest. An integrated FDI policy is, however, emerging.

Innovation and technological know-how, which are the most valuable aspect of incoming FDI, are parallelly pursued through the national R&D and technology policy. R&D and high tech are the undisputed key element of economic competitiveness: market-oriented R&D results in commercially exploitable innovations, applicable to business (including SME) and essential to enhancing the value added and the competitiveness of the private sector.

Whereas the R&D and innovation sector has evolved considerably in the last 15 years, Croatia still lags behind European and international competitors. There are several reasons for this gap. Compared to other transition

<sup>29</sup> “What makes Croatia an entrepreneurial country? Results of the Global Entrepreneurship Monitor 2002-2005 for Croatia” – Center for SME Development Policy (CEPOR), Zagreb, 2006.

<sup>30</sup> It means that in 2002 there was one entrepreneur on every 30 adults whereas in 2005 there is one entrepreneur on every 16 adults.

<sup>31</sup> On TEA Necessity, with a figure of 3.09 Croatia holds 6<sup>th</sup> place compared to only 32<sup>nd</sup> place on TEA Opportunity (2.92).

countries Croatia has a low level of employment in the knowledge-intensive service sector. In 2006 only 4.4 % workers were employed in that sector, compared to 5.6% in EU-25, 7.5% in Slovenia, 8.0% in Slovakia and 6.0% in Hungary.<sup>32</sup> Croatia has also a relatively low share of employment in the high and medium-high technology manufacturing sector: 22.1% in 2006, compared to 33.6% in EU-25, 26.25% in Slovenia, 28.47% in Hungary, 25.01% in the Czech Republic and 24.9% in Slovakia.<sup>33</sup> The public sector thus employs 90% of all researchers and allocates almost 90% of total investments into science and research, whereas 10% of the institutes' revenues and 6% of the faculties' revenues come from research done for the business sector.

The Croatian gross domestic expenditure on R&D has been increasing steadily over the last few years, reaching 1.22% of GDP in 2004. While this is somewhat higher than the 0.62% of GDP average of the new Member States, it is still insufficient considering that it falls significantly short of the EU-25 average of 1.85%, which was recorded in 2004.<sup>34</sup> It should be noted that Croatian R&D statistics possibly exhibit limitations which impact the data provided on gross domestic expenditure on R&D.<sup>35</sup>

Table 3: Croatia's gross domestic expenditure on R&D as GDP %

R&D Intensity					
	2001	2002	2003	2004	2005
Gross domestic expenditure on R&D as % of GDP	1.07%	1.12%	1.11%	1.20%	1,0%

The Croatian business sector expenditure on R&D is particularly low. In 2004 Croatian business sector spent 0.51% of GDP on R&D, compared to 1.18% in EU-25.<sup>36</sup> On the other hand, the expenditure on R&D in the Government, the higher education and the non-profit sectors matched the respective averages in EU-25.<sup>37</sup> Data for 2002-2004 show that business sector expenditure on R&D in Croatia is growing at a rate significantly higher than is the case in EU-25. In absolute values, however, the expenditure on R&D per inhabitant in 2004 shows significant discrepancy not only between Croatia and EU-25, but also between sectors in Croatia. In 2004 the business sector in Croatia spent almost 9 times less than in EU-25, whereas government and higher education sectors spent 3-4 times less than in EU-25.<sup>38</sup>

The composition of business versus public/government sector expenditure on R&D is rather unfavourable and clearly points to a dominance of the public over business sector R&D expenditure. For the sake of comparison, in OECD countries 62% of gross domestic expenditure on R&D is financed by industry and 30% by government.<sup>39</sup>

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<sup>32</sup> EUROSTAT

<sup>33</sup> EUROSTAT.

<sup>34</sup> EUROSTAT

<sup>35</sup> Several facts need to be considered. Firstly, companies with less than 100 employees are not considered in some statistics. Accordingly, there is no inclusion of new technology-based SMEs in the statistics. Secondly, some public institutions partly involved in R&D count their *total* expenditures as R&D (e.g. hospital centres). Thirdly, there might be incorrect entries due to a different interpretation of instructions (eg. purchase of computer or similar, used for administration, may be declared as a R&D expenditure and therefore taken as part of GERD).

<sup>36</sup> EUROSTAT.

<sup>37</sup> In terms of R&D expenditure per inhabitant Croatian business sector spends almost 9 times less than EU-25, where in other sectors the ratio is somewhat better (3.5 times less in higher education sector)

<sup>38</sup> EUROSTAT.

<sup>39</sup> MSTI: 2006/2



Table 4: Total intramural R&D expenditure by sector performance

Gross Domestic Expenditure on R&D					
	2001	2002	2003	2004	2005 <sup>40</sup>
Business sector	41.56%	42.66%	39.12%	41.65%	41.25%
Government sector	22.65%	22.26%	21.97%	20.92%	24.02%
Non-profit sector	-	-	-	-	0.13%
Higher education sector	35.79%	35.08%	38.92%	37.43%	34.6%

Source: CBS: *Research and Development, Annual reports, 2001-2005*

In order to make the R&D investments more market oriented it is necessary to establish better linkages between higher education and research institutions and industry. The Government intends to improve the situation by restructuring public research institutions and adopting a more "top-down" approach to publicly-funded research activity.

Another cause of Croatia's lagging behind in terms of R&D figures and R&D effectiveness is insufficient awareness with regards to intellectual property rights protection. Although the intellectual property rights system is well developed compared to other South-European countries, Croatia's overall global ranking for intellectual property rights protection (67th out of 117 countries) is considered relatively weak.<sup>41</sup>

Effectiveness of R&D is also premised on accessibility and quality of R&D and higher education infrastructure. While the latter is relatively present in Croatia, it is unevenly spread across the country.<sup>42</sup> Higher education, scientific and research institutions are mostly located in developed areas of the country (Zagreb, Rijeka, Split, Osijek), adding to the competitive advantage primarily of those areas. However, since 2004, there has been a tendency for establishing new higher education, scientific and research institutions throughout the whole country, including disadvantaged areas. As a result, three new Universities have been established (University of Dubrovnik, Zadar and Pula) as well as several Polytechnics, mainly in disadvantaged areas (Knin, Vukovar, Gospić, Šibenik, Požega, Slavonski Brod, Čakovec). Even though the existing institutions are located in larger cities, they now cover wider areas owing to the establishment of studies or departments spread out throughout the country. Enhancing the quality of service offered by these educational institutions should in the longer run lead to a decreased depopulation rate in Croatia's less urban and less developed areas.

### 1.1.2. Policy context

The regional competitiveness agenda consists of multiple, interrelated policy agendas falling under the scope of a number of state administration bodies in Croatia – those in charge of regional development, SME development, technology, innovation, R&D, information and communication technologies (ICT). As it sets out current policy context, this section assesses policy evolution in these sectors in the context of EU accession and suggests issues requiring further improvement.

#### Regional Development

Compared to sectoral, horizontally pursued policies, regional development aims at a coordinated pursuit of sectoral policies in order to achieve a reinforced positive effect on a particular (undeveloped) territory. The approach to regional development in Croatia thus combines direct support to SMEs as well as support for self-government investments into business-related infrastructure (including R&D, technological and ICT-related infrastructure) – two policy areas originally under the scope of the Ministry of Economy, Labour and Entrepreneurship (MELE) and the Ministry of Science, Education and Sports (MSES). Along with investment

<sup>40</sup> Non-profit sector has been included in the coverage since 2005.

<sup>41</sup> World Economic Forum: „Global Competitiveness Report“, 2006.

<sup>42</sup> The R&D and higher education sector consists of 26 public institutes, 13 private scientific institutions, 6 technology and research and development centres, 11 research centres in industry, and one military research centre. Additionally, there are 7 universities, 16 public colleges and polytechnics, and 16 private colleges and polytechnics.

support, the national approach features fiscal policies (under the domain of the Ministry of Finance) as well. The current approach to regional development is set out below, along with reforms envisaged.

The Ministry of Sea, Tourism, Transport and Development (MSTTD) is the central government institution responsible for regional development policy in Croatia. As stipulated by the Act on the structure and the scope of central state administrative bodies, the MSTTD is competent for planning and implementation of regional development policy, proposing changes in the regional development management system, proposing and harmonizing implementation of measures, programmes and projects of state aid, and assessing their performance. Implementation of several laws regulating the development of regions lagging behind in development is also under the scope of MSTTD.

Three MSTTD Directorates are competent for activities dealing with regional development: Directorate for Integrated Regional Development, Directorate for Islands and Directorate for Regional and Local Infrastructure<sup>43</sup>. Because regional development is pursued through a cross-sectoral approach, MSTTD works through inter-ministerial working groups, whose work it also coordinates.

The types of activities making up regional development efforts in Croatia are regulated by a group of legal acts concerning assistance to development of areas of special state concern. These, so-called regional acts (even though they are mostly implemented at the local, municipal level), include the Act on Areas of Special State Concern, the Act on Hilly and Mountainous Areas, the Act on Reconstruction and Development of the Town of Vukovar, The Islands Act. According to the mentioned legislation these areas, designated at NUTS V level, include the Areas of Special State Concern (ASSC), Hilly and Mountainous Areas (HMA) and Islands. More information on these legal acts can be found in Annex 2.

Given the breadth of the challenge of unequal development in Croatia, a number of line ministries channel funding to the development of specific areas in Croatia. They do so in a sectoral approach, which presents the MSTTD with a significant policy challenge of ensuring a coherent pursuit of regional development. The scope of this challenge becomes obvious from the high number of central government bodies competent for the preparation, programming, implementation and monitoring of programmes related to regional development.<sup>44</sup>

A particular contribution to regional development is that of the Regional Development Fund. The Act on the Regional Development Fund established the Fund in 2001, regulating the financial support for encouraging coherent development across Croatia.<sup>45</sup> Assistance is aimed especially at the development of war-torn areas, sparsely populated areas, ASSCs, islands, hilly and mountainous areas, border areas, areas with structural difficulties, and areas whose GDP is below 65% of the national average. The Fund co-finances<sup>46</sup> projects related to infrastructure which is essential to economic growth as well as other economic projects which are cost-effective, environmentally friendly, based on domestic resources and result in greater employment. Projects need to have been envisaged in the relevant county's development plan.

Besides central government bodies there are administrative bodies (administrative departments or services) within self-government competences responsible for issues of regional and local development in counties and in a number of towns. While there is no legal obligation of setting up a body in charge of regional

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<sup>43</sup> The development of islands is pursued within the MSTTD's "sea" segment, which is charged also with ports, maritime transport and maritime safety.

<sup>44</sup> They are the following: Regional Development Fund, Fund for Development and Employment, Fund for Reconstruction and Development of the City of Vukovar, Ministry of Finance, Central State Administrative Office for Public Administration, Ministry of Agriculture, Forestry and Water Management, Ministry of the Economy, Labour and Entrepreneurship, Ministry of Environmental Protection, Physical Planning and Construction, Ministry of Science, Education and Sports, Ministry of Health and Social Welfare, Croatian Employment Office, Croatian Bank for Reconstruction and Development, and the Croatian Bureau of Statistics.

<sup>45</sup> The Fund can receive funds from the State Budget, privatisation income, long-term bonds, loans from financial institutions, bilateral loans, grants and other sources. In practice, the State Budget is its only resource for the moment.

<sup>46</sup> Infrastructure projects in territorial units whose financial power (per capita budget funds) is below 65% of the national average may receive a grant of up to 50% of the investment.

development, such bodies exist in most counties and many towns and are the reflection of the perceived needs and possibilities of counties, towns and municipalities. They usually take one of the following forms: development agencies; entrepreneurship centres supporting SMEs with loans, consultancy services, information, vocational training and entrepreneurship promotion centres; technology centres, etc. With regards to development agencies in particular, it should be noted that their span of activities, their level of performance and experience vary significantly, as does their ownership structure (one or more self-government units, other owners) and mode of operating (commercially or non-for profit).

These regional and local economic development institutions have a more or less developed degree of **partnership and cooperation** among themselves and with central government institutions. To be noted is the recent initiative launched by the Varaždin County Development Agency (AZRA) of establishing a national association of development institutions – Croatian Initiative for Development (Hrvatska inicijativa za razvoj, HIR). HIR will represent a great number of development institutions from across the country dealing both with regional and local development and with SME and business support. Following the official agreement on Croatia's NUTS II statistical regions with EUROSTAT and the EC services, two Agreements of cooperation among Regional Development Agencies have recently been signed, covering the Pannonian Croatia NUTS II region and the Adriatic Croatia NUTS II region.

Another player in the developmental institutional network at the sub-national level is the network of county offices of the Croatian Employment Service. A similar network has been set up by the National Council for Social Partnership in order to gather county level employers and trade unions, in an effort to address local issues of socio-economic development.

The regional development legislative framework in Croatia does not contain a unitary legal act systematically addressing regional development issues. The number of acts on underdeveloped and war-affected areas makes Croatia's regional development policy fragmented. In addition, the current approach does not take into consideration specific development needs and potential of Croatia's border areas, made up of 18 out of the 21 Counties, which share a border, and consequently the development problems and potentials, with a neighbouring country. A policy analysis<sup>47</sup> undertaken in the context of the CARDS 2002 project "Strategy and Capacity Building for Regional Development" has also shown that a more pro-active policy needs to be established, and more attention placed on assistance measures with a more direct economic impact.

Another issue that needs to be addressed is the horizontal and vertical coordination in policy-making and policy delivery. While the main responsibility for regional development lies with the Ministry of Sea, Tourism, Transport and Development (MSTTD), a number of line ministries and institutions are directly responsible for measures with a territorial impact. The policy development, programming, implementation and evaluation of these measures and programmes fall under the scope of individual line ministries.

In light of significant disparities in the socio-economic performance and the well being of the different areas in Croatia, and also of the prospect of using EU Structural Funds upon accession, the Government decided in 2004 to address factors creating and widening disparities between regions by making balanced regional development a national priority. Assisted by the project CARDS 2002 „*Strategy and capacity building for regional development*“, the MSTTD, in consultation with the relevant line ministries and partners from the regional and local self-government level, economic, social and civil sector, have prepared a draft **National Strategy for Regional Development**. In short, the goal of a policy reform is a pro-active, systematic and integrated regional development policy, covering all of Croatia's territory and extending assistance to particular areas according to a uniform set of criteria. New policy tools and structures would ensure a more effective, objective and inclusive approach and emphasize economic measures, which contribute to socio-economic development in a more direct manner.

In the meantime counties' capacities with regard to regional development have and continue to be developed through work on the so-called **Regional Operational Programmes (ROP)**. ROPs were first designed in eight

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<sup>47</sup> Project document – Analysis of regional development in Croatia; Annex 2 – Analysis of legal framework

such counties and then the practice was expanded with Government (MSTTD) support to other counties. Today almost all counties have a ROP and are able to use it to seek out and channel national, EU and other donor funding for development projects.

### Small and Medium Enterprises (SMEs)

The Ministry of Economy, Labour and Entrepreneurship (MELE) is the central government institution in charge of implementing the national policy in the field of SMEs. The Ministry's responsibility for the "entrepreneurship" sector lies with the SMEs and Cooperatives Directorate, the Crafts Directorate and the Investment Promotion and Export Directorate.

The SMEs and Cooperatives Directorate implements measures and activities for the development of entrepreneurship through promotion, education of entrepreneurs, technical assistance, local financing, institutional capacity building and commercialisation of innovations. It also encourages clustering and networking of entrepreneurs, implements measures for the development of SMEs and co-operatives, improves entrepreneurial and managerial skills, undertakes the harmonization of legal framework with EU regulations and implements measures for international co-operation and export and investment promotion.

The Crafts Directorate focuses on crafts development, registration and vocational training. It implements and coordinates measures and activities for the development of the crafts sector, promotes crafts at international fairs, makes proposals for laws and regulations, provides interpretations and explanations related to laws and regulations, monitors implementation and ensures execution of laws and other regulations.

Investment Promotion and Export Directorate performs the tasks that refer to the elaboration of the investment promotion and export strategies and their implementation, the development of free zones, industrial zones, clusters, technological parks and districts, the elimination of obstacles for investments and regional development. The Directorate makes proposals for the implementation of economic policy measures aiming at enhancing domestic and foreign investments for the purpose of regional development. It implements the activities related to advertising and promotion of conditions for investing in the Croatian economy and the security of such investments, and it participates in tasks related to international projects, etc. The responsibilities of this Directorate also include the assessment and approval of the use of incentive measures.

In performing these tasks, the SMEs and Cooperatives Division cooperates with other government bodies<sup>48</sup>, regional and local self-government units, institutions and associations of entrepreneurs. There is in Croatia in fact a long tradition of representation of SME interests, at both the national and the sub-national level. Various interests of the private sector and/or the SMEs more specifically are thus represented through the Croatian Chamber of Economy (HGK), the Croatian Chamber of Trades and Crafts (HOK), Croatian Employers Association (HUP), Croatian Co-operatives Association (HSZ), Association of SMEs, Croatian Exporters Association, Women Entrepreneurs Association etc. In the past several years these institutions have grown in importance and asserted themselves as partners in the policy making process. Dialogue with the Government takes place in fora of socio-economic dialogue such as the Economic and Social Council (tripartite body facilitating dialogue between the Government, business and trade unions), and the National Competitiveness Committee, as well as in the relevant Committees<sup>49</sup> of the Croatian Parliament. Some more detail on the more relevant of these policy-making partners is given below.

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<sup>48</sup> Other *ministries* active in supporting SMEs in their respective sectors include the Ministry of the Sea, Tourism, Transport and Development (MSTTD), the Ministry of Science, Education and Sports (MSES), the Ministry of Agriculture, Forestry and Water Management (MAFWM) and the Ministry of Family, War Veterans and Intergenerational Solidarity (MFVVIS). Other *public bodies* active in the SME policy field are: Export and Investment Promotion Agency, Fund for Regional Development, Fund for Employment and Development, Croatian Bank for Reconstruction and Development.

<sup>49</sup> Finance Committee, Committee for Economic Development and Committee for Labour and Social Policy.

In addition to MELE, the Croatian Agency for Small Enterprises (HAMAG) is the implementing authority for the 2004-2008 Development Programme for Small Enterprises. With its 25 employees in its office in Zagreb, HAMAG is beginning to widen its scope of activity. So far it has mainly run financial incentive schemes – issuing credit guarantee funds and mutual guarantee funds. It has also implemented activities related to business advisory services. Whereas MELE's support in this area is directed through programmes such as "Promotion of entrepreneurship" and "Education in entrepreneurship", HAMAG is primarily focused on the Programme for Education and Development of Small Businesses Consultants' Network, consisting of consultant certification, co-financing of consultant services and monitoring of the above system. Starting from 2007, HAMAG began to take over a number of MELE mainstream programmes: improvement of business support infrastructure (business centres, regional development agencies), entrepreneurship of target groups (youth, start-ups, disabled persons) and support of student cooperatives and student enterprises.

Promoting the development of SMEs also falls under the competence of the Croatian Bank for Reconstruction and Development (HBOR). With the seat in Zagreb and five regional offices in Split, Pula, Rijeka, Osijek and Gospić, HBOR directs the majority of its business activities and loan programmes at improving the sources and conditions of finance and introduction of new financial products and models of finance. Working closely with commercial banks, it supports export-oriented companies through several export enabling and export insurance and guarantee schemes and programmes.

While support to access to finance for SMEs has been directed mainly through HAMAG and HBOR, support for the development of networking and clusters is carried out mostly by MELE. The Croatian Employers Association (CEA) has been active in that regard as well, stimulating various sectoral cluster initiatives. A Centre for Clusters within the CEA is in fact to become a part of the European Cluster Alliance..

A policy discussion forum for the competitiveness agenda is the National Competitiveness Council, founded in 2002 with the endorsement of the Government. It enables dialogue between public and private stakeholders (government, trade unions, business and academia) on issues affecting the competitiveness of the Croatian economy and the business sector in particular. Of particular relevance are the 55 recommendations on enhancing competitiveness which the Council put forth in 2004 and the Government adopted as an integral part of reforms and economic development policies.

Croatian SME policy relies also on input from a policy think-tank, the Centre for SME and Entrepreneurship Policy (CEPOR). CEPOR specialises in SME-related issues and has the mission of publicly advocating SME interests. It acts in co-operation with other stakeholders, for example in drawing data from the Global Entrepreneurship Monitoring Project or making recommendations to increase competitiveness and develop the capital market.

The rest of the section sets out the actual SME policy. SMEs in Croatia are defined by the Small Business Encouragement Act. The definition slightly differs from the EU definition of SME primarily in terms of the size of the annual turnover or the annual balance sheet of business entities (see table in Annex 3). The SME policy area is regulated by the following legal acts: Small Business Encouragement Act<sup>50</sup>, Crafts Act<sup>51</sup>, Companies Act<sup>52</sup>, Cooperatives Act<sup>53</sup>, Accounting Act<sup>54</sup>, State Aid Act<sup>55</sup>, and the Investment Funds Act<sup>56</sup> (see Annex 4).

On the basis of the Small Business Encouragement Act, in 2004 the Government adopted the SME Promotion Programme 2004-2008 which is aligned with the European Charter for Small Enterprises. The

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<sup>50</sup> Official Gazette no. 29/02 and 63/07.

<sup>51</sup> Official Gazette no. 77/93, 90/96, 64/01, 71/01, 49/03, 68/07.

<sup>52</sup> Official Gazette no. 111/93, 34/99, 121/99, 118/03, 52/00

<sup>53</sup> Official Gazette no. 36/95, 67/01, 12/02

<sup>54</sup> Official Gazette no. 146/05

<sup>55</sup> Official Gazette no. 140/05

<sup>56</sup> Official Gazette no. 107/95, 150/05

Programme's objectives are balanced development of the Croatian territory, creation of a positive entrepreneurial climate, increase in the number of SMEs and increase in employment. It defines development guidelines, incentives, entities implementing incentives, activities and sources of finance, implementation periods for individual incentives, and methodologies for monitoring their implementation.

On the basis of the multi-annual Programme, MELE adopts an annual programme implementation plan – the current one being the 2007 Operational Plan of SME Promotion. It comprises of individual incentives and activities/projects, sources of finance and payments procedures. Entrepreneurship Promotion Projects in 2007 cover entrepreneurship crediting, investments into business infrastructure and promotion, education in entrepreneurship, support to cooperatives, trades and crafts as well as competitiveness (including marketing promotion, new technologies, innovation, quality and cluster development).

In its pursuit of measures supporting SMEs, MELE adopts a generally horizontal approach. Support measures (including for enterprise zones, research grants, etc.) for the most part do not have a sectoral focus. An exception is the tourism sector<sup>57</sup> and the wood processing industry<sup>58</sup>, which benefit from more targeted support from other line ministries.

During the period 2004-2006, MELE invested 396 million kunas (ca 53 MEUR) into various programmes for SME promotion.<sup>59</sup> The breakdown of funds across the programmes<sup>60</sup> supporting SMEs during 2004-2006 shows that the majority went to provide subsidies to loans, largely capital investments, equipment, investment and developing business activity and re-financing. Next came incentives for export oriented SMEs. A smaller amount has been allocated to SMEs to obtain business services. Several things are worth noting. Firstly, Croatia is also the only country in Southeast Europe with programmes enhancing SME competitiveness and export capacity.<sup>61</sup> Secondly, since the adoption of the last programme for SME support in 2004, the average size of SME grants has been increased. Existing credit lines have been increased and now include new target groups such as women and youth. Overall, the effectiveness of direct support to SMEs has been improved. Thirdly, there is for the time being no clear system of monitoring and evaluation of these interventions and it is therefore difficult to assess their impact.

Micro-crediting programmes are primarily coming from international donors (Catholic Relief Services, USAID, Soros Foundation) through credit unions. They have rather a social inclusion character and are implemented mostly in Croatia's war-affected areas.

There are also public guarantee funds implemented by the Croatian Agency for Small Enterprises (HAMAG). HAMAG grants guarantees for loans given by commercial banks and other creditors focusing on financing fixed assets and working capital. The value of HAMAG's grant capital is 65 MEUR. Grants are extended to different types of SMEs and under different conditions for SMEs depending on the territory on which they operate. The list of programmes is as follows:

- "New entrepreneur": start-ups operating less than 2 years;
- "Growth and development": entrepreneurs operating at least 2 years;
- "Areas of special state concern": entrepreneurs located in Areas of Special State Concern;
- "Agriculture": entrepreneurs in agriculture businesses;
- "Working capital": entrepreneurs operating at least 2 years.

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<sup>57</sup> Implementation is conducted through two programmes of subsidies for SMEs: "Incentive for success" and "Programme for tourism development in the SMEs" Credit lines in SMEs are implemented by HBOR.

<sup>58</sup> Operational Programme for the Development of Industrial Wood Processing, approved by the Government on 12th July 2006, contains financial support measures for R&D, environment protection, SMEs in wood processing industry.

<sup>59</sup> Source: 2007 Operational Plan of SME Promotion.

<sup>60</sup> The funds in 2004-2006 supported projects "Entrepreneur", "New Technologies", "War Veterans" (together with the Ministry of Family, War Veterans' Affairs and Intergenerational Solidarity), "Women Entrepreneurship", "Youth Entrepreneurship", and "Social Services". Most funds were directed to the project "Entrepreneur", followed by "Women Entrepreneurs" and "Social Services" projects. One of the measures of the "Entrepreneur" project is subsidising interest rates for loans in cooperation with counties, the city of Zagreb and commercial banks.

<sup>61</sup> Source: EU Charter for Small Enterprises, report on the Western Balkans, November 2006, MELE.

Greatest value of guarantees was granted under programmes “Agriculture” and “Growth and Development”. In the last several years there has been a trend of increase in the value of guaranteed loans (on average 210.000 €) and of reduction of the percentage of the sum guaranteed (54%). In the course of 2007 a pilot project “Regional Guarantee Instruments” was started, as a follow-up to the MELE project “Entrepreneur”, in cooperation with county and local authorities, commercial banks and entrepreneurs. The project aims to develop modalities for financing SMEs through guarantees on county level.

Besides direct support to SMEs, support targets also local and regional self-government and publicly funded local and regional business and development institutions and agencies as important actors enhancing entrepreneurship and delivering SME services at the sub-national level.

In terms of policy evolution, it must be noted that the Croatian SME policy has reached a satisfactory level of alignment with the EU *acquis communautaire* and the European good practice. In 2006 Croatia was commended for particularly positive results with regards to education for entrepreneurship, business support services and the enabling of a quicker and a more cost-effective set-up of start-ups. Consultations with the EC in the context of the screening process of Chapter 20 of the *acquis* – Enterprise and Industrial Policy – have identified the need for further reform and alignment in a number of areas, notably in order to finalise the industrial strategy, to improve capacity for assessing industrial competitiveness, and for undertaking policy analysis and formulation with a more sectoral focus. Since, the accession negotiations on Chapter 20 have been launched.

Policy evolution and alignment with the *acquis* is driven and monitored by regular national programmes of alignment as well as by annual EC Progress Reports. Policy recommendations of the EC Progress Report 2006 concern the need for further alignment of existing measures with business needs (e.g. allowing for more soft type support as opposed to direct lending to SMEs) and the need for greater cross-sectoral coordination. Policy improvements envisaged in the National Programme of the Republic of Croatia for Accession to the EU (NPAEU) for the year 2007 include education needs adjustment and entrepreneurial education, export and investment promotion, innovation promotion, promotion of new products, introduction of new technologies and job creation.

MELE intends to improve its policy-making through another policy tool in the near future. An initiative that should contribute to better activity “on the ground” is the setting up of an SME Observatory which is to engage in international cooperation, exchange of best practice, drawing up of benchmarks, gathering statistics, delivering regular analyses on trends, performing evaluations etc. Through a Phare 2005 project, MELE will receive recommendations on setting up the Observatory as well as training on how to manage the work of the Observatory, in cooperation with HAMAG. The SME Directorate and HAMAG will receive significant technical assistance and support through this project in order to more generally improve the institutional framework and policies (in particular business advisory services), the regulatory framework, as well as the methodology and the capacity in the area of statistics and analysis.

An essential, cross-sectoral element of the national enterprise policy is investment promotion. While certain efforts in that respect have been undertaken in the past (Directorate for Investment Promotion and Export in MELE; Trade and Investment Promotion Agency; Investment Promotion Act and secondary regulation)<sup>62</sup>, an integrated national policy is still emerging. This is the case of foreign direct investment (FDI) in particular. Recent developments in that respect include the drafting of a national FDI strategy (MELE in cooperation with relevant stakeholders) and setting up of the “Croatian partnership for investment promotion”, an initiative launched in early 2007 and coordinated by the Trade and Investment Promotion Agency (TIPA). The partnership operates through a national-level and a regional-level investment promotion team which includes representatives of counties and Regional Development Agencies. The Partnership initiative benefits from high-level Government and political support.

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<sup>62</sup> Investment Promotion Act, Official Gazette no. 138/06; Regulation implementing the Investment Promotion Act, Official Gazette no. 64/07.

Other, cross-sectoral efforts at boosting FDI include attempts to re-define the enterprise and SME development policy, boost technology and export strategies, set up anti-corruption instruments and measures and increase the administrative capacity of the Trade and Investment Promotion Agency (TIPA). Some of these issues, like anti-corruption and the building of human resources, Croatia plans to address in cooperation with the OECD Investment Compact programme. The programme aims at an improved investment climate and private sector development in Southeast Europe and is being implemented in the context of the Stability Pact. The OECD office set up in Zagreb in July 2007 will implement the programme in Bosnia and Herzegovina as well as in Croatia.

## R&D and Innovation

The Ministry of Science, Education and Sports (MSES) is the central government institution responsible for implementing, coordinating and overseeing implementation of the science, innovation and technology. It is in charge of allocation of the budgetary funds for R&D activities in both public institutes and higher education institutions, as well as allocation of budgetary funds for the technology program and related activities. Financial assistance extended directly through MSES includes research grants, IT grants, scientific equipment grants, fellowships for young researchers, (international) mobility grants and grants for publishing activity, scientific conferences and awareness raising activities.

Three of the Ministry's directorates cover the policy area in the field of science, technology, innovation and IT - the Science Directorate, the Directorate for International Cooperation, and the Directorate for Information Society. Management of EU-financed projects is carried out by the International Cooperation Directorate. This Directorate cooperates very closely with the Directorate for Science, which comprises a Department for Research Programmes and Projects, a Department for Development and a Department for Analysis and Monitoring of Technological Development.

MSES relies on a fair number of other institutions and policy fora in the design, implementation or monitoring of the R&D and innovation policy. National Science Council (NSC) and National Council for Higher Education (NCHE) systematically monitor the functioning and the quality of the entire system as highest independent professional and advisory bodies appointed by the Parliament. On the operative level, the recommendations of the NCS and NCHE are carried out by the Agency for Science and Higher Education, which is in charge of administrative tasks related to the assessment of scientific activity and higher education.

An institutionalized inter-ministerial initiative established by MSES in 2005 is the Croatian Innovation System Council (HIS). HIS is envisaged as a coordination body in charge of strengthening the national innovation system and the related infrastructure. The need for greater coordination in the national innovation system is re-emphasized in the current Action Plan of the Ministry's Science and Technology Policy 2006-2010.

National Foundation for Science, Higher Education and Technological Development (NSF), another independent institution established by the Parliament, extends financial support for the following areas: training of doctoral students (PhD fellowships), joint basic research projects between private partners and PROs (public research organisations), joining European science foundation programmes, reform of the higher education curricula (doctoral studies) in order to harmonize them with the European system (Bologna Declaration) and so called "brain gain" initiative. Grants are accorded based on competitive calls which are launched biannually.

The main part of the national policy in relation to technology is implemented by two specialized technical agencies, under the scope of the Croatian Technology Programme. One of them is the Croatian Institute of Technology (HiT Ltd.) founded in March 2006 by the Government with the mission to create pre-conditions for accelerated application of new knowledge and technologies, by providing services, expertise and project funding. In December 2006 HiT reshaped and took over implementation of the TEST programme. TEST provides funding for pre-commercial research activities aimed at developing new technologies (products/processes/services) through the development of original solutions (prototypes/pilot solutions), as well



as research linking fundamental sciences and their technological application to development of industry sectors. HIT is also in charge of developing the national technology foresight platform and business intelligence system, and will overtake from MSES the consolidation of the administrative structure of national focal points of the EU Framework Research and Technology Development Programmes.

The second policy implementing agency is the Business Innovation Centre of Croatia (BICRO Ltd.) – an innovation and investment company established by the Government in late 1997 and fully State owned . Between 2001 and 2006 BICRO operated the RAZUM programme - a sub-programme of the Croatian Program for Innovative Technological Development (HITRA). With assistance through the World Bank Technical Assistance Project for Institutional and Regulatory Reform (TAL-2), BICRO developed into one of the main project implementing agencies of the Croatian Technology Programme with the mission of facilitating technology transfer and commercialization activities primarily in the sector of SMEs, contributing to the creation and development of private equity industry (especially venture capital), and promoting the establishment and development of science and technology parks, incubators and other related institutions.

The legal foundation in the interlinked sectors of science, innovation and technology in Croatia is the Act on Scientific Activity and Higher Education, adopted by the Parliament in 2003. It outlines the framework for scientific and higher education activities and institutions, outlining the responsibilities and relationships of the main institutions in this policy field. In addition, it defines scientific and technology programmes, R&D centres of excellence, and technology parks/incubators and related institutions.

With regards to technology transfer and reorienting public research institutions to market needs, the largest research institute in Croatia, Ruđer Bošković, has recently established a new Agency for Innovation Services and Transfer of Technology with the support of a € 4 million loan from the World Bank (Science and Technology Project). The new agency – Ruđer Innovations – registered as a company, started operating in early 2007. Its tasks include intellectual property and patent protection, financial support for the advancement of new innovative products, technology transfer, establishment of new spin-off companies and networking with other domestic and foreign scientific and high-technology field actors. The agency will assist with the development of high technology innovations, and all the way through to their commercialization.

In order to enhance market orientation of R&D, in October 2006 the Government assisted the formation of a public private partnership (PPP) in the field of science and technology through a joint initiative of the Ruđer Bošković Institute and the Institute for Informatics Innovation (I3) which is a research and development institution aiming to further the study of and increase the utilisation of informatics systems.<sup>63</sup> The PPP is incorporated in the established joint spin-off company Information Communication Technologies Ltd, whose main role is the commercialization and dissemination of research performed in the I3 institute.

The evolution of Croatian science, innovation and technology policies had taken a more systematic approach from 2001 with the adoption of a strategic document "Croatia in the 21<sup>st</sup> Century". In March 2002 the preparation of the SME / Technology Programme was initiated by the MSES and supported by the World Bank project TAL-2. During 2001-2005 the technology and innovation policy was primarily implemented through the Croatian Programme for Innovative Technological Development (HITRA), launched as a pilot in 2001. HITRA was launched to initiate the setup of a national innovation system through permanent development of strategic and long-term goals. These include fostering science and industry cooperation, revitalization of industrial R&D and encouraging commercialization of research outputs.

HITRA provided a framework for direct cooperation between industry and entrepreneurs with higher education institutions and research institutes, and was implemented through two complementary sub-programmes. One of them – Technology-Related Research and Development Programme (TEST), provides support to the development of new technologies in terms of products, processes or services, up to their commercialization stage. The other – Development of Knowledge-Based Enterprises (RAZUM), provides early-stage financing to knowledge and technology-based start-ups.

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<sup>63</sup> Focus is on telecommunications, mobile systems, networking systems, multimedia systems, intelligent systems, complex algorithms (such as security or compression) and personal/social computing.

Both RAZUM and TEST were redefined in 2006 in order to ensure more quality and transparency in the decision-making process. Systematic monitoring and evaluation of programme performance and individual project performance was thus introduced. A new policy management system was introduced **Guidelines for Supporting Innovation Technology System** which the Government adopted in May 2006. The Guidelines redefine rules and implementation of TEST and define a new **Programme for Support of Entrepreneurship Based on Innovation and New Technologies** all of whose sub-components<sup>64</sup> are implemented by BICRO (see Annex 5 for details). HITRA and the TAL-2 project served as preparatory exercises for the implementation of the World Bank **Science and Technology Project (STP)** which began in fall of 2005 and covers a substantial part of the Croatian technology programme.

Strategic focus and main objectives of the national science, technology and innovation policy are identified in the most recent MSES strategy – **Croatian Science and Technology Policy 2006-2010**. The document was drafted on the basis of wide partnership consultations and adopted by the Government in May 2006. Given its recent adoption, the document represents a very relevant input for the programming of EU funds – the more so given that partners and the public were involved in its adoption.<sup>65</sup> Strategic aims in the short and long term are set out, new financial instruments established, and new rules and procedures for (individual) research grants and technology financing programs set out.

The main objectives of this multi-annual strategy include increasing the quality and the quantity of R&D investments (target of 3% of GDP), restructuring the science system in Croatia, strengthening science and industry cooperation and increasing participation of Croatian scientists in EU Framework Programmes (FP). In the technology and innovation field the policy document stipulates the following objectives:

1. to promote creation and growth of knowledge-based and technology oriented SMEs (through targeted support programs which provide early-stage financing)
2. to assist development of appropriate technology infrastructure in order to support knowledge-based SMEs and technology start-ups
3. to stimulate demand of R&D from business
4. to build a strong intellectual property regime in order to provide incentives for innovation and invention
5. to diversify funding sources for R&D, attract private sector investment and create a risk capital industry
6. to promote innovation awareness and public confidence in R&D.

The 2006-2010 strategy identifies as priority fields of investment and support high value added business and R&D sectors – biosciences, ICT and in the long term nanotechnology in the form of new materials. Within these priority sectors Croatia seeks to encourage and develop highly specialized niches through which it can become recognizable in the global knowledge society and gain and maintain its competitiveness.

Based on this policy document the Government adopted mid-term priorities the aim of which is to stimulate scientific excellence and enable the transfer of knowledge and of research results to industry and business in order to increase competitiveness and generate sustainable growth and productivity. In April 2006 a working group was nominated by MSES to draft a proposal of measures necessary for achieving the **Barcelona objective** of increasing R&D investments up to 3% of GDP by 2010, identified in the context of the Lisbon Strategy.

Following the adoption of a multi-annual strategy, in December 2006 the MSES drafted a national **Action Plan 2007-2010** for the implementation of the Science and Technology Policy. The Action Plan was approved by the Croatian Government in June 2007.

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<sup>64</sup> The programme's sub-components are the following: Development of Knowledge-Based Enterprises (RAZUM), Technology Infrastructure Development Programme (TehCro), Venture Capital Programme (VenCro), Research and Development Programme (IRCro), Business Competitiveness Upgrading Programme (KonCro).

<sup>65</sup> National level institutions such as the National Science Council, National Council for Higher Education, BICRO and HIT participated in drafting the strategy. Prior to Government adoption, the document also underwent public consultations.

A policy field closely related to the science, technology and innovation sector is intellectual property rights protection. A **National Strategy for the Development of the Intellectual Property System**, drafted by the State Intellectual Property Office (SIPO), was adopted by the Government in 2005. The short-term goal of this strategy is to provide a level of intellectual property rights protection comparable to that in the EU. In the mid-term, its goal is to ensure the application of intellectual property rights protection as a lever of economic growth and achieve levels which are, in that sense, comparable to those in the EU Member States with the highest European Creativity Index (ECI).

With regards to overall policy improvement, MSES intends to improve the monitoring of qualitative and quantitative indicators in order to enhance policy efficiency and effectiveness and align with EU practice. It will do so by harmonizing the national indicator monitoring system with the Cordis EUROSTAT system in the EU.

### ICT and information society

The central government body responsible for formulating, implementing, coordinating and overseeing the implementation of the information society policy is the **Central State Administrative Office for e-Croatia (CSAOeC)**. In addition to its overall coordination role, the CSAOeC prepares and coordinates implementation of annual Operative implementation plans for the e-Croatia 2007 Programme, prepares reports and carries out benchmarking studies and analyses. Several other central government institutions are in charge of different aspects of ICT. MTTD is responsible for the development of electronic communication infrastructure and telecommunication market regulation. The responsibility for an electronic business enabling environment, including electronic commerce and electronic signatures, lies with MELE. The MSES is responsible for the use of ICT in education and research, and for ICT supported innovations and ICT research. The Ministry of Justice is responsible for the e-Justice component and the Ministry of Health and Social Security for e-Health.

This policy area is regulated by the Telecommunications Act, Electronic Signatures Act, Electronic Commerce Act, and by secondary legislation. Provisions on conditional access are also included in the Electronic Media Act, and provisions on cyber crime in the Penal Code.

Systematic efforts with regards to an information society began with the adoption in December 2004 of the Strategy of a One Stop Shop Programme (HITRO.HR). The aim was to facilitate communication between state administration, businesses and citizens through simplified administrative procedures, provision of online access to information and services and establishment of HITRO.HR offices throughout the country as a single point of access to public administration services. Some of the most important e-services made available to SMEs since are e-extract from the Land Registers, e-Cadastre, e-Regos (registry of insured persons), e-Nautics, e-VAT, e-Pension Insurance, and e-Trade Register. Additionally, HITRO's e-Corner service has been created to provide free of charge education and information for entrepreneurs interested in applying e-business solutions in their work.<sup>66</sup>

According to annual reports from 2004 to 2006 (CapGemini, T&NC), the on-line availability of public services to businesses exhibited an overall growth from 5.7% to 60.4%, while the availability of services to citizens rose in the same period from 3.4% to 46.5%. It is estimated that some 10,000 entrepreneurs in Croatia take advantage of an e-card put in place by the Croatian Finance Agency (FINA) for various forms of e-business services, whereby they annually save a total of 30 million kuna (about 4 MEUR).

The **e-Croatia 2007 Programme** was launched at the end of 2003 as a framework programme encompassing strategic objectives of creating a favourable institutional and legal framework for developing secure electronic communication infrastructure and fostering innovative use of ICTs through e-Government, e-Learning, e-Health, e-Business and e-Justice. The programme is based on domestic and EU policy experience and good

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<sup>66</sup> The e-Corner service is available in nineteen HITRO.HR services and FINA offices across Croatia. By the end of 2007 the e-Corner will become available in all the remaining HITRO.HR services in Croatia.

practice, obligations in the framework of the Stabilization and Association Agreement and regional initiatives.<sup>67</sup> The Programme's objectives are also closely aligned with the EU i2010 Initiative launched in 2005.

Within the framework of e-Croatia 2007 Programme, in 2006 the Government adopted also a **Strategy for the Development of Broadband Access to INTERNET until 2008** and a **2007 Action Plan**. One of the objectives of the Broadband Strategy is to increase the availability of broadband and its use by businesses – SMEs in particular. A national e-Business Strategy is currently also being drafted by MELE and should be completed in the course of 2007. A particular challenge to be addressed by the Broadband strategy is the quality of life and services in the less developed and the peripheral areas. The Government therefore launched an e-Islands project which will enable a broadband connection between schools on the mainland and schools on islands in the Zadarska, Šibensko-kninska, Splitsko-dalmatinska and Dubrovačko-neretvanska counties. The Government will also encourage telecommunications operators to become more active in the Areas of Special State Concern (ASSC) and the Mountainous Areas.

In autumn 2007 the **National Competitiveness Council** will present an Action Plan for implementing its recommendations for the enhancement of Croatia's competitiveness in ICT. Drafted in cooperation with the business sector, the Government, the social partners and experts from the ICT field, the recommendations particularly emphasize the need for expanding the range of services available online (e.g. e-City, e-Health) and introducing electronic public procurement at the national and local level.<sup>68</sup>

Recognising the need to involve all stakeholders in the development and implementation of its information society policy, the Government established in 2004 a **National Council for Information Society** through which partnership consultations on the policy take place regularly. The Council is an advisory body providing advice on policy and legal documents in the field of information society, proposing measures aimed at sustainable development of ICT sector and improving cooperation between stakeholders in the process of building an information society. The Council is composed of representatives of the relevant central state bodies as well as of representatives of the private sector, the research community and the civil society.

As necessary, the CSAOeC engages in additional consultations in the preparation of policy documents and legislation in its policy domain. The leading consultative partners are ICT associations and organisations represented in the Croatian Chamber of Economy and the Croatian Employers' Association. Furthermore, a representative of the Croatian Chamber of Economy is a permanent member of the CSAOeC's working group which prepares and monitors the implementation of annual Operational Plans for the e-Croatia 2007 Programme. CSAOeC also cooperates with sectoral partners in organising expert conferences and seminars.

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<sup>67</sup> Inputs for the programme includes the national strategy "Information and Communication Technology – Croatia in 21<sup>st</sup> Century" adopted in 2002, obligations regarding development of information society accepted through the Stabilization and Association Agreement (SAA), the programmes eEurope 2003 and eEurope 2005, the outcomes of the 1<sup>st</sup> phase of the World Summit on Information Society (Geneva, 2003) and documents adopted within the eSouthEastern Europe Initiative of the Stability Pact.

<sup>68</sup> Recommendations for the enhancement of Croatia's competitiveness in ICT and technology, National Competitiveness Council, April 2007.

## 1.2. COMMUNITY STRATEGIC FRAMEWORK

The programming of EU assistance is guided by principles derived from the pre-accession as well as the post-accession logic. They are the principles of coherence and concentration. Their application to the RCOP takes into account the practice under the Cohesion policy but is also shaped to fit the specific requirements and logic of the pre-accession context. As fundamental principles of the Cohesion policy, both coherence and concentration of assistance are policy tools which need to be grasped already in the pre-accession period.

### 1.2.1. Coherence with EU and national strategic documents

The principal aim of IPA is to prepare future Member States for the use and management of Cohesion policy funding. When planning the use of the Structural Funds, Member States consider relevant national and EU strategic documents in order to ensure that EU-financed interventions contribute to national as well as EC development priorities. The value added of funded interventions results from complementarity with existing and/or planned domestic activities, ensuring synergy and coherence between various sources of funding. Guidance in planning is offered by strategic development documents at the EU and national level. In case of Croatia, national development priorities for the period 2006-2013 across a wide spectrum of sectors are specified by the Strategic Development Framework (SDF), drafted in line with Lisbon priorities. Priorities of interest to the entire EU are for the same time period indicated by the Community Strategic Guidelines (CSG).

Given that IPA is also an instrument of *pre-accession* assistance, funding under all Components adheres to priorities of beneficiary countries' EU accession process. Accession Partnerships, EC Progress Reports and outcomes of accession negotiations thus provide key inputs into the programming exercise. In addition, IPA interventions in a particular country are steered by fund-specific documents which specify priority needs – in light of accession as well as post-accession challenges – for the country in question. These are the Multi-Annual Indicative Planning Document (MIPD)<sup>69</sup> drafted by the EC for all IPA Components and the Strategic Coherence Framework (SCF)<sup>70</sup> drafted by the Beneficiary Country for Components III and IV.

In the Accession Partnership 2006 the EC defined the short and mid-term priorities for Croatia.<sup>71</sup> Priorities relating to policy areas of direct relevance to this OP are listed below. The funding under the OP will address only some of the issues identified, in line with priority needs specified in the MIPD<sup>72</sup> and eligible under the IPA Implementing Regulation.<sup>73</sup> The OP will do so through a mix of investment and technical assistance measures.

#### Economic Criteria

Short term priorities:

- Further improve the business environment by simplifying the rules for market entry and exit. In particular, speed up registration procedures and improve the implementation of bankruptcy rules and improve conditions for the development of private enterprises and foreign direct investment, including through improving administrative efficiency.

Mid-term priorities:

- Further improve conditions for the creation and development of private enterprises and FDI.

#### Enterprise and industrial policy

Short term priorities:

- Further simplify and accelerate company registration procedures; introduce on-line access to selected government facilities for SMEs; further develop regulatory impact assessments.
- Continue the implementation of the European Charter for Small Enterprises.

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<sup>69</sup> Commission Decision C(2007)2566 adopted on 20 June 2007.

<sup>70</sup> Submitted to the Commission on 13 June 2007 and agreed in the letter REGIO/EMPL no. 6010 of 18 June 2007.

<sup>71</sup> Council Decision 2006/145/EC

<sup>72</sup> Commission Decision C(2007)2566 adopted on 20 June 2007.

<sup>73</sup> Commission Regulation (EC) No 718/2007 implementing Council Regulation No 1085/2006.

Mid-term priorities:

- Update and articulate better the policy approach concerning financial instruments for SMEs which should allow the Government to move from direct lending towards softer support schemes.

#### Regional policy and coordination of structural instruments

Short term priorities:

- Develop a comprehensive and coherent strategy in the field of regional development.
- Select and build up the capacity of key managing authorities and bodies for the implementation of structural instruments.

Mid-term priorities:

- Ensure a clear distribution of responsibilities and strengthen coordination, both at inter-ministerial level and between national and regional authorities.
- Continue to build up capacity in the designated managing and paying authorities, including local authorities.
- Improve the design and implementation of regional development plans.
- Set up proper monitoring and evaluation systems and enhance financial management and control procedures.
- Introduce adequate regional statistics.

#### Intellectual property law

Mid-term priorities:

- Continue strengthening the enforcement of intellectual property rights (IPR) and reducing levels of piracy and counterfeiting.

#### Science and research

Mid-term priorities:

- Start designing and applying an integrated research policy.

The EC's Multi Annual Planning Document (MIPD)<sup>74</sup> sets out major areas of intervention and priorities on which to focus IPA assistance in Croatia. Under the regional competitiveness section of Component III the major areas of intervention concern SMEs, in a more or less direct manner:

1. To enhance regional competitiveness and the productive environment, and encourage the creation and safeguarding of sustainable employment. Assistance under this objective will thus focus on supporting productive investments and strengthening the competitive position of new and existing SMEs, including micro enterprises, situated, in priority, in the *disadvantaged areas*.<sup>75</sup> Investment aid to SMEs will be complemented by assisting business and technology services for enterprises, such as in the fields of management, market research, industrial standards and development networking and the access to and the use of ICT, as well as by provision of business infrastructure, and by promoting technological development, research and innovation, including through cooperation with tertiary education and research institutions and with research and technology centres, and business networks and clusters.
2. To empower and increase the capacity for action, effective governance and flexible cooperation of the public administrations at national, county and local level, as appropriate, with respect to the support measures enumerated under the first objective and relating, in priority, to the disadvantaged areas. The priorities under this objective will encompass support to the improvement of administrative efficiency regarding the delivery to SMEs of quality advice, e-business, ICT and innovation, and entrepreneurial support services at large, including business coaching, and the stimulation of systems of cooperation, networking, partnerships, workshops and clusters of excellence between business and other institutions.<sup>76</sup>

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<sup>74</sup> Commission Decision C(2007)2566 adopted on 20 June 2007.

<sup>75</sup> Disadvantaged areas include war-affected areas and, where justified, urban areas suffering high unemployment. Disadvantaged border areas would qualify but only to the extent that the assisted activities would not qualify for assistance under Component II.

<sup>76</sup> MIPD, p. 27.

The information on priorities and measures, set out in detail in the section on programme strategy, clearly reflects these two MIPD objectives for this Operational programme. Activities proposed for co-financing are a sound mix of concrete investments as described under objective 1 and capacity building under objective 2. This capacity building consists of trainings which, depending on activity or measure in question, enhance the operational capacity and the quality of services provided to users (investors, SMEs) and maximize the benefit of investments into business infrastructure and equipment.

The Community Strategic Guidelines (CSG) on cohesion identify areas where Cohesion policy can most effectively contribute to the realization of Community priorities, in particular insofar as they relate to the renewed Lisbon strategy as defined under the Integrated Guidelines for Growth and Jobs. The CSG for 2007-2013 are focused on three main guidelines and their related priorities, of which those especially relevant to the RCOP interventions include the following:

1. Making Europe and its regions a more attractive place to invest and work
  - Strengthen the synergies between environmental protection and growth
2. Improving knowledge and innovation for growth
  - Increase and better target investment in RTD
  - Facilitate innovation and promote entrepreneurship
  - Promote the information society for all
  - Improve access to finance
3. More and better jobs
  - Increase investment in human capital through better education and skills.

The Croatian development planning document which sets out priorities of intervention in the field of regional competitiveness and is closely consulted with the European Commission is the IPA Strategic Coherence Framework 2007-2013 (SCF).<sup>77</sup> The SCF represents an overall strategic framework for EU funded interventions under IPA components III and IV. The Operational Programme for Regional Competitiveness is directly related to one of the priorities of the SCF – “to achieve higher competitiveness and a balanced regional development by encouraging research and technological development, small and medium-sized enterprises, development of the information society and e-Croatia, alongside with improving overall social and economic conditions in underdeveloped areas”.

The national development strategy, Strategic Development Framework for 2006-2013 (SDF) outlines the importance of SMEs in enhancing Croatia’s competitiveness. A number of measures are suggested to improve the entrepreneurship climate in Croatia:

- Strengthen the efficiency of, and coordination between, the current incentive measures and the current entrepreneurial infrastructure to achieve maximum synergy between money, the efficiency of the entrepreneurial infrastructure, and the needs of enterprise.
- Improve the efficiency of funds on the state level for incentives to entrepreneurship.
- Systematically evaluate effects of individual pieces of legislation on entrepreneurship and the entrepreneurial climate
- Analyse the experiences of successful regional development agencies and successful projects in encouraging entrepreneurship, and attempt to transfer them into less prosperous regions.
- Create legal opportunities to allow the state to invest in risk capital funds (especially regional and industry-specialised ones)
- Encourage investments, especially green-field investment.

The SDF also underlines the need for an integrated set of government policies of stimulating entrepreneurship. An area of improvement is to ensure greater synergy between entrepreneurship and regional development as well as of enhancing links between science and technology and business sector development. Concerning this second point, the SDF particularly underlines the need for effective transfer of scientific and research activity results into the business sector and the creation of favourable conditions for private sector investment into

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<sup>77</sup> Submitted to the Commission on 13 June 2007 and agreed in the letter REGIO/EMPL no. 6010 of 18 June 2007.

R&D. In addition, the SDF stressed the importance of securing the availability and quality of ICT infrastructure, of promoting the use of ICT in the public and the private sector, as well as its consistent application in the field of education. On a general level, the SDF calls for an integrated system for evaluating development policies.

Relevant recommendations with regard to enhanced competitiveness of Croatia have been provided through the 55 policy recommendations of the National Competitiveness Council, in 2004. Recommendations on the SME sector are the following:

- 1) Develop an open entrepreneurial culture
- 2) Formulate consistent government policies and instruments to encourage entrepreneurial activity
- 3) Eliminate administrative barriers in all phases of the entrepreneurial life cycle, from establishment, through development, to transfer of ownership
- 4) Stimulate the development of the capital market to finance new business undertakings and small and medium-size companies with growth potential
- 5) Set up an institutional infrastructure to provide professional services to SMEs
- 6) Establish productivity benchmarks for the small and medium-size enterprise sector based on the corresponding industries in the EU
- 7) Encourage the "export mentality" among SMEs
- 8) Diminish regional development inequalities by employing clusters

The above EU and national documents, therefore, have been taken into consideration, alongside the needs analysis, in the elaboration of the priorities and measures of the RCOP.

### 1.2.2. Lessons learned from ongoing and previous EU assistance

Based on experiences with project implementation and utilisation of EU funds, the following is an outline of the main issues which remain relevant for the future implementation of the EU pre-accession assistance:

- ✓ Croatia's programme and project management capacity is evolving; practical experience gained so far needs to grow and become embedded in the future management of EU funds. So far, an insufficiently developed institutional capacity on the national and sub-national level has proven to be the greatest obstacle for project implementation. Therefore, improvement of technical assistance and capacity building at all administrative levels must be secured;
- ✓ It is essential to have skilled and motivated staff available for EU funds management and further efforts are needed to identify, train, develop and retain a body of such staff;
- ✓ Insufficient and inadequately mature project pipeline is an obstacle for timely and satisfactory utilisation of assistance. Therefore the preparation of sufficient, well designed and mature projects (in particular tender documentation) is paramount to ensuring the use of EU assistance in a timely and technically acceptable manner. This issue is directly linked to the need for strengthening the capacity on all levels but particularly the capacity of final beneficiaries to prepare a sufficient number of good projects in a timely manner;
- ✓ It is necessary to improve time management and quality assurance in all institutions involved, as well as the project implementation capacity (tendering and contracting);
- ✓ Coordination between stakeholders is essential to timely and good quality work (with regards to EU assistance as well as national sectoral programmes). Coordination requires extensive and clear information flows with a focus on a common understanding of tasks, timeframes and interdependencies;
- ✓ It is essential to ensure access and dissemination of information in a timely manner to all interested parties as well as to increase the emphasis on publicity measures.



Lessons learned from the implementation of EU funds so far suggest that a relatively modest administrative absorption capacity in Croatia's public administration bodies is reducing the effectiveness of EC assistance.<sup>78</sup> At the same time, improvement is noted and the situation is evolving. A more engaged approach is particularly visible in the process of OP programming, with the relevant administrative bodies actively engaged in the elaboration of the OP, both at an operative level and at the State Secretary level. Such improved "ownership" of projects and programmes is a pre-condition for effective mainstreaming of future EU funding into national development policies and schemes.

### 1.2.3. Concentration of assistance

Croatia is at a disadvantage on two levels in relation to regional competitiveness – firstly, as a still relatively less developed economy within the European context and secondly as a country wherein some regions lag behind national development levels. While it is proposed to concentrate IPA resources under this OP both geographically and sectorally, one cannot ignore either the need to develop Croatia's overall competitiveness in the wider European context or the need to promote socio-economic cohesion between the regions of Croatia.

#### *Thematic concentration*

Thematic or sectoral concentration is based on the analysis of needs provided in Section 2 and the priorities of the relevant EU and national strategic development documents. The main sectoral themes under the OP are:

- Research and innovation commercialisation services and technological infrastructure for SMEs with the potential for high value added production,
- Enhanced competitiveness through cluster development,
- Improved attractiveness of regions through development of business-related infrastructure and an improved business and investment climate at national and sub-national levels.

Detailed information on measures proposed under each theme is provided in Section 3.

#### *Geographic concentration*

Croatia measures internal disadvantage primarily through categorization as an Area of Special State Concern at the LAU 2 level (former NUTS V): however, the LAU 2 level is inappropriate for major actions of socio-economic development such as are considered under the RCOP.

The Government considered three options for geographic concentration:

- Option 1: Areas of Special State Concern Categories (ASSC) under category I [Areas occupied during the Homeland War], category II [Areas which suffered war damage] and category III [Areas meeting specific criteria of underdevelopment]
- Option 2: all disadvantaged areas, including ASSCs, hilly and mountainous areas and islands
- Option 3: only ASSC Categories I and II: that is, the war-affected areas.

Selecting Option 1 proved the most appropriate as this approach is both, consistent with the legal basis of the existing Act on the ASSCs (which is in turn in line with the draft National Strategy for Regional Development) and is referred to in the MIPD.<sup>79</sup> For each county (NUTS III level) MSTTD assessed the percentage of land area categorized as Area of Special State Concern (Categories I, II, III). It was determined that geographic concentration will be achieved through focusing on counties experiencing the most significant disadvantage. Hence, resources available under RCOP are concentrated on counties in which more than 50% of territory is categorised as Area of Special State Concern (see table and map below). All ten of these counties are within

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<sup>78</sup> MIPD for Croatia, Commission Decision C(2007)2566 adopted on 20 June 2007.

<sup>79</sup> Commission Decision C(2007)2566 adopted on 20 June 2007.

the two NUTS II regions whose GDP is below the national average (Panonian Croatia, Adriatic Croatia). They also feature the highest unemployment rate among Croatia's counties.

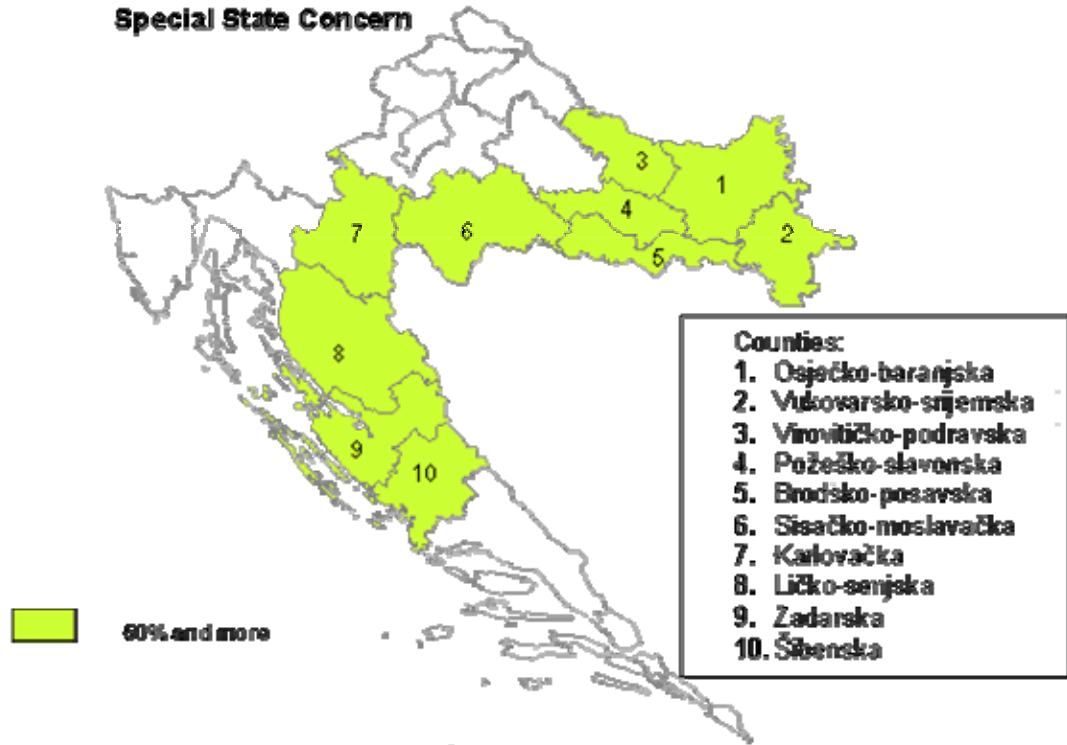
Table 5: County territory classified as Areas of Special State Concern (ASSC)

County	Share of land area of county covered by ASSCs	NUTS 2 Region
Lika-Senj	81%	Adriatic
Vukovar-Srijem	73%	Panonia
Zadar	72%	Adriatic
Šibenik-Knin	71%	Adriatic
Sisak-Moslavina	66%	Panonia
Požega-Slavonija	65%	Panonia
Karlovac	64%	Panonia
Virovitica-Podravina	52%	Panonia
Brod-Posavina	51%	Panonia
Osijek-Baranja	50%	Panonia
Bjelovar-Bilogora	43%	Panonia
Dubrovnik-Neretva	42%	Adriatic
Varaždin	13%	North-West
Zagrebačka	12%	North-West
Split-Dalmacija	24%	Adriatic
Istra	10%	Adriatic
Medimurje	5%	North-West
Krapina-Zagorje	4%	North-West
Koprivnica-Križevci	2%	North-West
Primorje-Gorski kotar	2%	Adriatic

It is envisaged to focus some 40% of the funding under the RCOP on these lagging behind regions. As described later on, Priority Axis 1 will concentrate exclusively on the 10 counties indicated above, while Priority Axis 2 will aim to target a significant portion of funding on these counties. At the level of the OP, 41,5% of funding is allocated specifically for beneficiaries from the lagging behind regions (14,7 MEUR of IPA funding, i.e. 19,6 MEUR of the total OP value). Since the population of these ten counties is approximately one third of the Croatian total, concentration of the OP's overall resources in per capita terms is clearly on the lagging behind regions.

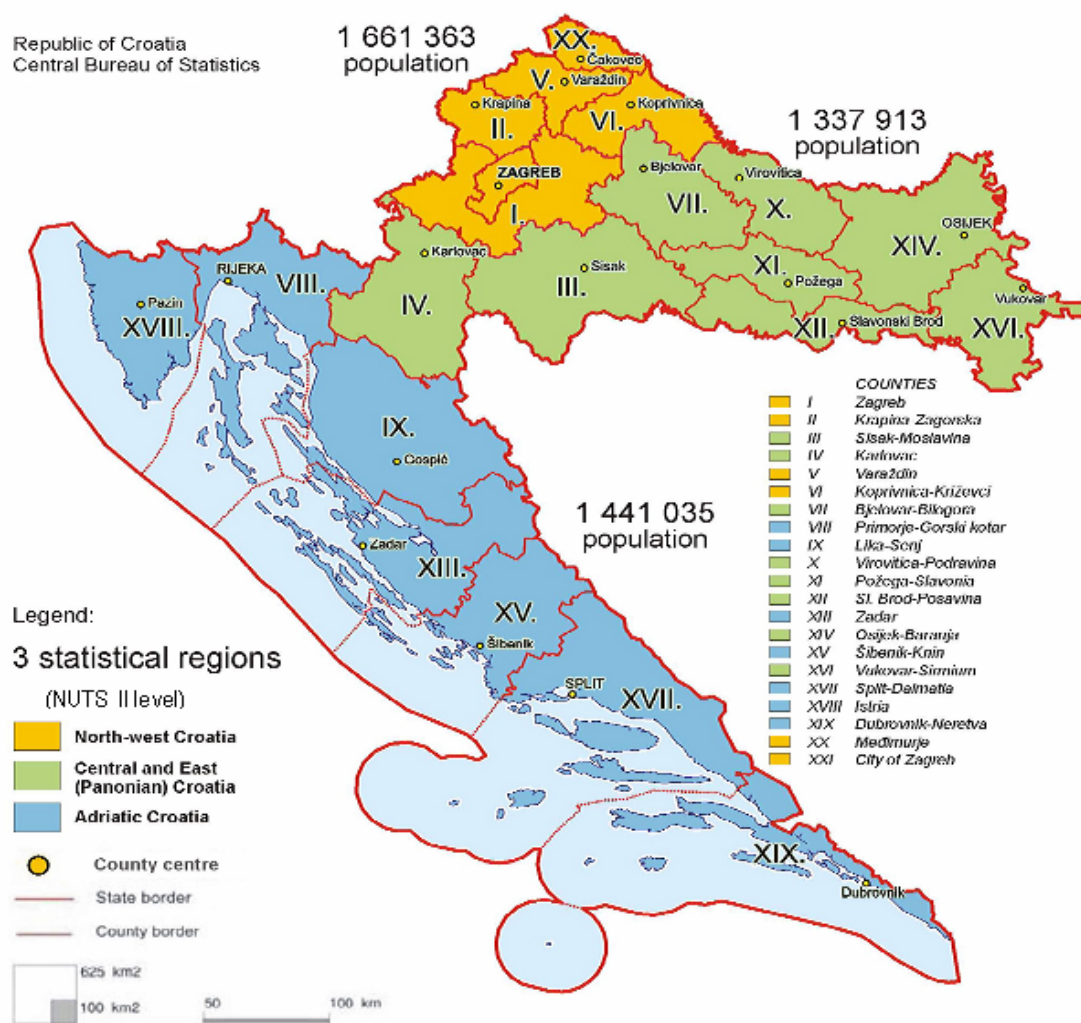
Map 2.

**Counties in which 50% and more of the surface area is classified as an Area of Special State Concern**



Croatia's division into NUTS II regions is shown on a map below. The most significant problems at the NUTS II level are faced by the Central and East (Panonian) Croatia region, which has experienced severe war damage and decline of state-owned enterprises in the ASSC. This region contains three of the four most war-damaged counties (Vukovarsko-srijemska, Sisačko-moslavačka, and Osječko-baranjska) and about 80% of its territory holds ASSC status.

Map 3: NUTS II regions in Croatia



- Central and East (Panonian) Croatia (Counties (8): Bjelovarsko-bilogorska, Virovitičko-podravska, Požeško-slavonska, Brodsko-posavska, Osječko-baranjska, Vukovarsko-srijemska, Karlovačka, Sisačko-moslavačka)
- Adriatic Croatia (Counties (7): Primorsko-goranska, Ličko-senjska, Zadarska, Šibensko-kninska, Splitsko-dalmatinska, Istarska, Dubrovačko-neretvanska)
- North-West Croatia (Counties (6): Grad Zagreb, Zagrebačka, Krapinsko-zagorska, Varaždinska, Koprivničko-križevačka, Međimurska)

### 1.3. PARTNERSHIP CONSULTATIONS

The intention of the Inter-Ministerial Working Group (IWG) in its approach to partnership consultations is to inform of the importance of IPA as a new pre-accession instrument preparing Croatia for the future Structural Funds, and to receive constructive input on the OP in line with the possibilities set out in the MIPD<sup>80</sup> and the IPA Implementing Regulation.<sup>81</sup>

The OP has been prepared by an Inter-Ministerial Working Group (IWG) comprising representatives of the relevant state institutions and chaired by the Strategic Co-ordinator for Components III and IV. The membership and the programme of IWG meetings during this reporting period is shown in Annex 7. In addition to meetings of the IWG, a number of bilateral meetings took place between the relevant individual institutions.

In order to include stakeholders from sub-national level, early on into the programming exercise MSTTD engaged in parallel consultation with county authorities. In summer 2006 the Ministry inquired of the county (regional self-government) authorities about their development needs and project pipeline identified in their individual Regional Operational Programmes (ROP). Counties were asked to reply to a questionnaire by listing project proposals in areas of assistance eligible under the OP. The purpose of the exercise was to better target investments under the OP in later discussions within the IWG. Of the 21 Counties, 18 responded with written feedback. In the remaining three – County of Zagreb, Primorsko-Goranska County and the City of Zagreb – it was not possible to answer to the questionnaire because there was at the time no ROP adopted or no project pipeline data base available. Altogether, 447 project proposals have been received under the heading „Regional Competitiveness“, of total value of 2,210 MEUR. Needs identified by counties were taken into consideration in the later programming process and are very well reflected in interventions envisaged under the OP (see Section 2).

At the level of other operations responsible institutions also contacted relevant partners in the programming period. With regards to the BioCenter Operation under Measure 2.2, Priority Axis 2, BICRO as the lead project partner informed some 50 institutions, research units and individuals taking part in biosciences research throughout Croatia of the prepared operation, inviting their participation and feedback. MSES also held a public presentation attended by representatives of the research sector. On that occasion the BioCenter project was discussed, too, in the wider context of biotechnology commercialization, policy aspects and the accompanying infrastructure. With regards to the operation concerning e-business reference centres (Measure 2.1, Priority Axis 2), MELE undertook an analysis of capacity and implementation potential among the existing entrepreneurial centres in order to better target this operation.

In drafting the OP, the IWG consulted a number of policy-making and policy implementation institutions and interest groups in order to assess the relevance of activities proposed. In order to respect the programming deadlines and in light of the limited resources under the OP, a “light” approach to partnership consultations was followed whereby national level representations of the relevant stakeholders were invited to the partnership meeting. Persons representing partner institutions in the OP consultation process were chosen by the partners upon invitation by the relevant line ministry to join the programming effort. In a formal communication which contained all the relevant information, partners were instructed to communicate information to their members (interest groups which they represent) and report any feedback on the OP method and content to the head of the Operating Structure within a specified time period.

The list of partners which were invited to the consultation on the OP includes a mix of general economic and social partners, of sub-national self-government units and of sector specific institutions. Partners were chosen having in mind the specific investment areas envisaged by the OP and the knowledge and experience they could contribute from their practice. The following partners were invited to participate in the consultations:

- Trade and Investment Promotion Agency (TIPA)
- Croatian Agency for Small Enterprises (HAMAG)

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<sup>80</sup> Multi-Annual Indicative Planning Document for Croatia, Commission Decision C(2007)2566 adopted on 20 June 2007.

<sup>81</sup> Commission Regulation (EC) No 718/2007 implementing Council Regulation No 1085/2006.

- Croatian Bank for Reconstruction and Development (HBOR)
- Croatian Chamber of Commerce (HGK)
- Croatian Chamber of Trade and Crafts (HOK) (represents also craft cooperatives in Croatia)
- Croatian Employers Association (HUP) (Croatian Exporters Association is a member as well)
- National Centre for Clusters (HUP)
- National Competitiveness Council (NVK)
- Alliance of the Croatian Towns Association and the Croatian Municipalities Association
- Croatian County Association (HZŽ)
- Union of Independent Trade Unions of Croatia (SSSH)
- Centre for SME policy (CEPOR)
- Regional Development Agencies (Development Agency North (DAN)<sup>82</sup>, PORIN – Development Agency of Primorsko-goranska county, IDA – Istrian Development Agency, Osijek-Baranja County Development Agency)
- Institute of Economics, Zagreb (EI)
- Faculty of Electrical Engineering and Computing, Zagreb
- Ruđer Bošković Institute
- Institute of Physics
- Technology centre Split

The institutions listed are some of the regular partners of the line ministries involved with the Regional Competitiveness OP. The **partnership** practice undertaken for the purposes of IPA **builds**, in other words, on **an existing national practice** in policy-making and policy implementation. This national partnership practice has been elaborated to some degree under the policy section of the OP. While the list of regular line ministries' partners is more extensive, for the purpose of OP programming it was decided to target bodies which are most directly involved in the types of activities envisaged under the OP for the 2007-2009 period. As necessary, a more extensive group of partners may be included in information and communication activities on the OP which will take place later on, as well as in the process of monitoring the implementation of the OP.

Partnership consultations on the OP took place on 5 March 2007 in the presence of all of the members of the IWG, including high-level representation. Of the partners invited, a significant number attended (see attendance list in Annex 8) and showed their appreciation of the thoroughness of the agenda and the appropriate timing for scheduling the consultation. The meeting was organized and chaired by MELE as the head of the Operating Structure. Following an introduction to the new pre-accession instrument IPA, its programming and institutional framework, the RCOP was presented and individual priorities and measures set out by the line ministries. In a questions and answers session that followed, partners received additional detail and clarification of issues of interest to them. As a follow-up to the meeting, partners were supplied with a summary of the RCOP (including SWOT, priorities and measures), an explanatory note on IPA and the RCOP, including the eligible areas of investment and the EC view<sup>83</sup> of priorities to be pursued in the OP, along with the minutes of the meeting.

The Head of the Operating Structure received written feedback from a number of partners<sup>84</sup>: Ministry of Agriculture, Forestry and Water Management (MAFWM), Trade and Investment Promotion Agency (TIPA), Croatian Chamber of Economy (HGK), Croatian Chamber of Trades and Crafts (HOK), Zagreb Institute of Economics (EI), Primorsko-goranska County. In their feedback, the partners stated their appreciation of the consultation process and generally expressed interest in participating in OP implementation in line with their in house expertise and applicable, project level prior experience. Their suggestions for improvement of the RCOP and more general remarks concerned the following issues:

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<sup>82</sup> Regional Agency Dan is established by the following stakeholders: city of Varaždin, city of Virovitica, City of Koprivnica, City of Bjelovar, Međimurska County.

<sup>83</sup> Multi-Annual Indicative Planning Document for Croatia, Commission Decision C(2007)2566 adopted on 20 June 2007.

<sup>84</sup> The problem in case of some partners seems to have been that the information on IPA and the RCOP was either not communicated to their membership or the membership and/or the partner reported no response back to the Operating Structure.

a) Suggestions for complementing and/or clarifying the SWOT analysis:

These were accepted and introduced into the SWOT analysis.

b) Suggestions for participation in the delivery /implementation of specific measures:

These have been considered and will be decided upon by the relevant members of the Operating Structure in the process of drafting project documentation for the grant schemes and/or contracts envisaged under the Operations in question.

c) Recommendations for clarifying measure-level detail:

These were accepted and introduced to the description of Measures in question. As necessary, further detail – on final beneficiaries etc. – will be specified in the relevant project documentation.

d) Suggestions for inclusion of additional investments under eligible activities:

Where deemed necessary and possible (in light of eligibility rules under IPA and the Regional Development Component), these suggestions were incorporated into the relevant Measures and Operations.

e) Reminder of the importance of ensuring that the Government continues essential reform processes – in the domain of regional development, fiscal decentralization, education, business climate, etc. – in order to ensure impact and sustainability of efforts financed through EU assistance:

The Operating Structure is aware of the need of pursuing in parallel domestic reforms in order to enhance the effect of all public investments, be they budgetary or foreign assistance. The EU assistance is indeed to a large extent encouraging the reform processes in question. The Operating Structure will pursue such policy improvement in sector areas encompassed by the RCOP, in line with identified investment needs and priorities.

The partners will also be consulted by the Operating Structure on the occasion of possible OP revisions, in line with the requirements set out by the IPA Implementing Regulation.<sup>85</sup> They will remain closely involved with OP implementation as well, as members of the Sectoral Monitoring Committee (see section 5.2.1 on monitoring arrangements). The Operating Structure will consider also how to engage partners in the process of informing the wider public and potential beneficiaries of the investment opportunities under the OP. Along with identified other relevant stakeholders, the partners can become engaged in carrying out a comprehensive information and publicity programme for different groups of beneficiaries under this OP.

Once officially adopted by both parties, the RCOP will be available on the Internet sites of all the relevant members of the Operating Structure. This will enable potential applicants and the wider public to consult the document and inform themselves of the investment and/or participation opportunities. On the Internet sites of these ministries the public will also be regularly informed of the progress of RCOP implementation. Detailed guidelines and advice to potential beneficiaries with regards to individual Operations under the RCOP will be undertaken by the relevant members of the Operating Structure in line with the good practice so far (e.g. informative workshops and “project clinics” providing technical assistance to potential project beneficiaries).

By informing the partners of the purpose, the aims and the possibilities of IPA and RCOP as an investment mechanism, the consultations with the partners were structured so as to be constructive and to avoid raising unrealistic expectations about the scale and scope of the OP. Judging from the partners’ feedback, the first RCOP consultations were successfully used as an opportunity to raise awareness of IPA, to ensure that there is a consensus around the aims and the content of the OP, and to take the first steps towards generating a constituency of future beneficiaries of IPA and the future Structural Funds.

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<sup>85</sup> Commission Regulation (EC) No 718/2007 implementing Council Regulation No 1085/2006.

## 1.4. EX ANTE EVALUATION

The ex ante evaluation was conducted to optimise the allocation of resources and to improve the quality of programming, by using external experts to review drafts of the OP and assess:

- its relevance - the relationship of the strategy to the needs identified;
- its effectiveness - whether the objectives of the programme are likely to be achieved;
- its utility - judging the likely impacts against wider social, environmental and economic needs;
- its internal and external coherence - including structure of the strategy and its financial allocations; and the linkage of the strategy to other regional, national and Community policies; and
- the quality of implementation systems, including monitoring indicators.

The ex ante evaluation was carried out by the European Policies Research Centre (EPRC, UK) which has for this purpose relied on a mix of international and local experts. The evaluators have employed the following sources as their methodological guidance:

- “The New Programming period 2007-2013: Indicative guidelines on evaluation methods: Ex ante evaluation, Working Document No.1”<sup>86</sup>
- “The New Programming period 2000-2006: Methodological working papers, Working Paper 2: The Ex-Ante Evaluation of the Structural Funds interventions”<sup>87</sup>
- “The New Programming period 2007-2013: Indicative guidelines on evaluation methods: Monitoring and evaluation indicators, Working Document No. 2”<sup>88</sup>
- “The New Programming period 2000-2006: Methodological working papers, Working Paper 3: Indicators for Monitoring and Evaluation: An indicative methodology”<sup>89</sup>

The ex ante evaluation report is presented in Annex 11 while an excerpt containing the summary of the findings is offered below.

“The RCOP is well structured and follows the Commission template for IPA OPs. It covers all the relevant issues and is written in clear, comprehensible English. The second draft of the OP represents a considerable improvement on the previous version of November 2006. It includes a comprehensive and relevant analysis which provides a sound justification for the strategy. The priorities and measures chosen appear logical and coherent with domestic and EU policy objectives, although a clearer description of a programme-wide strategy, as well as a programme-wide hierarchy of objectives, indicators and targets (also on expected programme level results and, where possible, impacts) would be needed. The information provided on the implementation and monitoring arrangements is comprehensive but needs some additional detail.

As the document is being finalised a number of editorial improvements could be made to it. The analysis is succinct, focuses on relevant issues and justifies both the proposed strategic approach, and the priorities and measures. However, there are elements which are missing from the analysis and should be included. For instance, the analysis should comprehensively address the differences in the development needs of local and regional authorities in the lagging behind regions. The SWOT section would be improved by: first, supplementing the table with explanatory text; and second, by organising the SWOT in a way so as to reflect the dual objective of the OP. In terms of the Programme’s strategy, priorities and measures, further improvements could be made with respect to the following: (i) the “programme strategy” section; (ii) the concentration of assistance; and (iii) the description of measures. Overall, the Programme’s indicators and targets require further work. Regarding partnership and consultation, it is important to highlight how feedback has informed the content of the OP. The management and implementation section of the OP still needs to be

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<sup>86</sup> [http://ec.europa.eu/regional\\_policy/sources/docoffic/2007/working/wd1\\_exante\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/2007/working/wd1_exante_en.pdf)

<sup>87</sup> [http://ec.europa.eu/regional\\_policy/sources/docoffic/working/doc/exante\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/working/doc/exante_en.pdf)

<sup>88</sup> [http://ec.europa.eu/regional\\_policy/sources/docoffic/2007/working/wd2\\_indic\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/2007/working/wd2_indic_en.pdf)

<sup>89</sup> [http://ec.europa.eu/regional\\_policy/sources/docoffic/working/doc/indic\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/working/doc/indic_en.pdf)



finalised. Finally, within the OP, environmental integration is not strong. The major issue lies in the RCOP perception of environment, which places it outside the central concerns of regional competitiveness.”

Based on the evaluators' findings and recommendations, the Operating Structure undertook a revision of the RCOP and introduced a number of improvements to both its content and format. Those changes of a more substantial importance are summarized below.

- Strengthening the Programme strategy section:

Under Chapter 3. Programme Strategy, an introductory section was included, explaining the approach to the investment strategy adopted by the Croatian authorities under this OP. The aim of additional clarification was to better emphasise the mutual coherence of development interventions envisaged by the Operating Structure as well as to point out their contribution to and synergy with prior and ongoing policy efforts. The identified priority areas of intervention reflect also the investment priorities in Chapter 2. Assessment of medium-term needs, objectives and strategic priorities. The choice of targeting assistance to the ten lagging behind regions has been further argued by drawing the link between those counties and Croatia's NUTS II regions.

- Emphasizing elements of the partner consultation process:

Section 1.3. on partnership consultations has been revised in order to emphasize all components of the process, including those prior to the formal consultation meeting as well as follow-up engagement envisaged with the partners. An overview of partner input and consequent changes to the OP has also been presented.

- Clarifying the SWOT analysis:

The SWOT analysis has been revised in order to specifically address strengths, weaknesses, opportunities and threats facing the lagging behind regions, as recommended in the ex ante evaluation report. Development problems specific to self-government units in the Areas of Special State Concern (ASSC) have also been set out, in section 2.1. on socio-economic analysis.

- Providing more substantial information on indicators:

More detailed information on indicators has been prepared, in consultation with the EC services, and inserted into the OP in a table format (see Section 3.1.4. Indicators for Priority Axes and Measures).

- Introducing a more user friendly format:

Information on financing tables has been presented in a table format provided by the EC services, with an overview for the entire 2007-2009 period as well. An overview of OP Priority Axes and the accompanying Measures and Operations was presented in one place and the format of Measure description revised. In order to more clearly present the RCOP implementation arrangements, a table and an organigramme were inserted into Chapter 5 Implementation provisions (see also Annex 10).

- Explaining the management and implementation section of the OP:

Chapter 5. on implementation provisions has been thoroughly revised in line with consequent input from the EC services.

A comment by the ex ante evaluation team on the need to ensure that horizontal concerns are addressed more adequately has not been addressed. The Operating Structure considers that arrangements envisaged in that regard deal adequately with the issue of environmental concern (selection criteria for grants and project documentation for infrastructural works specifically address and ensure projects' environmental sustainability). A more comprehensive pursuit of environmental sustainability at the level of sectoral policies is for a more long-term consideration by the Operating Structure and other relevant state administration bodies.

## 2. ASSESSMENT OF MEDIUM TERM NEEDS, OBJECTIVES AND STRATEGIC PRIORITIES

The European Commission's Third Cohesion Report (2004) identifies a number of factors associated with the ability to reverse regional development deficit. These factors concern the effectiveness of policies and actions undertaken to address bottlenecks and obstacles to growth and development. Regions and member states which have made the most progress in achieving sustainable competitiveness have been able to consistently formulate and implement effective policies, strategies and actions to:

- address the structural faults in the regional economy
- improve the quality and flexibility of the labour force
- tackle the infrastructural obstacles to accessibility and sustainable development
- promote innovation (new products, processes) and better links between science, technology and enterprises
- support and stimulate the small and medium sized enterprise sector
- build a modern, competent and responsive administration – and systems of institutions working together for development.

Given the requirements for thematic and territorial focus, eligibility and scope of supported activities within the IPA Implementing Regulation<sup>90</sup> and the MIPD<sup>91</sup>, as well as the priorities set in the SDF and the SCF<sup>92</sup>, this section presents mid-term needs in sectors key to economic competitiveness. As such the analysis is focused on SME competitiveness, business support infrastructure and market orientation of key economic actors. Analysis of medium-term needs is followed by a SWOT analysis and the resulting strategic priorities at the level of the OP.

### 2.1. SOCIO-ECONOMIC ANALYSIS

The underlying theme of this Operational Programme is the competitiveness of SMEs. Enhancing their position on the domestic and the international market respectively enhances Croatia's internal cohesion and its external competitiveness. Significant achievements in terms of enhanced SME competitiveness have resulted from Government efforts so far, making Croatia a leader in the Southeast Europe region in terms of accomplished reforms and tools placed at the service of SMEs. As stated in earlier sections of the OP, these tools and policy reforms mirror the EU good practice and evolve accordingly. They also suggest areas for further improvement – either through an altered national approach or through greater commitment of national, EU and other funds.

In order to continue taking steps forward, policy solutions need to encompass all relevant economic actors with a stake in national and regional competitiveness. SMEs are direct or indirect beneficiaries of such efforts, which are however undertaken and delivered by intermediary institutions – national, regional and local development agencies, development banks, development funds, technology and business centres, business zones, chambers of commerce and crafts, self-government units, universities etc. It is the capacity of these go-betweens that needs to be strengthened in order to both, deliver policies more effectively and to shape them to more exactly reflect SME needs. Intermediary bodies have another, perhaps more strategic role to play in the context of economic development as well – that of devising development initiatives specific to a sector or region and putting them in place by drawing on the available endogenous capacity and (also external) financial and technical support. This strategic coordination role falls on regional self-government units and business support institutions at the national, regional and local level, but also on sectoral bodies, which act as national and/or regional resources and “centres of excellence”.

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<sup>90</sup> Commission Regulation (EC) No 718/2007 implementing Council Regulation No 1085/2006.

<sup>91</sup> Commission Decision C(2007)2566 adopted on 20 June 2007.

<sup>92</sup> Submitted to the Commission on 13 June 2007 and agreed in the letter REGIO/EMPL no. 6010 of 18 June 2007.

The capacity of some of these go-between institutions will be enhanced through much of the assistance available under this and/or the following RCOP, in order to build up a modern business support institutional infrastructure in Croatia. This way IPA continues capacity building efforts financed so far by the EU in the area of regional development and of SME support. Under capacity building it is meant for these bodies to enhance and expand services offered to businesses. Enhanced capacity may require infrastructure investment, expert assistance, training of staff and more systematic cooperation with relevant stakeholders. Beneficiaries of such assistance envisaged under this OP are the following: Croatian Agency for Small Enterprises (HAMAG), Trade and Investment Promotion Agency, regional self-government units and their partners, regional tourism boards, SME support centers, economic zones, business zones, innovation and technology transfer centers, incubators, universities and others.

Strengthening the institutional and administrative capacity which underpins a development agenda is most obviously a challenge in the less developed areas. An essential difference in the development needs of the more developed parts of the country and of the lagging behind regions identified in the OP is precisely the weakness and the lack of resources of self-government units and of other local development institutions in those lagging regions. In fact, the gap appears to be widening as documented by a study<sup>93</sup> on the Areas of Special State Concern which identifies the following issues critical to (lack of) development:

- much central government support provided is “top down” and often Counties and municipalities with the strongest existing institutional capacities benefit the most;
- most transfers from the national level involve *little support for the crucial “soft” institutions*, such as development agencies and strategic planning institutions which rich counties can afford to finance but the poorer cannot;
- County institutions are weak overall, but significantly weaker in the ASSCs; local government capacity is clearly the lowest in the poorest municipalities;
- many local government units in the ASSCs are *far too small* to functionally and efficiently carry out even the basic tasks assigned to them, let alone a more strategic development agenda on top of that;
- smaller municipalities are *unable to afford to support the full range of local services*, including local economic development institutions; poorest municipalities are likely to have the least number of municipality services, including economic and community development;
- many under-developed municipalities are *ignored or ill-served by the richer County Administrations*, which tend to focus on the already successful municipalities and cities;
- previous “one-company” towns are now performing the worst because of their historical *unwillingness to invest in institutions* to promote diversified growth.
- fiscal capacity (inclusive of central government transfers) is highly correlated with the existing level of development and wealth of a County; fiscal capacity is further weakened by the trend of de-population which is a major factor in some ASSCs.

Issues identified as causes of (continued) institutional weakness cannot all be solved or even addressed in an effective manner through IPA funding. Problems identified require a more significant policy initiative. In terms of IPA, a valuable contribution can be made by complementing existing government efforts or exploring new options based on EU good practice. Of the IPA Operational Programmes, the Human Resources Development OP and this OP are the two which can address the institutional weakness issue most directly. In the future, this issue will be addressed in an even more direct and financially more significant manner through part of allocation under the European Social Fund (ESF) intended for general administrative capacity building. In addition, there is need to coordinate capacity building efforts with activities financed by other donor institutions, especially as the latter continue to focus on the less developed, war-affected areas in Croatia. Thus for example a number of projects, both EU- and other donor-funded, currently extend assistance to regional or local development agencies, which have been identified as important (f)actors of economic change.

Under this and the future RCOPs, such assistance is focused on institutions and services underpinning the competitiveness of SMEs and the competitiveness of all areas of Croatia in terms of their ability to attract

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<sup>93</sup> Institutional, Territorial and Socio-Economic Assessment of the Areas of Special State Concern, World Bank 2004.

investment and use local potential for spurring economic growth. A number of policy aspects are key in providing economic actors with the capacity and the skills necessary in order to spur regional competitiveness. SME competitiveness depends largely on the availability and accessibility of business support services, financial resources, quality business support systems and accompanying infrastructure, market-orientation and pro-activeness of key economic development actors as well as on an overall regulatory framework conducive to business development. This section describes the needs of SMEs in Croatia in the mentioned areas; these needs are, as will be shown, highly correlated with the development needs identified by the counties in the early stages of OP programming (see section 1.3. Partnership consultation).

### *Business advisory services*

Quality business advisory services are a key factor influencing SME competitiveness: they can enhance the skills of enterprise managers, level of strategic thinking, openness for innovation and ability to recognise and seize development possibilities. At a more practical level, business advisory services on issues of normization (e.g. ISO) are a precondition for export. MELE currently carries out a programme of soft measures essential to SME competitiveness on the Single European Market.<sup>94</sup> Experience with the project has been very good, suggesting the need for provision of similar training, education and consultancy activities in the future. Shift towards more soft skills in the package of measures supporting SMEs is, moreover, in line with the good practice in EU where experience from the Member States shows soft skills investments are more effective and preferable to capital investment when it comes to support of SME competitiveness. The Community Strategic Guidelines 2007-2013 emphasize the benefit of business support services in enabling enterprises to increase competitiveness.

Croatian SMEs currently face difficulties in obtaining and utilizing high quality business information. Business management skills remain unsatisfactory: good technical or scientific knowledge is often not coupled with management skills and the effective marketing approach. As a result, even though Croatian SMEs have achieved a measure of internal stability, they do not yet possess the expertise and experience necessary for dynamic growth and survival within the Single European Market.

In order to identify SME needs concerning business advisory services, several studies were conducted in the recent period.<sup>95</sup> The conclusions of some of those suggest there is a certain level of dissatisfaction with the quality of available advisory services as well as with the expertise and competence of consultants. The perceived solution was further education, certification and regulation of the consultants' work, as well as the raising of awareness about the need for professional consultancy services. The needs for advisory services was particularly emphasized in marketing, finance, management, elaboration of business plans, start-ups as well as knowledge of the various incentive programmes.<sup>96</sup> Another study conducted by the OECD highlighted that the longer term financial sustainability of business advisory services, especially in remote locations and economically disadvantaged regions, is not secure.<sup>97</sup>

On the basis of identified needs, the Croatian Agency for Small Enterprises (HAMAG) initiated the Programme for Education and Development of Small Businesses Consultants' Network in 2005 and within its framework certified 58 consultants so far. There remains, however, much scope for increasing both the number and the scope of advisory services available to SMEs. From 2005 in the framework of the project "Enterprise Croatia" USAID has been co-financing consultancy services to SMEs. Eight projects targeting selected industry

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<sup>94</sup> Three projects make up the "Competitiveness of SMEs" section of the SME support programme for 2004-2008. They concern marketing, harmonization, innovation and competitive production (MELE) .

<sup>95</sup> "Croatia Enterprise Promotion" USAID 2004, „SME Promotion in Croatia“ GTZ 2004, "The Export Potential of Croatian SMEs" (Institute Ivo Pilar, 2005), "The Competitiveness of Croatian Exports to the EU" (IMO, 2005) and "Impact Evaluation of Promotional Programmes for SMEs and Exporters in Croatia" (Consensus, 2005).

<sup>96</sup> HAMAG, based on insights from a project of certification of business consultants, launched in 2005.

<sup>97</sup> OECD-EBRD-DG ENTERPRISE 2005.

sector companies have been implemented until now and several more are envisaged. The feedback from the final beneficiaries has been very positive.

One of the areas in which quality business advisory services are currently lacking or are not accessible to SMEs is e-business. The application of ICT and the efficient use of business content (economic management, market and marketing knowledge, information and data) will strongly influence the competitiveness of all industries. An important reason for developing the e-economy is to improve efficiency both in processes within companies and in business connections between companies (B2B). In a few years the use of electronic business connections and processes will no longer be an opportunity but rather a minimum expectation. First signs of this are evident today: major corporations who have introduced electronic systems now wish to expand integrated operations vertically in the sales and delivery chain in order to improve efficiency, and they expect their partners to adopt these systems. These projects, which must be self-financed, demand substantial organisation improvements and place significant financial burdens on smaller enterprises.

A GfK study revealed that Croatian enterprises are already losing e-business market share to foreign enterprises.<sup>98</sup> Many of the less expensive applications (accounting programmes, Internet, office software) are already in use, suggesting that enterprises (including SMEs) are open to the introduction of modern computerised business solutions. However, many smaller enterprises are unable to undertake larger-scale improvements due to limited capital, often inadequate IT facilities and low ability to take risks and as a result corporate databases are scattered, the information and knowledge base is segmented, and integrated inter-company electronic business systems are used almost exclusively by multinational companies in Croatia. A survey on e-business conducted for the Central State Administrative Office for e-Croatia confirmed that although the basic info-communications infrastructure and hardware is already available in Croatia, and the majority of enterprises have Internet access, exploitation of the full potential of ICT technologies is still at a low level. The low degree of exploitation is due to the fact that the majority of enterprises use the computer primarily for running office applications and accounting programs. Internet is used mainly for correspondence and for obtaining information. Very little use is made of electronic business applications.<sup>99</sup>

Lack of skills and information are the major reason for not implementing e-business solutions. In order to increase e-business adoption rate there is a clear need for business support services focusing on e-business, but also for faster development of e-business consultancy market, which is only starting to develop in Croatia. Among the consultants certified by HAMAG, only five list e-business services in their portfolios.

The government attempted to improve the situation by opening e-Corner, which is HITRO.HR service which provides free education on the possibilities and advantages of the electronic business. The service gives entrepreneurs general information on IT services which are currently available to all the businesses in Croatia. Although a starting point, without a more concrete advice how a business could use e-business applications in day to day work this service has a limited effect.

The mid-term needs in this area, therefore, relate to upgrading both the quality and the quantity i.e. the accessibility of business advisory services. The offered business advisory services need to be well targeted and comprehensive and able to adequately respond to basic as well as to the more advanced SME needs.

### *Cooperation and networking*

In general, higher level of cooperation and networking, especially in the forms of clusters, can bring a wide range of benefits to both business and the wider economy, such as increased level of expertise, complementary skills, use of economy of scale, improved information flow and enable development of specialised business support infrastructure.

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<sup>98</sup> GfK Center for Market Research: Analyses of barriers of development of e-business in Croatia, May 2006.

<sup>99</sup> GfK Center for Market Research: On-line public services – barriers to use and implementation priorities, September 2006.

Existing clusters in Croatia are generally small, with a relatively low level of cooperation among the companies, which limits their scope for growth and competitiveness. The culture of voluntary cooperation amongst SMEs and the public sector should be further reinforced.

This is confirmed by the feedback which the MSTTD had received from counties in response to the questionnaire on development needs (sent out as part of the OP programming process). One of the themes of investment in the questionnaire was “enhancement of cooperation and networking of businesses and the creation and development of clusters”. The theme was identified as relatively important (37 projects out of 447 in total) but with a very small total investment value. This reflects the problem of clustering in Croatia: clusters are on the one hand perceived as a positive development tool but there is no thorough understanding of implementation yet.

This is so despite sustained policy efforts. The Government started supporting cooperation among SMEs and the public sector in the form of clusters back in 2003, using a bottom-up approach. MELE measures included workshops with the aim of better understanding clusters, as well as subsidies and grants for new and existing clusters, covering operational and non-operational costs: consulting services, testing and certification of products, design development, purchase and adjustment of software by applying IT, and marketing activities such as promotion, promotional material and market research. From 2005 MELE support included financing and training of cluster managers, too. So far, clustering was supported in the following industries: wood processing, leather and shoes, printing, construction, ICT, tourism and catering, shipbuilding, production of medical equipment, production of communal equipment, food processing and metal processing.

Despite available incentives, bottom-up attempts at clustering in Croatia generally fall short of sustained success. The lack of business skills, product management and value chain management skills were primary reasons for lack of success of bottom-up clustering initiatives. The Government therefore wishes to explore a top-down approach in improving networking and cooperation among SMEs as well as among SMEs and other economic actors in high value added sectors. The new approach targets high growth sectors with export potential, in line with the Government’s recent export initiative – “Croatia’s Export Offensive” (HIO). Six export-oriented clusters are envisaged using a top-down approach, in the following sectors in which Croatia holds a comparative advantage: water, construction and maintenance (servicing) of small boats including sports and leisure boats, textile, ICT, wood processing (furniture), mariculture.

In order to ensure success of this new approach, a top-down cluster methodology must be developed specific to the resources of the national economy. Technical assistance through this OP offers the possibility of drafting such a methodology using European best practice and quality resources, and testing it on a limited number of pilot cluster projects prior to its adaptation and more wide-spread application (for the envisaged export clusters mentioned above). As a first step in the direction of this new approach to clusters, MELE organized a well-attended international conference in April 2007 at which sector-specific as well as horizontal issues were discussed and case studies from across Europe presented. The purpose of the gathering was to examine prospects of clustering with stakeholders and partners, raise awareness and encourage networking in Croatia as well as in the wider region.

### *Regulatory framework*

Regulatory framework is one of the more often cited sources of obstacles to SME creation and growth. In the last couple of years, however, the regulatory framework for enterprise development in Croatia has been improving. In a “Doing Business 2005” report, revised in 2006, the World Bank ranks Croatia at 7<sup>th</sup> place among 174 countries for the regulatory reform advancement in areas crucial to business. The mid-term needs in this area include acceleration of reforms that affect the business and investment climate. Significant efforts with that regard are however already being undertaken – either through domestic initiatives or through other EU assistance so far.

More sustained activity can indeed be reported with regards to Regulatory Impact Assessment (RIA). Croatia is the only country in Southeast Europe to have started the practice of regulatory impact assessments of

relevance for businesses. It has engaged in a pilot project of performing RIA on the amendments to the Small Business Encouragement Act. Moreover, in order to remove unnecessary and obsolete laws and regulations which hinder entrepreneurship, in 2006 the Government launched a "Regulatory Guillotine" (HITRORez). In consultation with legal and economic experts, the business community and other partners, laws and regulations related to entrepreneurship were analysed in order to identify and remove or modify those which hinder entrepreneurship.

In June 2007 the Government adopted HITRORez recommendations to remove or modify 55% of laws and/or regulations which hinder entrepreneurship, the most of them in the area of transport, agriculture, commerce and finance. The HITRORez Unit remains charged with monitoring the implementation of the project's recommendations and will next assess laws in the area of civil affairs and local government. The "regulatory guillotine" mechanism should simplify procedures, reduce bureaucracy and create a new centralized legal register, as well as help reduce corruption, improve business climate and increase FDI.

The advancement of regulatory reform is quite extensively covered through EU assistance as well. Regulatory reform and improvement of the regulatory regime for SMEs features in a PHARE 2005 project on institutional strengthening and alignment with the SME Charter, currently under implementation by MELE. A project aiming to develop a RIA control system on the government level will be financed under Component I of IPA for 2007. The project will be implemented by the HITRORez task force unit of the Government.

### *Access to finance*

The financial market in Croatia is relatively developed compared to those in the surrounding countries and the new EU Member States. Commercial banks have begun to realise the importance of the SME sector and continue to develop for it a wide range of services. However, their financial products are still not considering all the needs of SMEs, in particular in the area of micro-crediting.

Concepts such as business angels, private equity funds and seed and venture capital funds are relatively new in Croatia. In fact, business angels they still do not exist in Croatia. In general, SMEs rely more on traditional financial sources of funding (loans) and less on non-traditional ones, such as risk capital funds, business angels, and similar. Currently there are five risk capital funds in Croatia. While they exist their influence is still not very strong.

Since the end of 2005 a legal framework is in place for the establishment of private and state venture capital funds.<sup>100</sup> Based on it, that same year MSES and its agency BICRO started the Venture Capital Programme (VENCRO) in order to encourage potential fund managers to start venture capital funds. Under the VENCRO programme the Government will match up to 30% of other investors' capital - up to 4,6 million €, to start a commercially-based venture capital fund in Croatia with a target size of around 20 million €. The fund will be ready to invest in the first companies in the beginning of 2008. Importantly, it will be managed by a private sector company and will be independent in its decision-making from BICRO and the Government. MSES has also established a seed capital programme RAZUM of some 86 million € of combined public and private financing in the period 2007-2009.

Despite the fact that the support of SMEs has remained an important priority of the Government's medium-term economic policy strategy, access to longer-term financing is still problematic, particularly for small businesses. It is therefore necessary to improve longer-term financing and further develop non-traditional instruments such as guarantee schemes, including micro-crediting schemes. However, the private commercially based financial institutions should become the main providers of finance to the enterprise sector. The Government should facilitate and enable this process, and should in its turn focus on providing advice, training, consultancy, networking support as an alternative to direct financing.

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<sup>100</sup> Act on Investment Funds, OG 150/05.

Scope for intervention in this sense is quite limited under IPA. Given the limited funding under this OP and the vast needs in other sectors covered by the OP, it is more appropriate and effective to address the issue of low access to finance through other means. One such is the Community Programme CIP which envisages assistance for intermediary bodies in the finance sector, including through support of seed and venture capital fund initiatives.

### Business support infrastructure for value added economic activity

Aligned with the objective in the Community Strategic Guidelines (2007-2013), which is to facilitate innovation and promote entrepreneurship, one of the main objectives of the Government's policy in the SME sector is to ensure available and accessible business support infrastructure. The following section describes mid-term needs in this field, including relevant R&D infrastructure.

#### *Business related infrastructure*

The existence of quality business support infrastructure is a prerequisite for sustainable, value added economic activity. Its absence works as a barrier to economic growth. Public investment to rectify such deficits could, therefore, have a positive effect on encouraging and enhancing the impact of private investment.

Currently, Croatia's entrepreneurial infrastructure comprises of 27 entrepreneurial centres (also referred to in the OP as the SME support centres), 18 business incubators, 15 economic free zones and 235 entrepreneurial zones. The quality of infrastructure and services provided by these entities is not uniform, in part due to the fact that they are not all in the same development phase.

It should thus be noted that of the 235 entrepreneurial zones, 140 are partially or fully developed while the other 95 are for the time being sites designated for enterprise zones (based on a demand analysis carried out by MELE). The 140 business zones provide services to some 1,260 enterprises across all sectors, which between them employ 18,320 people.<sup>101</sup> The current Government policy is to focus development resources on business zones which have proven effective so far and have genuine growth potential.

Similarly, of the 18 incubators in Croatia, 14 are operational and they are in an early stage of development. There is also among them considerable variation in the intensity of activities. Some are very successful while others are far from exploiting the full potential of their premises and sometimes operate with a rather low profile. The ones best known, with a good business record, are business incubators in Labin, Porin (Rijeka), the Technological Centre in Split and most recently BIOS in Osijek.<sup>102</sup> In general, therefore, incubators require significant *assistance in order to assume the actual role of incubation*. Assistance is needed in terms of upgrading infrastructure and equipment as well as improving the soft skills and availability of financial resources.

Investments into business-related infrastructure are vital to the catching up of the lagging behind regions, in which the provision of business-related infrastructure is most significantly a problem. This is reflected in the number of SMEs in these lagging regions compared to the national total (see table 13). The lagging behind regions account for **only 17.7% of SMEs** – although they account for 10 out of Croatia's 21 counties. This drops to only 16.9% in the micro-enterprise category, indicating there is a severe need for business incubation. This is the more so given that SMEs in Areas of Special State Concern generally feature very low value added able to boost the regional economy. Emerging small industrial enterprises lack access to appropriate premises and associated support systems. There is an urgent need to upgrade and improve existing infrastructure (business zones, incubators, etc.) to provide scope for industrial enterprise growth. The business support

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<sup>101</sup> The structure of these zones' occupants is as follows: 32% are involved in production activities, 37% in services and 31% in commerce-related business. The average number of employees per Zone is 141 and average area is 20 hectares.

<sup>102</sup> OECD Study: Enterprise Policy Performance Assessment, 2005, p. 82.



system needs to provide SMEs with both, soft skills as well as premises and equipment necessary for sustainable growth.

Table 6: Comparing SME and entrepreneurship data across counties

No	COUNTY	Population	Share of population	No. of SMEs	Share of SMEs	No. of employed	Share of employed
1	Zagrebačka	309,696	7.0%	4,261.00	5.9%	39,341.00	4.8%
2	Krapinsko-zagorska	142,432	3.2%	1,098.00	1.5%	15,553.00	1.9%
3	Sisačko-moslavačka	185,387	4.2%	1,194.00	1.7%	19,068.00	2.3%
4	Karlovačka	141,787	3.2%	1,414.00	2.0%	14,576.00	1.8%
5	Varaždinska	184,769	4.2%	2,094.00	2.9%	34,166.00	4.2%
6	Koprivničko-križevačka	124,467	2.8%	1,115.00	1.6%	18,419.00	2.3%
7	Bjelovarsko-bilogorska	133,084	3.0%	1,111.00	1.5%	15,513.00	1.9%
8	Primorsko-goranska	305,505	6.9%	6,771.00	9.4%	59,173.00	7.3%
9	Ličko-senjska	53,677	1.2%	431.00	0.6%	4,050.00	0.5%
10	Virovitičko-podravska	93,389	2.1%	610.00	0.8%	9,031.00	1.1%
11	Požeško-slavonska	85,831	1.9%	467.00	0.7%	8,128.00	1.0%
12	Brodsko-posavska	176,765	4.0%	1,132.00	1.6%	14,110.00	1.7%
13	Zadarska	162,045	3.7%	1,828.00	2.5%	16,033.00	2.0%
14	Osječko-baranjska	330,506	7.4%	3,225.00	4.5%	43,099.00	5.3%
15	Šibensko-kninska	112,891	2.5%	1,296.00	1.8%	11,126.00	1.4%
16	Vukovarsko-srijemska	204,768	4.6%	1,116.00	1.6%	16,513.00	2.0%
17	Splitsko-dalmatinska	463,676	10.4%	7,609.00	10.6%	68,915.00	8.5%
18	Istarska	206,344	4.7%	6,229.00	8.7%	43,297.00	5.3%
19	Dubrovačko-neretvanska	122,870	2.8%	2,522.00	3.5%	18,857.00	2.3%
20	Međimurska	118,426	2.7%	1,813.00	2.5%	21,888.00	2.7%
21	City of Zagreb	779,145	17.6%	24,467.00	34.1%	322,906.00	39.7%
	Disadvantaged regions		34.9%		17.7%		19.1%

Source: CBS, MELE, SME Directorate

In all of the disadvantaged counties there are limitations to the growth of “real” enterprise due to problems of business related infrastructure. Those counties have experienced severe war-related damage to their infrastructure (79% of total war damage) and the demise of centrally planned large state-owned enterprises.

The disadvantaged counties are home to 6 of the country’s 18 business incubators: one in Požeško-slavonska, one in Šibensko-Kninska, 2 in Osječko-Baranjska and 2 in Brodsko-Posavska county. The Counties Zadarska, Sisačko-Moslavačka, Vukovarsko-Srijemska, Karlovačka, Virovitičko-Podravska and Ličko-senjska – also harboring disadvantaged areas – have neither business incubators nor technology parks.

Along with business-related infrastructure, the lagging behind regions have also suffered extensive damage to their cultural heritage – far in excess of other areas in Croatia as over 84% of damage to such sites occurred in those regions. This has had a severe negative impact on tourism development to the regions outside the Adriatic coast and islands. Tourism SMEs in those areas face entirely different challenges and opportunities to those located on Croatia’s Adriatic coast and islands. Health tourism in particular represents a comparative advantage of these areas, with a spa tradition built on natural resources of places such as Topusko, Daruvar, Lipik, Bizovac and others. In order to revitalise the once healthy, but now war-affected tourism services of these parts of continental Croatia, there is a strong need for upgrading and developing communal tourism infrastructure appropriate to the health, culture and activity tourism which those areas specialise in.

The critical situation with regards to business- and tourism-related infrastructure is an objective impediment to growth recognized by the counties as a priority investment theme. An analysis of the feedback received on the questionnaire which the MSTTD had sent out to the counties in the early stages of OP programming shows

that by far the greatest focus (in terms of value of project proposals) has been placed on *Development and improvement of Business-related infrastructure and Business Support Institutions* and *Enlargement of tourism offer*. This and the general policy insight so far has helped shape the decision of the MSTTD on the type of intervention necessary and likely to enhance regional competitiveness of lagging behind regions in this OP.

The mid-term need, therefore, is to enhance accessibility to business related infrastructure (BRI) that will improve the conditions for doing the business, attract new investments and consequently create jobs, especially in the lagging areas, which have had the most difficult challenges in economic development. The improved and newly developed BRI needs to be strategically located to achieve the optimum results with limited national and EU resources. The type of BRI should be carefully selected and based on the identified development potentials of the regions and consulted and agreed priorities on the regional and national level. It is necessary to provide training to build the management skills of the staff running the facilities. To ensure that incubators are more than physical infrastructure for enterprises they need to be able to provide business and other special advisory services, including access to finance. Lastly, additional resources need to be place to promote business incubators effectively.

The advantage of focusing on business-related infrastructure in the lagging behind regions is the existence of a project pipeline. Eight of ten lagging counties have received assistance through CARDS 2002, 2003 and 2004 projects "Sustainable development of war affected areas".<sup>103</sup> They have established county level Project Management Units and have developed a pipeline of fully developed projects that serve the needs of the region. In four of those counties a technical assistance programme financed by CARDS is still operational and is assisting in the ongoing development of projects which could be financed under the RCOP. The remaining two<sup>104</sup> counties have received technical assistance for project preparation through the Cards 2004 Project "Support to the management of Economic and Social Cohesion Projects", whereby project proposals have been developed with the necessary cost-benefit analyses, environmental impact assessments and full EC tender dossiers. The list of projects developed through these various EU projects is shown in Annex 9.

### *Technology and R&D infrastructure*

Making regional RTD innovation more efficient and accessible to firms, facilitating creation and development of new firms and supporting RTD activities in SMEs is highlighted in the Community Strategic Guidelines as one of the line of actions needed to enhance SMEs competitiveness.

An overview of existing technology infrastructure facilities shows that Croatia currently has an informal network consisting of 4 operational technology centres, 1 commercial R&D centre (specialized for mariculture and fishery) and 1 centre for production processes. These centres were supported by an active initiative of the MSES, which co-financed their operation by ordering certain activities and services defined in a framework contract.

The technology centres, located in the urban areas of Zagreb, Split, Rijeka and Osijek, all developed in the last 3 to 6 years under the umbrella of MSES, but their scope of work differs greatly. It mostly revolves around renting space to regional established and start-up SMEs operating in the service sectors with low technology content. Some centres provide skilled intellectual property rights protection, others concentrate on consultancy services regarding implementation of ISO standards, while yet others have developed business services, however with weak focus on specific technology business development activities. Thus the centres proved efficient in some activities, while in others they are facing problems, most notably, insufficient capacity for incubation of technology-based start-ups.<sup>105</sup> Furthermore, more effort should be put into linking these business

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<sup>103</sup> Zadar, Šibenik-Knin, Sisak-Moslavina, Vukovar-Sriem, Požega-Slavonia, Brod-Posavina, Karlovac and Lika-Senja Counties.

<sup>104</sup> Virovitica-Podravina and Osijek-Baranja Counties

<sup>105</sup> Elements of development of the technology centres network, draft report by MSES.

support infrastructure institutions to the actual technology providers (R&D-based industry, universities and research institutions).

There are currently few incentives to start a new technology-based business. The risks of business failure are very high, although Croatia has a strong science base, an educated workforce and access to major markets. If support is provided to help technology-based firms (SMEs) start up and survive early stages of operation, there are substantial opportunities for commercialisation and business growth. Furthermore, in order to compete successfully in the Single Market, many existing Croatian SMEs need to upgrade their use of technology, including productivity, product reliability and quality and to introduce new design and equipment.

The challenge consists in creating an efficient and standardized platform for technology centres and related infrastructure network operation, based on good practice abroad and combined existing local experience. Adequate technology infrastructure can help SMEs get established, grow and become more profitable; by helping them solve their technical problems and engage cost effectively in R&D.

The Government has already taken first steps towards linking the business and scientific sectors and enabling effective cooperation through preparation and launching of the Croatian technology program. Further policy of "strengthening the strengths", i.e. concentrating efforts and resources on sectors, programmes and projects of national importance, should be pursued through this Operational Programme in order to maximise results and national benefit. The recently adopted Government medium-term science and technology strategy identifies several priority sectors, among them biosciences (biotechnology) and ICT – in which a critical mass of researchers and other necessary resources exists for the pursuit of economic prospects.

If these priority sectors are supported systematically, they will provide high quality jobs and yield significant economic benefit. Effective support implies that good use is made of the available resources and that these are complemented with new ones, as appropriate. This is of particular importance for the biotechnology sector, as no new companies can hope to be established without:

- adequate funding sources (meaning funding of basic research – primarily through the public sector; and funding of further R&D cycle necessary to develop research results into commercial products - in the form of seed and venture capital for start-up companies);
- and technology infrastructure providing appropriate office, equipment, laboratory (R&D) and manufacturing facilities, and soft business skills for incubation of biotechnology companies.

Newly established high-tech (particularly biotech) companies rarely have at their disposal their own R&D infrastructure, because it is irrational to make such investments in the early development phase given the high risk and high cost. Besides, building such infrastructure facilities as a green-field investment requires 2 to 3 years, and this shortens the patent life of the invention and consequently the economic effect of market exploitation of the product. Thus, infrastructure facilities are generally built as part of a Government initiative to support knowledge-based entrepreneurship and development of new technologies.

Development and manufacturing of pharmaceuticals, agriculture, and the foods and beverages industries are among the largest and most successful branches of the Croatian economy, with a sizable share of the national gross domestic product, employment force and export.<sup>106</sup> Their vitality and competitiveness depends to a great extent on the dynamic development of biosciences. If they should ignore this fact and the government is not successful in securing a conducive environment for biosciences development (including investments into a competitive science base, funding programs and appropriate technology infrastructure), these now profitable Croatian industries will face the destiny of less successful industries which, by lagging behind in technological development, have regressed from competitive players on the global market to being dependent on government subsidy.

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<sup>106</sup> Croatian Chamber of Commerce and CBS).

The Government recognizes the importance of biosciences (biotechnology) for the future economic development of Croatia, and has integrated this strategic priority in its key policy documents (i.e. Strategic Development Framework, the National Science and Technology Policy 2006-2010, and the National Strategy for Agriculture and Fishery).

In concluding, it can be said that Croatia has been slow at recognizing and adapting to global technology platforms and technology revolutions and the developmental opportunities they enable. This is one of the most relevant reasons for the problems the Croatian economy is facing today, and the prevailing reason for the lack of competitiveness. Biosciences (bio-technology) is currently the only technology platform that offers wide-ranging possibilities in creating new products and services for emerging markets where entry barriers are not unbridgeable (as it is slowly becoming in the ICT industry). The mid-term needs in this area are rapid, well coordinated and focused actions aligned with devised strategic plans, which can turn high value added industry, such as biotechnology, into the driving-force of competitive Croatia. Without such focus, Croatia will not be able to achieve the transition to a knowledge-based economy.

### Market orientation of key economic actors

The market orientation of key economic factors is indispensable for increasing economic competitiveness, attracting investments and creating new jobs. The role of the public administration in attracting and servicing potential investors has not been realized fully in Croatia. Awareness of the key contribution of public administration in the creation of a positive investment climate has however grown following a number of policy initiatives, mostly foreign funded.

Moreover, making business a major player at all levels and in all activities assumes creating robust partnerships between different actors. Linkages between research, education and business thus need to be strong and focused. The key to value added production lies in R&D, geared to market demand so that it can be commercialized and placed in the service of economic growth. For that reason, the cooperation of the above mentioned sectors requires stimulation in the form of awareness raising, appropriate financial programmes such as seed and venture capital for technology-based SMEs, assistance to innovation-based start-ups and the provision of appropriate infrastructure.

### *Promotion of business and investment climate*

One indicator of positive business and investment climate are rates of foreign direct investments (FDI), in particular of green field investments. FDI related domestic production has not been established as important part of export sector, as is the case in the new Member States. The regulatory framework for business and investment climate in Croatia has been improving (for example, with the recent adoption of the Investment Promotion Act and its implementation regulation),<sup>107</sup> but further improvements are needed in the form of green field investments. Compared to its Central European neighbours, Croatia was for long not recognized as an attractive foreign investment location. During the first half of the 1990s, Hungary and the Czech Republic attracted more FDI due to the war in Croatia associated with the disintegration of the Former Yugoslavia. In fact, up until 1998 Croatia only received small amounts of largely privatization-related FDI inflows, although during that period, some of the most successful manufacturing enterprises were privatized to foreign investors.<sup>108</sup> As a result, manufacturing accounted for more than 70% of total FDI in 1990-1998.

Starting from 1999, annual FDI inflows reached about EUR 1 billion or more. Most of this FDI was accounted for by privatization in the services sectors, telecommunications, financial services. It also included greenfield

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<sup>107</sup> Investment Promotion Act, Official Gazette no. 138/06; Directive on the implementation of the Investment Promotion Act, Official Gazette no. 64/07.

<sup>108</sup> These manufacturing enterprises were largely characterised as being profitable and having a decent market share in both domestic and international markets prior to privatisation.

investments in the retail and wholesale trade sector. In the period 1999-2005 the share of manufacturing FDI dropped to just 20%. The lack of new manufacturing FDI is a major shortcoming in Croatia. Transition countries usually attained a faster structural change and export growth if relying on FDI to modernize their manufacturing sector.

This is vital as a fast and successful transition to a market economy has usually not been possible without the knowledge and capital of foreign direct investors. Inward FDI plays a role in the strengthening of the private sector and the emergence of market-economy behaviour. Industrial restructuring, including through privatization, is stepped up when the inflows of FDI accelerate. Output and employment can suffer setbacks after foreign takeovers, but firms become more efficient and resistant to subsequent competitive pressure.

FDI in Croatia mostly relates to the financial services and the trading sectors. FDI has contributed to the modernization and expansion of these activities. Investors have been able to earn reasonable profits, thus stimulating re-investments.

Table 7: Share of Foreign Investment Enterprises (FIE) in manufacturing employment, sales and exports in 2002

	Employment	Sales	Exports
Czech Republic	34.1	53.3	69.3
Hungary	43.6	71.6	83.0
Poland	32.9	52.0	66.2
Slovakia	36.4	59.3	74.9
Slovenia	17.6	29.3	36.8
Bulgaria	27.8	49.3	57.3
Croatia	10.9	17.5	26.0
Romania	33.0	51.1	n/a

Source: *wiiw Database on FIEs*

By end-2006, FDI stocks in Croatia amounted to more than EUR 14 billion. Compared to new EU member states and other Southeast European countries, Croatia has both the fifth largest FDI stock as well as the fifth largest FDI per capita (EUR 3,152). Croatian FDI per capita is similar to that found in Slovenia and is about three times higher than in Romania and Bulgaria. When considering FDI stocks per GDP, Croatia is also ahead of the other Southeast European countries and has been surpassed only by three new member states.

The geographical location for the FDI has been unbalanced. The majority of all FDI goes to Zagreb City, whilst the least developed counties benefit from very low levels of FDI. In fact more than 75% of all FDI has gone to the city of Zagreb and remaining share to all other counties. The disadvantaged regions chosen for concentration within this RCOP received only 6,49% of total FDI that went to Croatia between 1993-2006.

Based on FDI inflow and stocks related statistics it can be concluded that FDI is not low in Croatia, but it is attracted mostly by the domestic market. Greenfield investments are to 90% confined to services, mainly banking and retail trade, while they are rare in manufacturing.

If Croatia is to benefit from FDI in the future once the privatization programme is completed it is imperative to enhance business and investment climate, to improve its image and be recognizable as an attractive place for green-field investments and doing business. Public administration at all levels dealing with entrepreneurship matters should be aware of the inter-relatedness of their work with other sectors and importance of their role in business and investment promotion. The ability to successfully attract an international investment depends also on the ability of regions to offer attractive and competitive conditions to potential investors that meet their business needs. Attractive conditions do not have to involve significant financial incentives. However, they always involve a local support organisation, which can:

- meet with the investors, present the local 'business case in a professional and convincing manner that demonstrates an understanding of investor needs and an ability to meet them.
- help ensure that the investment process is made as trouble free and speedy as possible since "time to market" is an increasingly critical issue for international investors.

Table 8: Foreign direct investment in Croatia 1993 - 2006Q3

Foreign direct investment in Croatia 1993 - 2006Q3 (MEUR)		
Zagrebačka	287,6	2.77%
Krapinsko-zagorska	155,3	1.50%
Sisačko-moslavačka	6,7	0.06%
Karlovačka	84	0.81%
Varaždinska	36,7	0.35%
Koprivničko-križevačka	42,7	0.41%
Bjelovarsko-bilogorska	12,6	0.12%
Primorsko-goranska	415,1	4.00%
Ličko-senjska	3,4	0.03%
Virovitičko-podravska	3,2	0.03%
Požeško-slavonska	16,9	0.16%
Brodsko-posavska	34,4	0.33%
Zadarska	318	3.06%
Osječko-baranjska	180	1.73%
Šibensko-kninska	17,1	0.16%
Vukovarsko-srijemska	10	0.10%
Splitsko-dalmatinska	526,9	5.07%
Istarska	296,8	2.86%
Dubrovačko-neretvanska	69,1	0.67%
Međimurska	58	0.56%
City of Zagreb	7808	75.20%
Disadvantaged regions		6.49%

Source: MSTTD (Croatian Chamber of Economy)

A positive step in the direction of facilitating foreign direct investment has been undertaken by a very successful CARDS 2002 project which certified six counties for investment. The project was very well accepted by the regions and has raised the interest of other counties in Croatia. By building on the experience and the lessons learned so far, it is appropriate to continue the certification process for other less developed counties in which the situation in respect of investment skills is the most demanding and the need for FDI the greatest.

The mid-term need is therefore to create conditions within the civil service sector for attracting and retaining investments in all counties, which is in particular important for the lagging behind regions that have not yet seized the potential from the open market and green field investments.

### *Innovation commercialisation*

Improving knowledge and innovation for growth through investment in RTD is one of the objectives stressed in the Community Strategic Guidelines 2007-2013 as essential for increasing competitiveness. Despite a sound knowledge base and academic research abilities one of the main obstacles for not utilising the prospective ideas that could become a successful business venture in Croatia is the lack of linkages among science, capital and new entrepreneurial ideas. Coupled with underdeveloped scientific and research infrastructure a

relatively small financial support is allocated for innovative ideas and projects oriented towards market application. The key issues and mid-term needs in this area are described below.

The World Economic Forum in its annual report ranks technology transfers from universities to business particularly low in Croatia. The cooperation of the business sectors with higher education and research institutions is unsatisfactory, and as a result technological capabilities of the industry, particularly small and medium companies, are inadequate.<sup>109</sup>

This situation reflects on the frequency of patent registration. There are about 100 published papers per one registered patent, whereby it is apparent that the private sector is more inclined to registering patents while the public sector is more successful in publishing scientific and expert papers. Concerning patent applications per million inhabitants, Croatia is lagging behind certain EU countries: its score in 2004 was 12, compared to 135 for EU-25, 160 for EU-15, 29 for Slovenia and 18 for Hungary. It should be noted that the situation is bound to change in at least one research institute following the recent set up of the Institutes Agency for Innovation Services and Transfer of Technology, which will among other take care that the resulting valuable IP is adequately capitalized.

The issue of intellectual property has been addressed in the past with multiple EU-financed projects directing technical assistance to beneficiaries and relevant institutions in order to increase awareness and understanding of and strengthen the enforcement of the intellectual property system. A functioning IPR system is essential to an improved investment climate and to fostering of the economic development in Croatia.

However, the institutional framework has yet to become operational and produce a positive change by raising awareness of the need for intellectual property rights protection and its potential value, and by adequately servicing potential beneficiaries. Part of the reason that the projects directing technical assistance in the area of intellectual property have not yet yielded significant changes in the institutional framework of its beneficiaries is that they were not complemented with investment support to actually follow through and set up operational models to serve as vehicles for the active use of intellectual property in research commercialisations. The logical next step is to direct investment support to develop such vehicles, in the form of technology transfer offices, technology commercialisation units and business incubation/start-up units at research organisations and higher education institutions in order to support ways to create value from IPR. These investments can be incorporated as a part of a return-on-research strategy and support a broad range of knowledge transfer activities, including technology screening, patenting and maintaining patents, licensing, start-ups, industry cooperation and market-oriented R&D. Such activities are vital and can have major impacts on competitiveness and regional economic development.

The key issue to an R&D-intensive economic activity and a mid-term need, therefore, is developing sound and operational support infrastructure for innovation commercialization. While significant economic gains could be achieved if the many excellent technical and scientific advances being generated were properly commercially exploited, the existing intellectual property and technology transfer and commercialisation infrastructure remains weak. Research institutes should generate stronger motivation or interest in commercialisation of research results whilst individual researchers and scientists should be provided with greater strategic, financial and legal support to market their inventions.

## 2.2. SWOT ANALYSIS

Following are described two SWOT analysis tables, following the approach focusing on the main levels. The first takes into account national development perspective, whereas the second one looks into regional development issues confronting specifically the lagging behind regions.

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<sup>109</sup> OECD and the Outline status report on Croatian industry, finance, science and technology drafted by the Institute of Economics, Zagreb, 2002.

STRENGTHS (INTERNAL / CURRENT)	WEAKNESSES (INTERNAL / CURRENT)
<ul style="list-style-type: none"> <li>○ Active government policy on promoting business climate (ex. simplified and shorter procedures for registration of business subjects)</li> <li>○ Systematic alignment of national SME policy with European good practice</li> <li>○ Evolving culture of participation and partnership in regional development as well as bottom-up approach to planning</li> <li>○ Examples of entrepreneurial and successful development initiatives at county and local level in the more developed parts of Croatia</li> <li>○ Improvement in the delivery of Government programmes for science, technology and innovation</li> <li>○ Increased state funding for science</li> <li>○ Political commitment to support the Croatian knowledge-based economy</li> <li>○ Rich natural resources and preserved environment</li> <li>○ Rich cultural heritage</li> </ul>	<ul style="list-style-type: none"> <li>○ Lack of high value added production by SMEs</li> <li>○ Low SME investment into technology and R&amp;D and consequent low work productivity</li> <li>○ Low share of labour force and capital in sectors which drive competitive economies: biotech, ICT etc.</li> <li>○ Insufficient export level and knowledge on international markets</li> <li>○ Lack of cooperation and networking among economic actors</li> <li>○ Undeveloped seed and venture capital market and difficult access to loans for start-ups</li> <li>○ Insufficient and inadequate soft services for SMEs</li> <li>○ Large regional disparities in terms of the basic and the business and technology-related infrastructure and services</li> <li>○ Depopulation of rural and population concentration in urban areas, with a consequent negative impact on the quality of life in both types of areas</li> <li>○ Absence of finance and of vertical and horizontal institutional coordination of SMEs and regional development policies</li> <li>○ Insufficient local public administration capacity to contribute to positive business climate</li> <li>○ Lack of systematic and independent evaluations of impacts of implemented policies</li> <li>○ Insufficiently developed administrative capacity at national and sub-national level for management and absorption of EU assistance, including lack of a sufficiently diversified, quality project pipeline</li> </ul>
OPPORTUNITIES (EXTERNAL / FUTURE)	THREATS (EXTERNAL / FUTURE)
<ul style="list-style-type: none"> <li>○ Potential for further development of entrepreneurship, especially in sectors with higher value added</li> <li>○ Latent potential for commercialization in R&amp;D sector, given existing good quality basic research</li> <li>○ Growing application of biotechnology internationally</li> <li>○ Development of strong base of organised business consultancy in aspects essential to the Single European Market</li> <li>○ Scope for expansion of tourist offer to other inland regions and services</li> <li>○ Reform of regional development policy: partnership, planning, management and financing</li> <li>○ Increasing external funding opportunities</li> <li>○ Complete integration into the Single European Market</li> </ul>	<ul style="list-style-type: none"> <li>○ Lack of political progress in the region</li> <li>○ Continued depopulation of the less developed areas</li> <li>○ Brain drain</li> <li>○ Devastation of natural resources and socio-economic implications</li> <li>○ Further pressure to cut public costs with negative influence on strengthening administrative capacities</li> <li>○ difficulties in coordination, given the number of institutions involved in OP management, with negative impact on timely programme and project implementation</li> <li>○ relatively short implementation period left for projects co-financed under the RCOP, given the n+3 rule</li> </ul>

Table 9: SWOT analysis of Croatia's overall development potential



Table 10: SWOT analysis of development potential of Croatia's lagging behind regions

STRENGTHS (INTERNAL / CURRENT)	WEAKNESSES (INTERNAL / CURRENT)
<ul style="list-style-type: none"> <li>○ Tradition of health tourism in continental parts of Croatia</li> <li>○ Rich cultural heritage in lagging behind regions provides potential for cultural tourism</li> <li>○ Active government policies on the development of the Areas of Special State Concern</li> <li>○ Active government policies on active labour market development</li> <li>○ Evolving culture of participation and partnership in regional development as well as bottom-up approach to planning</li> <li>○ Examples of entrepreneurial and successful development initiatives at county and local level in the more developed parts of Croatia</li> <li>○ Rich natural resources and preserved environment in the lagging behind regions</li> <li>○ Excellent national motorway network helps to reduce isolation of the lagging behind regions</li> </ul>	<ul style="list-style-type: none"> <li>○ Low competitiveness of economic activities in 91% of Croatia's territory which represents rural areas</li> <li>○ Severe war damage to cultural heritage and tourism infrastructure in the lagging behind regions</li> <li>○ Lower levels of SME formation in the lagging behind regions</li> <li>○ Low level of investment – both foreign and domestic – in the lagging behind regions</li> <li>○ Insufficient and inadequate soft services for SMEs in the lagging behind regions</li> <li>○ Insufficient local public administration capacity to contribute to positive business climate</li> <li>○ Unemployment in most ASSC municipalities between 25-40% of total working population</li> <li>○ Large county and intra-county disparities in terms of basic and business infrastructure and services, including technology-related infrastructure and services.</li> <li>○ Large county and intra-county disparities in terms of unemployment and labour skills</li> <li>○ Depopulation of rural areas and population concentration in urban areas – negative impact on quality of life. Major out-movement of younger and better educated people</li> <li>○ Aging population in the lagging behind regions</li> <li>○ Most new small enterprise creation appears to be for "low entry barrier" enterprises engaged in trade, retailing and local services rather than growth-oriented enterprises.</li> <li>○ Inadequate access to affordable credit in the lagging behind regions limits growth</li> <li>○ Structure of unemployment unfavourable: high level of long-term unemployed</li> <li>○ Insufficiently developed administrative capacity at national and sub-national level for management and absorption of EU assistance available to lagging behind regions, including lack of a sufficiently diversified, quality project pipeline</li> </ul>
OPPORTUNITIES (EXTERNAL / FUTURE)	THREATS (EXTERNAL / FUTURE)
<ul style="list-style-type: none"> <li>○ Potential for encouraging enterprise formation in the lagging behind regions – especially in enterprises capable of growth</li> <li>○ Potential for growth of cultural and spa tourism in the lagging behind regions</li> <li>○ Envisaged reform of regional development policy offers scope for more effective development of the lagging behind regions</li> <li>○ Increasing external funding opportunities</li> </ul>	<ul style="list-style-type: none"> <li>○ Ever fewer job opportunities in the lagging areas</li> <li>○ Increasingly less private investment into lagging areas with resultant increasing demands on the state budget</li> <li>○ Continued depopulation of lagging areas, especially among youth</li> <li>○ Further pressure to cut public costs with negative influence on strengthening administrative capacities</li> <li>○ Legislation to support the lagging behind regions inadequate to needs</li> <li>○ difficulties in coordination, given the number of institutions involved in OP management, with negative impact on timely programme and project implementation</li> <li>○ relatively short implementation period left for projects co-financed under the RCOP, given the n+3 rule</li> </ul>

### 3. PROGRAMME STRATEGY

The objective of the RCOP is twofold. On the developmental side, it aims to achieve higher competitiveness and balanced regional development by supporting SME competitiveness and by improving economic conditions in Croatia's lagging behind regions. Concerning institution building, the purpose of the OP is to develop the capacity in Croatian institutions to programme and implement activities supported by the ERDF upon accession.

The OP's strategy lies in the attempt to choose priorities and measures which between them accomplish the following:

- a) address development issues which have proven key in light of sector and area needs analysis;
- b) enable national and sub-national actors to gain skills with implementing investments typical of the Structural Funds which await Croatia shortly, and for which IPA is a direct means of preparation;
- c) undertake mutually reinforcing and complementary measures which address competitiveness and cohesion – the two concerns underlying modern day regional (and national) development policy;
- d) use the project pipeline created through previous EU assistance, particularly in regions lagging behind.

The socio-economic analysis and the accompanying SWOT analysis indicate a number of strengths and weaknesses of Croatia's competitiveness. The OP aims to address these weaknesses by directing assistance into areas which are both, eligible under IPA i.e. they reflect future ERDF interventions and for which the socio-economic analysis identifies concrete potential. The chosen areas of intervention as well as the rationale for choices made are set out below.

Generally speaking, most activities in the OP represent a *step away from the pre-accession and towards the Structural Funds* – that is to say, the scope of activities co-financed by EU funding is significantly enlarging. Whereas so far EU assistance for economic cohesion has mostly focused on soft assistance directed to policy making bodies and supporting national level institutions (see section 3.4), with IPA these activities are being complemented and expanded. There is both, more scope for co-financing development projects with a strong Lisbon character to them and for spreading the capacity building effort to key actors at the sub-national level. There is at the same time the necessary continuity between IPA-financed measures and efforts undertaken by national and EU-funded activities; *this OP builds upon previous accomplishments* and continues interventions which have proven their worth in the past.

#### 1. "soft" services to SMEs

The choice reflects both the positive experience in Croatia with such assistance (business advisory services) and the good practice and guidance at EU level whereby the EC underlines the beneficial character of "soft" aid as opposed to other grants. Since such is also the direction in which the Cohesion policy is evolving, it is opportune to build up capacity and programmes in this area in the pre-accession period – the more so as EU programmes have so far not financed this type of assistance in Croatia (except for one PHARE project). The focus of the OP is on competitiveness related advisory services, including e-business.

#### 2. strategic cooperation between companies

This type of cooperation has been identified as producing synergies which are a significant factor of enhanced value added production and export potential. As such, support to clusters contributes to the same goal as do the other more general soft services for SMEs – that of successful functioning on the Single Market. Whereas Croatia has got previous experience with supporting clusters, the value added of the OP lies in an evolved policy approach which will seek to maximize the potential for synergies within a wide stakeholder network.

#### 3. building entrepreneurship in the research sector

Insufficient contribution of the R&D sector to economic growth is characteristic for most European (and world) economies. One of the reasons why public spending on research is not realizing full economic impact is lack of entrepreneurial skills in the academia. Activities in this direction build on efforts previously undertaken in Croatia through EU funds as well as on measures which are in this direction being undertaken through national funds. Strengthening entrepreneurial skills in the academia in the longer run also complements this OP's focus

on strategic business-related infrastructure – as a successful entrepreneurial initiative of a research institution could result in a centre of excellence or a similar knowledge-based market-oriented R&D facility.

#### 4. development of business and investment climate

A pro-active and entrepreneurial approach to development at the local level is essential to overcoming socio-economic disparities characteristic of Croatia. Much has been accomplished through EU assistance so far at the national as well as local level, proving that there is significant learning potential and consequently growth potential of lagging behind. regions Extending such support to other areas, previously unattended to is therefore a desirable investment under this OP. In doing so, the OP draws on lessons learned and ensures coordination with other EU, foreign and domestically funded activities relating to enhancing the business and investment climate, promoting decentralization and the principles and knowledge of good governance, etc.

#### 5. enhancing policy implementation

Through previous EU funded projects the SME support system in Croatia will be re-assessed and recommendations made for improving the effectiveness of measures and their delivery. In order to improve policy implementation, methodology for measuring and evaluating the impact of incentives for SMEs, a methodology for systematic assessment of the impact of the implementation of the recent Investment Promotion Act and a methodology for regularly assessing the evolution of the business climate in Croatia need to be provided. Setting up a central register of SME measures and incentives will significantly enhance policy making and implementation at the national and regional level.

#### 6. business support infrastructure for value added economic activity

The socio-economic analysis has shown that the lack of basic as well as sophisticated business-related infrastructure – in different parts of the country as well as in specific economic sectors – is an obstacle to a more dynamic and competitive economic growth at regional as well as national level. Such infrastructure is a pre-condition for the establishment and growth of enterprises and for attracting FDI and other investments. The OP therefore places a significant accent on such investments. In so doing, it builds on lessons learned through similar EU-funded activities in the past (partnership, strategic value) and realizes part of the project pipeline resulting from previous EU and other foreign-funded assistance for strategic business and R&D infrastructure.

Measures proposed in the OP represent a *coherent mix* characteristic of effective policy making. Institutions in charge of the different components of the OP have realized a high degree of cooperation in designing the measures so that impact is certain to be strengthened by the synergies built into the different interventions.

Due to limited funding, however, concrete progress cannot depend exclusively on assistance delivered through IPA; it can only be the result of a sustained and coordinated effort financed through national, EU and other available funds. The value added of the OP in that respect lies in encouraging a cross-sectoral approach to development and in strengthening the necessary administrative capacity of the relevant bodies at the national and the sub-national level. In the longer run, interventions financed by the OP will yield a certain economic impact as well; that contribution is, however, both more limited and less immediately valuable for the Structural Funds preparation than are the other two.

It should be underlined that all investments envisaged under the OP have a positive impact on regional competitiveness – whether in terms of regional cohesion or of Croatia's competitiveness in the wider region. Precise elements of this spill-over effect and mutual coherence are explained below with regard to the OP's specific priorities and measures. Some interventions – those which contribute the most to competitiveness in the EU – will, in order to be feasible, likely have to focus on economic actors in certain sectors and/or areas with the necessary development resources and capacity. Without ensuring feasibility at project level, it is impossible to ensure impact of funds at programme level. In order to ensure impact of funding under this OP – which envisages competitiveness-type interventions characteristic of the Cohesion policy – the issue of feasibility is essential. Excluding certain of Croatia's more developed parts from EU funded interventions does not, therefore, stand the test of economic development: in order to spur and sustain growth in the lagging behind regions, there is need for certain economic integration with the more dynamic surrounding areas.

The challenge is thus to integrate into the development of urban centres with the economic potential of the rest of the country and, more immediately, of the surrounding areas. In a country of Croatia's shape there is particular scope for such economic complementarity, given the fairly specific economic structure of the different geographical regions.

### 3.1. PRIORITY AXES AND MEASURES

The OP consists of three Priority Axes of which two are investment-related while the third one contains TA relative to OP management issues. The two investment Priority Axes focus respectively on the cohesive and the competitive element of Croatia's economy. While the first Priority Axis targets the so called lagging areas, the second one addresses horizontal issues common to all of Croatia's economy. In order for investments under the second Priority Axis to be feasible, they focus on economic actors in sectors and/or areas with the necessary development resources and capacity. Their aim, however, is to benefit national economy as a whole and ideally to integrate into the development of the urban areas the economic potential of the rest of country.

Even though only one Priority Axis exclusively focuses on the lagging behind regions, their development will draw benefits from investments financed across the OP. Besides the mentioned spill-over effects, effort has been made to ensure more direct benefit of lagging regions from investments under Priority Axis 2. In order to facilitate participation of beneficiaries from these areas, wherever possible and appropriate, specific allocations of funding under a particular activity will be envisaged for them.

An overview of priority axes, measures and operations is given below.

#### Priority Axis 1: Improving development potential of the lagging behind regions

##### Measure 1.1. BUSINESS-RELATED INFRASTRUCTURE

Operation 1.1.1. Business-related infrastructure

#### Priority Axis 2: Enhancing the competitiveness of the Croatian economy

##### Measure 2.1. IMPROVEMENT OF BUSINESS CLIMATE

Operation 2.1.1. Improvement of administrative efficiency on national level

Operation 2.1.2. e-Business competitiveness improvement programme

Operation 2.1.3. Provision of advisory services to SMEs

Operation 2.1.4. Development of investment climate

Operation 2.1.5. Support for cluster development

##### Measure 2.2. TECHNOLOGY TRANSFER AND SUPPORT SERVICES FOR KNOWLEDGE-BASED START-UPS

Operation 2.2.1. Science and Innovation Investment Fund

Operation 2.2.2. Biosciences technology commercialisation and incubation centre (BioCenter)

#### Priority Axis 3: Technical Assistance

##### Measure 3.1. OP MANAGEMENT AND CAPACITY BUILDING

Operation 3.1.1. TA related to horizontal OP management issues

Operation 3.1.2. Development of sector studies, preparation of future programming documents and

accompanying project pipelines

### 3.1.1. Priority Axes

The choice of Priority Axes is accounted for below while the following section indicates investments envisaged under the accompanying measures.

#### Priority Axis 1: Improving development potential of the lagging behind regions

##### **Aim**

To contribute to cohesion by helping Croatia's lagging behind regions catch up with national development levels.

##### **Specific Objectives**

- to support the creation and growth of SMEs by expanding and improving business-related infrastructure and accompanying services in Croatia's lagging behind regions.

##### **Rationale**

Croatia's business support infrastructure is of good quality. There is a significant number of business support entities across the country, as well. Nonetheless, the 10 counties designated as "lagging behind regions" (Virovitica-Podravina, Vukovar-Srijem, Brod-Posavina, Sisak-Moslavina, Šibenik-Knin, Osijek-Baranja, Lika-Senj, Požega-Slavonia, Karlovac and Zadar) experience slower, less dynamic SME growth as well as a continued less perspective structure of their economy. The fact is that these areas have experienced severe damage to their infrastructure during the war as well as a demise of centrally planned large state-owned enterprises which underpinned much of these areas' economy. The need for investments into business-related infrastructure has been identified in these counties' development strategies: in order to provide scope for enterprise creation and growth as well as for foreign investments, there is an urgent need to upgrade and improve existing business support systems (business zones, incubators, technology transfer centres and other entities grouping SMEs and providing services directly to them) and develop and improve public tourism-related infrastructure. In addition, these areas' rich natural resources and cultural heritage, though partially damaged in the war, provide potential for development of tourism related businesses in the lagging regions.

The challenge is thus two-fold: to encourage growth of entrepreneurship and to offer entrepreneurs and investors quality support and services. In order to put the existing business support structure in the service of a more dynamic and a more value added based economic growth, it is necessary to improve its quality and capacity. The existing national practice – e.g that of investing into business zones and public tourism-related infrastructure, can be enhanced by combining infrastructure investments with investments into the accompanying human capital and additional soft services to tenant SMEs and others in the region. Such has, in fact, been the practice under previous EU assistance to regions lagging behind. Moreover, TA projects under the program CARDS have resulted in a pipeline of mature projects of this kind which are in terms of substance and aim appropriate candidates for assistance under this OP as well as ERDF-funded measures in the future (see section 3.4. and annex 9).

##### **Description**

The priority will finance infrastructure investments combined with human resources investments necessary for strengthening the business support base and unlocking the endogenous potential for economic growth. The focus will be on existing and new business-related infrastructure, ranging from basic communal infrastructure within existing business zones to infrastructure and services geared towards higher value production.

## Priority Axis 2: Enhancing the competitiveness of the Croatian economy

### **Aim**

To contribute to the overall competitiveness of the Croatian economy in line with the Lisbon priorities and the EC Community Strategic Guidelines, by focusing on support essential to unlocking the potential in strategic growth areas and improving the quality of institutional support infrastructure key to economic competitiveness.

### **Specific objectives**

- to enhance SME competitiveness by improving key elements ensuring a positive business climate and effective public business support at all levels;
- to enhance the contribution of technology and R&D to economic development by supporting the creation and growth of technology- and knowledge-based SMEs and by building up capacity and supporting the commercialization of public sector R&D.

### **Rationale**

A problem facing Croatian SMEs on the eve of EU accession is that of preserving competitiveness in general. As a first step towards designing a growth and development strategy on the Single European Market, there is need for investing into skills and knowledge of opportunities, threats and dynamics of the Common Market. Opportunities for such capacity building are still not adequate (in terms of quality and quantity) or sufficiently accessible as this type of knowledge and a more strategic mentality are still lacking among the vast majority of SMEs in Croatia. There is therefore scope for more sustained facilitation and investment into quality business advisory services and education of SMEs on the part of the public sector at all levels (national, regional, local). This education should envelop those designing policy as well as those delivering support and dealing with businesses, investors, etc.

A factor underpinning national economic competitiveness is value added economic production. Analysis of Croatia's competitiveness factors shows that significant growth potential lies with the SME sector and the R&D community as a source of value added economy. This potential remains however to be realized fully as there is at present a number of weaknesses obstructing the creation and the growth of SMEs, particularly of knowledge-based SMEs. Business start-up rates are very low by EU standards, and the regulatory environment is less conducive to business survival and growth compared to the EU27, although the most recent World Bank survey of 'Doing Business' across 174 countries ranked Croatia in the top 10 reformers. Moreover, the public sector dominates expenditure on R&D in Croatia and the World Economic Forum Report ranks technology transfers from universities to business particularly low in Croatia.

Knowledge being successfully transferred into commercially exploitable products is central to Croatia's ability to increase competitiveness and enter international markets. In Croatia, the technology transfer process and the underlying intellectual property management have been particularly undervalued as crucial methods for capitalising on existing knowledge and research strengths. As a result, Croatia is losing significant economic gains that could have been achieved if many excellent technically and scientifically advanced ideas were exploited in a proper commercial way.

In order to enhance both the competitiveness of the public R&D sector and of SMEs, the priority envisages investment into the necessary capacity building as well as infrastructure. The provision of adequate technology infrastructure enabling SMEs to engage cost-effectively in R&D and easy access to technical and business development services is crucial to helping SMEs get established, grow and become more profitable. Such investments are essential to sustaining the regional economy and will have favourable immediate as well as long-term impacts on employment, innovation capacity and economic growth potential. The capacity building component of the priority concerns investments into the university-industry interface – a powerful driver of technological and economical development of industrial branches and regions, recognized also by the EC.<sup>110</sup>

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<sup>110</sup> EIMS Publication No 26: Good Practice in the Transfer of University Technology to Industry; EUR 17046 EC Directorate-General for Enterprise: University Spin-outs in Europe – Overview and Good Practice.

More particularly there is within the higher education institutions and research sector in Croatia evident and urgent need for further development of technology transfer management skills and entrepreneurial activity.

### **Description**

The priority aims to enhance the competitiveness of the Croatian overall economy and in particular to enhance the growth potential of SMEs. It therefore focuses on several elements underpinning these potentials: making quality business advisory services, including e-business, more accessible to SMEs; encouraging cooperation between businesses and cooperation of businesses and public, education and research sectors through enhancement of clusters; enhancing technology transfer and incubation capacities in high value added sectors; developing effective business support capacities relative to investment promotion at the regional level.

## **Priority Axis 3: Technical Assistance**

### **Aim**

One of the principal goals of implementing IPA is to build administrative capacity, and hence, it is essential that Croatia identifies, trains, develops and retains a sufficient body of skilled and motivated staff, working with effective systems and procedures for sound programme management. The aim of this Priority Axis is therefore to ensure that Croatia is able to administer the OP, through all aspects of programme management.

### **Specific objectives**

The objective of the TA priority is to ensure efficient and effective OP management, and develop the institutional capacity for managing and absorbing IPA funding.

### **Rationale**

Croatian programme and project management capacity – from design through commissioning to operation – is evolving at the national, regional and local levels, supported in recent years by 76 technical assistance and twinning projects under PHARE, CARDS and bilateral assistance. This practical experience will continue to grow and become embedded in future years, as more projects come on-stream.

Management of IPA, and specifically, this OP, will involve extraordinary costs that do not form part of the Croatian administration's traditional operating expenses. This includes: information and publicity on IPA; the development of monitoring indicators and an EU funds Management Information System; the commissioning of external, independent experts for interim and ongoing evaluations; and the costs of managing and implementing the IPA programmes.

Moreover, IPA is designed as a pre-cursor to Structural and Cohesion Funds, and it is essential that Croatia develops the capacity to implement these funds. IPA is an opportunity to learn how to manage funds according to EU rules, and to build sustainable institutional structures, systems and skills for the transition to Structural Funds. Furthermore, the preparation of future programming documents and identification and preparation of a future project pipeline will ensure use of EU assistance in a timely and technically acceptable manner.

Croatia is fully aware of the difficulties that recent new Member States have encountered in absorbing the allocations of Structural Funds that were made to them, and is committed to using technical assistance to put in place rigorous systems and training to ensure that project management capacities are strengthened and risks of ineffective absorption minimized.

### **Description**

This Priority Axis contains three operations to be implemented through procurement contracts. Technical assistance is extended to the Operating Structure regarding horizontal OP management issues, preparation of future programming documents, identification and preparation of a future project pipeline, as well as for co-financing salary costs of public officials within the operating structure and the project selection committees.

### 3.1.2. General selection criteria and process

The aim of the OP is to select projects which best fit the OP's objectives, while spreading the benefits of learning from the systems and practices of IPA management, as a closer experience to Structural Funds programme and project management than previous EU pre-accession funds. To be supported under the OP, projects should be financially, economically, socially, and environmentally sound. In order to demonstrate this, they will have to be prepared according to a number of selection criteria, against which they will be assessed.

Appraisal of projects is a three stage process. It involves:

- ✓ **Administrative screening** - formal checks for completeness of the application and the supporting documents;
- ✓ **Eligibility checks** – for eligibility of activity and project costs; and
- ✓ **Qualitative appraisal** - scoring the project against the project selection criteria defined in advance

General eligibility criteria:

There are a number of general selection criteria that will be adhered to in the implementation of the OP:

- Project must be ready for implementation
- Project must comply with the overall SCF strategy, and national and Community policies;
- Projects must demonstrate coherence and logic with both measure and priority specific objectives under which funding is applied for;
- Projects must demonstrate value for money;
- Projects must demonstrate genuine additionality – that is, the project would not have gone ahead without EU assistance;
- Projects must be viable – that is, deliverable by existing or planned administrative capacity;
- Projects must be compatible with the “cross-cutting” concerns of promoting gender equality and environmental sustainability.

### 3.1.3. Measures under Priority Axes

Measures to be implemented within the Regional Competitiveness Operational Programme have been chosen in line with ongoing national efforts and in light of positive experience with previous EU assistance. Their implementation will take into consideration the evolution of national policies and the implementation of ongoing EU projects, in order to ensure value added and coherence. Implementation details are for this reason left to be determined at a later stage, at the level of individual operations and projects. Below, the general direction of investing OP resources is set out, indicating the types of operations and the beneficiaries envisaged.

#### Priority Axis 1: Improving the development potential of the lagging behind regions

##### Measure 1.1 : Business-related infrastructure

#### **Specific Objectives**

To support the creation and growth of SMEs in Croatia's lagging behind regions by providing quality business related infrastructure.

#### **Description**

The measure consists of grant schemes and a procurement contract. The main part of the measure will be administered as grant schemes supporting regional and municipal authorities and institutions in the lagging behind regions with the development of business-related support systems, i.e. infrastructure investments as well as investments into the accompanying services. It will primarily support investment in the development of



new and existing business and related infrastructure in support of the regions' perspective economy branches. Investments will focus on improving the efficiency, capacity, quality and attractiveness of existing business zones and new and existing business incubators and other business support entities grouping and servicing SMEs as well as into public tourism infrastructure. Support will be provided based on clear evidence of inherent demand and where the result of such operation shall (in)directly foster SME growth and job creation. Beneficiaries receiving support for infrastructure investment will also be provided with support services designed to maximise the benefits of the investment.

The following minimum and maximum values of individual grants will apply, with the possibility of co-financing the Final Beneficiaries' share of co-financing from the national budget.

<i>Assistance thresholds</i>	
Maximum and minimum EU grant size (€)	Maximum: € 1.000.000 Minimum: € 325.000
Maximum size of EU funding to total eligible costs (%)	75%

Effective implementation of the grant schemes will be ensured through assistance with secondary procurement, to be extended through a procurement contract.

### Main types of operations

The operation consists of a grant scheme and a procurement contract.

Below are the main types of activities which may be funded through individual grants:

- Preparatory architectural and engineering design;
- Site clearance and development (preference will be given to the utilisation of brown field sites);
- Construction monitoring and control;
- Development of business-related basic communal infrastructure within established business zones, where the lack of such infrastructure is an impediment to SME development (i.e. impedes access or functioning of zones). By basic communal infrastructure it is meant: access roads, gas, water and waste water, sewage, electricity, energy and communication networks, landscaping, etc.;
- Establishment and development of regional business support institutions grouping and directly servicing SMEs, such as business zones, economic zones, business incubators, innovation and technology transfer centres, etc. through a) purchase of machinery and equipment and b) broadening and improving the quality of services (information network, provision of complex physical services, e.g. maintenance, property protection, disposal and utilisation of waste);
- Development and improvement of public tourism-related infrastructure, including through infrastructure and capital investments and "soft" investments into improved service delivery;
- Provision of support services designed to maximise the benefit of the investment.

The procurement contract under this measure will finance assistance with project pipeline preparation for the grant schemes under this measure and assistance with secondary procurement for the beneficiaries of the grant schemes in question. To the extent that business related infrastructure type investments are present in a sufficient quantity among project proposals currently in the project pipeline, assistance with project pipeline under this measure will focus on strengthening and completing the existing project pipeline which had been created through previous EU assistance, as not all project proposals in the existing project pipeline feature complete project and tender documentation. Projects listed under Annex 9 represent only the part of the pipeline of projects elaborated in the lagging behind regions through technical assistance under the CARDS 2003 project "Sustainable Development of Areas of Special State Concern" for the Vukovar-Srijem and the Sisak-Moslavina Counties and the CARDS 2004 project „Sustainable Development In Croatia's War Affected Areas" for the Lika-Senj, Karlovac, Slavonski Brod-Posavina, Požega-Slavonia Counties. The full pipeline of regional development projects includes also other project proposals elaborated through technical assistance under the CARDS 2004 project "Support to the management of economic and social cohesion projects" (which were consequently submitted at the call for proposals under the Phare 2005 Business related infrastructure

grant scheme) as well as project proposals identified as investment priorities in Regional Operational Programmes (ROPs) of individual counties.

As appropriate, assistance under this contract can take the form of trainings (including on-the-job trainings), seminars, workshops, information material and guidelines and consultancy advice on individual basis.

Activities eligible under Measure 3.1 "Improvement and development of rural infrastructure" of IPARD (IPA Component V) will not be eligible under this measure or the rest of this OP.

#### Selection Criteria

Formal approval of selection criteria and their weighting will be subject to consideration by the Sectoral Monitoring Committee. Principles to underlay the criteria are the following:

- Projects must be ready for implementation
- All projects must be located within the lagging behind regions
- All applicants for business zone improvement must be in respect of an established business zone registered by MELE
- All projects must demonstrate a positive (in)direct impact on employment
- All applicants must show proof of demand for the planned investment in the form of a feasibility study or a letter of intent from tenants in case of improvement of an existing business zone
- All applications must be in accordance with relevant national strategies and programmes
- Preference will be given to projects in accordance with county development strategies
- Preference will be given to projects with demonstrated scope and intent of cooperation with relevant stakeholders in order to maximize the impact of the investment in question (for e.g. innovation networks, investments related to a cluster, links with higher education, research institutions and the private sector)
- Selection of projects will be made based on job creation cost efficiency
- Preference will be given to projects with positive impact on export
- Preferences will be given to projects which will provide infrastructure for members of recognized clusters

#### Final Beneficiaries

Final beneficiaries of grants are the following:

- Regional and local self-government units
- Regional/local-owned public institutions or associations, public companies owned by self-government authorities
- Regional/local tourism boards

The final beneficiary of the procurement contract is the MSTTD. Recipients of assistance under this contract are grant beneficiaries and MSTTD staff involved with the management of the grant schemes.

All beneficiaries must be legal persons and must be non-profit making.

### Priority Axis 2: Enhancing the competitiveness of the Croatian economy

#### Measure 2.1: Improvement of business climate

##### Specific Objectives

To enhance the competitiveness of the Croatian economy by focusing on improved quality and mechanisms of support available to investors and SMEs at national as well as sub-national level.

##### Description

The Measure will be implemented through five closely interrelated Operations stemming from positive experience with national and EU-funded projects so far. The OP is an occasion to complement ongoing efforts

by providing additional policy-related advisory support at the national level and by improving knowledge and skills of key actors of economic change at the national and sub-national level. The focus of the measure is on soft support measures and business advisory services, which are the direction in which the EU SME policy is evolving. It is envisaged to ensure better quality and more accessible business support services which make SME performance more effective (e-business), strengthen their growth potential (clusters) and enable them to withstand challenges of market forces on the eve of EU accession (business advisory services). As regards other types of operations, the measure will enhance investment skills of local and regional actors and will assist national level institutions in improving their grasp and understanding of business trends and SME needs as a key input into quality support schemes. By working closely with ongoing EU projects, value added and synergy with IPA interventions will be ensured.

While the Measure is open to all of Croatia, in order to facilitate participation of potential beneficiaries from the 10 counties designated as **lagging behind regions**, specific operations envisage setting aside part of their allocations for beneficiaries from these regions according to the following arrangements:

- under Operation 2 “e-Business Competitiveness Improvement Program”, 1 MEUR i.e. around 9% of the IPA allocation for this Measure will benefit end users from the lagging behind regions or those which service SMEs from these regions;
- under Operation 3 “Provision of advisory services to SMEs”, 1,25 MEUR i.e. around 11% of the IPA allocation for this Measure will be allocated for SMEs from the lagging behind regions;
- the entire allocation under Operation 4 “Development of business and investment climate” (2 MEUR i.e. some 18% of the IPA allocation for this Measure) is targeted at final beneficiaries from the lagging behind regions.

Preliminary analysis of capacities and needs thus shows it is likely that over one third (38%) of IPA funding under this Measure will target beneficiaries in the lagging behind regions. Should this allocation, set aside for beneficiaries from the lagging behind regions, come under the risk of decommitment, the Operating Structure maintains the right to re-allocate the funding appropriately.

### **Main types of operations**

Envisaged Operations for this Measure are the following:

*Operation 1 – Improvement of administrative efficiency on national level* - Through a PHARE 2005 project whose beneficiary is MELE, the SME support system in Croatia will be re-assessed and recommendations made for improving the effectiveness of measures and their delivery. Through this Operation it will be possible to implement part of the recommendations, significantly enhance policy making and address the recommendations of the 2006-2013 Strategic Development Framework on SME policy. In order to improve policy-making as well as delivery, through this Operation methodology for measuring and evaluating the impact of incentives for SMEs by setting up a central register of SME measures and incentives, will be provided. Also, a methodology for systematic assessment of the impact of the implementation of the recent Investment Promotion Act and a methodology for regularly assessing the evolution of the business climate in Croatia will be provided. These tools will significantly enhance policy making at the national and regional level. The Operation will:

- provide assistance to beneficiaries and will deliver analyses, assessments, methodologies, recommendations, as well as set up of central register of SME measures and incentives.

### *Operation 2 – e-Business Competitiveness Improvement Program*

The Operation seeks to increase capacity for effective delivery of e-business quality advice, ICT and entrepreneurial support services to SMEs in general. The Operation envisages training of staff in selected SME support centres in the provision of e-business services to SMEs, and the supply of related equipment. The approach to the setting up of e-business reference centres complies with EU guidelines and good practice in e-business; activities will be carried out in cooperation with relevant local/regional entrepreneurial and education institutions in order to ensure impact and a spill over effect.

In carrying out this Operation, there is scope for building onto domestic policy achievements so far. In setting up the e-business centers MELE can build on insights gained from a previous INTERREG IIIB Cadses project which helped set up two pilot telecenters in relatively remote areas of Vinkovci and Skrad. Once the e-business reference centers are established, the Government's e-corner service (see ICT section under 1.1.2.Policy context) will refer entrepreneurs to them for concrete advices on possibilities and perspectives of application of e-business solutions in their every day work. Therefore, once the RCOP activities start, the e-corner service will ensure a high level of dissemination of information about services offered by the e-business reference centres.

Eligible actions under this Operation include:

- training of staff in selected SME Support Centres in the provision of basic e-business services to SMEs;
- provision of necessary supplies to selected SME Support Centres to establish basic e-business advisory services.

#### *Operation 3 – Providing Advisory Services to SMEs*

The Operation envisages consultancy services to SMEs on topics essential to international competitiveness as well as on topics essential to the awareness and good use of EU funding intended for enhanced national and regional competitiveness. The Operation thus in the longer run contributes to absorption capacity of the Structural Funds and also to Croatia's fulfillment of economic criteria for EU accession. The Operation will extend technical assistance for the design and delivery of training workshops, materials and advisory services for final beneficiaries through:

- provision of consultancy services and training to SMEs in areas such as :
  - Consultancy related to introduction of TQM system,
  - Consultancy targeted at quality-consciousness and quality development in-company etc
  - Marketing, business development and sales consultancy related to establishment of domestic and international sales channels
  - Assessment of the consequences of the EU accession for businesses, European enterprise development opportunities, preparation for EU requirements,
  - Analysis of market and competitive position,
  - Management and marketing consultancy,
  - Product development consultancy,
  - etc.

#### *Operation 4 – Development of investment climate*

The Operation seeks to enhance business and investment climate across Croatia in order to ensure cohesive regional development. It will primarily target regional self-government authorities and other relevant actors at regional level (RDAs etc.) in order to enhance awareness of investors' needs and to enhance skills for servicing them effectively. The Operation is a continuation and a follow-up of a successful CARDS project; regions already certified for investment will be able to implement strategies and engage in further training and hands on consultancy support related to investment and business climate.

Actions which may be funded are:

- Design and delivery of training workshops and materials
- Consultancy support to achieve the standards
- Cost of preparing regional sector studies
- Cost of promotional materials (web site, investors guide, sector study publication, etc.)

#### *Operation 5 – Support for cluster development*

The Operation is envisaged as a key element in a recent Government effort at enhancing clusters as export tools. A top-down approach is to be put in place in order to improve the impact of clustering and to complement bottom-up initiatives launched so far. The Operation will increase the capacity and ability of SMEs to achieve international competitiveness and improve their export performance. The Operation envisages technical assistance to MELE and selected pilot cluster projects. Formation of partnerships in supply chain, R&D, access to and presentation for foreign markets of companies involved within such clusters will be encouraged.

Top-down pilot clusters will act as a model for strengthening cluster formation and development in other sectors, too. Through this Operation will be delivered:

- Preparatory feasibility studies, strategic plan preparation and other consultancy services,
- Technical assistance and training to facilitate the establishment of the selected cluster projects,
- Evaluation of limited number of pilot cluster projects to draw lessons for future cluster development.

#### Selection Criteria

Formal approval of criteria for selecting operations under this Measure will be subject to consideration by the Sectoral Monitoring Committee. The principles to underlay those criteria are the following:

- Preference will be given to counties located within the lagging behind regions; clustering of counties over applications from individual counties; exceptionally, other counties can be beneficiaries of assistance as well, provided they partner up with a county within the lagging behind regions and do so on justifiable grounds;
- Preference will be given to institutions with proven commitment in terms of human capital, including high level management support, and with strong institutional plans for strategic development
- Where operations imply selection of beneficiaries (such as SMEs), priority will be given to applicants demonstrating commitment in terms of available administrative capacity (including high level staff), located within the lagging behind regions.

Action envisaged under the IPARD Plan (Measure 1.2 “Investments in the processing and marketing of agriculture and fishery products to restructure those activities and to upgrade them to Community standards”, Measure 3.2 “Diversification and development of rural economic activities”) will not be eligible for financing under this Measure.

#### Final Beneficiaries

The final beneficiary under *Operation 1 Improvement of administrative efficiency on national level* is MELE. Recipients of assistance from contracts envisaged in this Operation are MELE and other relevant national level policy making bodies – Croatian Agency for Small Enterprises, Trade and Investment Promotion Agency, Croatian Chamber of Commerce, etc.

The final beneficiary under *Operation 2 E-business competitiveness improvement programme* is MELE. Recipients of assistance and investments from contracts envisaged under this Operation are selected SME support centers and their partners – local and regional entrepreneurial and education institutions assisting in the setting up of e-business centers.

The final beneficiary under *Operation 3 Providing advisory services to SMEs* is MELE. Recipients of assistance envisaged under the contract in this Operation are selected SMEs.

The final beneficiary under *Operation 4 Development of investment climate* is MELE. Recipients of assistance under the contract envisaged under this Operation are selected regions (made up of several counties) and their partners such as regional development agencies, Trade and Investment Promotion Agency and others.

The final beneficiary under *Operation 5 Support for cluster development* is MELE. Recipients of assistance under the contract envisaged by this Operation are MELE and members of selected pilot clusters (maximum three pilot clusters).

### Measure 2.2: Technology transfer and support services for knowledge-based start-ups

#### Specific objectives

To build technology transfer and commercialization capacities of higher education institutions and public research organizations in order to contribute to sustainable regional development and industry competitiveness of high value added sectors of the economy and knowledge-based SMEs.

## Description

The Measure is made up of two Operations. The first Operation seeks to build entrepreneurial and intellectual property management skills in public institutions. Concretely, it targets higher education institutions (HEI) and public research organizations (PRO) and extends support for the commercialisation of public sector R&D activities. Support envisages further developing of the technology transfer and commercialisation infrastructure and services, including technology screening, patenting and maintaining of patents, licensing, establishing of spin offs/start-ups, SME and industry cooperation and market-oriented R&D. Operation 1 will therefore be delivered through a procurement contract and a grant scheme for knowledge transfer activities by HEI and PRO.

A grant for technology transfer activities is crucial to ensuring sustainability of previous EU assistance in this area. Namely, through a CARDS 2003 project *Intellectual property rights infrastructure*, technical assistance has been extended to universities in order to establish 9 pilot project centres across Croatia. The project is scheduled to end in October 2007 whereby the pilot centres will be ready for concrete technology transfer activities. The nine pilot centres are candidates for a grant scheme and do not require (extensive) project preparation assistance. Delay in securing assistance for concrete activities to them would endanger the impact of this CARDS project as well as Croatia's progress in terms of R&D commercialization.

Another closely related project is TEMPUS CREATE "Stimulating Croatia's Entrepreneurial Activities and Technology Transfer in Education". The CREATE project, launched in September 2005, united 10 institutions from three different countries for a period of three years, in order to create a national university system of support to entrepreneurial activities and technology transfer in Croatia, especially in the field of applied natural sciences. The three Croatian Universities involved (Split, Rijeka, Zagreb) are actively participating in previously mentioned CARDS 2003 project as pilot project institutions and are currently in the initial stage of opening their Technology Transfer Offices.

There are many more potential beneficiaries of a technology transfer grant scheme – among higher education institutions and public research organizations across the country. Preliminary research by the MSES shows great interest for such a grant scheme as well as significant need for financing activities which are not covered through existing R&D policies. Activities proposed for co-financing through this grant scheme are in fact the result of a gap analysis undertaken in consultation with potential final beneficiaries. The analysis indicates that the gap in terms of nationally funded support schemes exists between the pre-commercial and the commercial R&D phase; this grant scheme would primarily serve to bridge that gap and thus help ensure effectiveness of domestic policy efforts.

The following minimum and maximum values of individual grants will apply, with the possibility of co-financing the Final Beneficiaries' share of co-financing from the national budget.

<i>Assistance thresholds</i>	
Maximum and minimum EU grant size (€)	Maximum: € 750.000 Minimum: € 50.000
Maximum size of EU funding to total eligible costs (%)	75%

The second Operation seeks to support the creation and growth of technology- and knowledge-based spin-offs (mostly from universities and research organizations) and SMEs by enabling infrastructure and access to technology and business development services, particularly for high value added sectors (biosciences, biotechnology). The Operation will be delivered through a number of procurement contracts essential to the realization of a strategic investment – the building and equipping of a Biosciences technology commercialisation and incubation centre (BioCenter). BioCenter will be located on Zagreb university campus and is envisaged as a national resource providing entire infrastructure necessary for the start-up and incubation of new companies as well as for support of existing SMEs in the bioscience sector. It will have an additional important role in bringing the University closer to the economic and market needs as a direct

facilitator of university-industry cooperation and to prepare scientists and students for a career in entrepreneurship or industry.

In order to facilitate participation from all parts of the country, Operation 1 envisages that 1,5 million EUR of the IPA allocation for the Operation target Final Beneficiaries from the 10 counties designated as the lagging behind regions. Should the funding allocated for Final Beneficiaries from these regions come under the risk of decommitment, the Operating Structure maintains the right to re-allocate funding as appropriate. The strategic investment under Operation 2 is envisaged as a national resource. Given the size and nature of the project, it does not make economic sense to position such incubator infrastructure in each university or region. Critical mass of researchers, support institutions and other inputs necessary for successful operation exists only in Zagreb. Instead, regional technology infrastructure will be linked to the national centre through virtual incubation units so that regions throughout Croatia that have an interest in developing their biosciences capacity (SMEs etc.) will benefit from the business support services offered by the BioCenter.

### Main types of operations

Operation 1 under this Measure – the Science and Innovation Investment Fund – envisages the following:

- A procurement contract through which assistance will be extended for the following activities: training workshops and consultancy advice for beneficiaries, on the topic of developing business plan and feasibility study, of project preparation and implementation (i.e. secondary procurement, project pipeline preparation) and technology transfer activities in general (technology assessment, planning and evaluation; technology commercialization strategies; intellectual property; technology transfer and technology licensing; spin-out programmes);
- A grant scheme (with multiple calls for proposal) for the following knowledge transfer activities:
  - Development of infrastructural capacity in higher education institutions and research organisations to interact with business, particularly SMEs (establishing new and supporting existing business liaison offices, technology transfer offices and knowledge transfer centres);
  - Commercialization activities (patenting and maintaining of patents; technology screening and patent valorisation; proof of concept development);
  - Enhancing science-industry collaboration (infrastructural investments in HEI and PRO enabling them to better serve industry needs; research-related infrastructure as a part of centralized R&D services to be used by university spin off/start-ups and knowledge based SMEs; technology mapping);
  - Programmes for effective networking and communication (developing innovative collaborative programmes between HEI and PRO and/or industry, e.g. business clubs; creating and developing business-friendly mechanisms and materials to promote and explain products, processes and services to industry and small businesses in the region).

Because it is impossible to predict the exact needs of every institution for consultancy and training, the possibility is left under the grant scheme for very specific, tailor made consultancy and training activities related to specific knowledge transfer projects. As HEI and PRO will compete for financing of their grant proposals, the Operation will finance the best projects, with the soundest argumentation of individual activities.

Operation 2 – BioCenter – envisages procurement contracts necessary for constructing and equipping the centre. The BioCenter will provide necessary facilities, equipment and services for early development cycle and product development, including the following:

- Laboratory space qualified according to Good laboratory Practice (GLP) standards for R&D purposes of start ups and SMEs;
- Central laboratory services such as sterilisation, cold room, dark room, liquid nitrogen storage, ice machine, storage of hazardous chemicals, waste chemicals handling, de-ionised water production etc.;
- Central scientific equipment such as ultra-centrifuge, analysis systems etc.;
- Office space with connections for telephone and Internet;
- Central office services such as photocopying, answering service, reception, postage handling etc.

### Selection criteria

Operation 2 of this measure is a pre-selected investment of national importance. Operation 1 consists of a procurement contract and a grant scheme for which selection criteria will be subject to the approval of the Sectoral Monitoring Committee and whose underlying principles will be the following:

- projects applying for a grant must be ready for implementation to the extent required by the Guidelines for Applicants (i.e. the degree of preparedness of the tender dossier, cost-benefit analysis, environmental impact assessment and any other accompanying documentation);
- preference will be given to institutions with proven commitment in terms of human capital, including high level management support, and with strong institutional plans for strategic development of the knowledge transfer framework;
- current level of engagement with industry and SMEs will be taken into consideration in selecting beneficiaries of both types of assistance (consultancy, grants);
- activities for which funding is already available from other sources will not be supported, but proposals may be made for activities to complement and build upon work funded from other sources, provided that value added is demonstrated;
- all projects must address regional priorities, relevant regional needs and economic strategies;
- preferential weighting of projects creating and strengthening strategic networks and partnerships (key partners: representatives of the business community, regional development agencies etc.).

### Final Beneficiaries

The final beneficiary of consultancy services and trainings i.e. of the contract under Operation 1 is the Ministry of Science, Education and Sports. The recipients will be selected higher education institutions, public research organizations and the staff of the MSES in case of assistance with preparation of the grant scheme under this Operation.

The final beneficiaries of grants under Operation 1 are the following public institutions:

- Higher education institutions (for their individual institution and/or as part of a consortium bid)
- Public research sector organisations (for their individual institution and/or as part of a consortium bid)

The final beneficiary of Operation 2 under this Measure is the Business Innovation Center of Croatia, Ltd. (BICRO) – a national public body established by the Government and acting as an implementing agency of the Ministry of Science, Education and Sports' technology programmes. BICRO is wholly State owned.

## Priority Axis 3: Technical assistance

### Measure 3.1: OP management and capacity building

#### Specific objective

The objective of this measure is to ensure efficient and effective OP management, and develop the institutional capacity for managing and absorbing IPA.

#### Description

The Priority Axis will support and consolidate the systems, processes and skills for EU funds management by the RCOP Operating Structure and for the absorption of funding under similar OPs in the future. Given the needs to address staff turnover within the public administration allied to the demands of EU funds management which are typically higher than comparable civil service positions, co-financing of the salary costs of public officials within the management structure and project selection committees will be provided under this measure.

#### Main types of operations

The measure consists of three Operations, the first one addressing horizontal OP management issues and the second one addressing issues related to the development of sector studies, preparation of future programming



documents and identification/development of accompanying project pipelines. The first and second Operations will take the form of procurement contract(s). The third Operation will address co-financing of staff salary costs.

Assistance under this measure can cover the following activities:

- a. Consultancy support (including advice and training) to the RCOP Operating Structure regarding any aspect of management, monitoring, evaluation, visibility, publicity and control, including grant scheme management and procurement (e.g. fees for expert assessors and evaluators of project applications);
- b. Support with the preparation of sector studies and future programming documents
- c. Identification and preparation of project pipeline under future OPs covering regional competitiveness;
- d. Development of the monitoring arrangements and the Management Information System;
- e. Costs of external evaluators engaged for interim and ongoing evaluations;
- f. Preparation and implementation of information and publicity activities;
- g. Expenditure related to the organization and administration of meetings of the Sectoral Monitoring Committee and Project Selection Committees;
- h. Provision of translation and interpretation services;
- i. Co-financing of staff salary costs.

#### **Selection criteria**

Assistance will be commissioned through one or more procurement contracts. Tenders will require the successful bidders to demonstrate a track record of similar activities, named key experts with appropriate skills and experience, and a viable and cost-effective methodology.

#### **Final Beneficiaries**

The final beneficiary of this measure is the RCOP Operating Structure. Recipients of assistance under contracts envisaged by the measure are members of the RCOP Operating Structure and, as appropriate, members of Sectoral monitoring committee, project selection committees and partnership consultation groups.

### 3.1.4. Indicators for Priority Axes and Measures

#### Priority Axis 1: Improving the development potential of lagging regions

Objective	Result Indicator	Definition	Unit	Baseline value	Source	Frequency of reviewing	Mid term target (2010)	Target (2012)
To support the creation and growth of industrial and service SMEs	Jobs created in lagging regions	Number of full time jobs directly generated by the activity in question	Number	0	Project monitoring report	twice during the programming period	50	300
	Established or expended SMEs located within the targeted regions	SME: up to 250 employees, annual turnover up to 28 m€, assets up to 14 m€	Number	0	Project monitoring report	twice during the programming period	20	100

#### Measure 1.1: Business-related infrastructure

Objective	Output Indicator	Definition	Unit	Baseline value	Source	Frequency of reviewing	Mid term target (2010)	Target (2012)
To provide quality business related infrastructure in Croatia's lagging behind regions	Number of implemented projects for business related infrastructure development	Types of investments in business related infrastructure as indicated in the Operation	Number	0	Project monitoring report	annually	8	20

Priority Axis 2: Enhancing the competitiveness of the Croatian economy

Objective	Result Indicator	Definition	Unit	Baseline value	Source	Frequency of reviewing	Mid term target (2010)	Target (2012)
To enhance the competitiveness of SMEs	Increase in SMEs' satisfaction rate with advisory services provided	SME – up to 250 employees, annual turnover up to 28 m€, assests up to 14 m€. Satisfaction rate – certain score on satisfaction surveys	%	0	Annual MELE surveys of SMEs using business support	twice during programming period	10-15%	10-20%
	Increase in the number of assisted SMEs	Indicates SMEs assisted by e-business trainers generated by the activity in question	Number	0	Project monitoring report	twice during programming period	100	150
To improve commercialisation of technology and R&D	Number of cooperation agreements between scientific community and business/industry	Indicates the number of cooperative R&D projects jointly initiated by researchers from HEIs/PROs and business partners (SMEs and industry)	%	0	Project monitoring report	twice during programming period	10-15%	15-25%

Measure 2.1: Development of business climate

Objective	Output Indicator	Definition	Unit	Baseline value	Source	Frequency of reviewing	Mid term target (2010)	Target (2012)
To improve the quality of business development services	Number of e-business centres assisted	Indicates the number of e-business centres receiving training and physical investment support	Number	0	Project monitoring report	annually	0	10
	Number of SMEs receiving advisory services	Indicates SMEs assisted by business consultant	Number	0	Project monitoring report	annually	100	250
	Volume of training on e-business received	Participants: e-business centres, individuals from businesses in supported cluster	Hours x No. of Trainees	0	Project monitoring report	annually	120 hours x 45 trainees	150 hours x 60 trainees
	Volume of training on clustering received	Participants: individuals from businesses in supported cluster	Hours x No. of Trainees	0	Project monitoring report	annually	60 hours x 30 trainees	100 hours x 40 trainees
	Number of counties receiving support to improve investment performance	Indicates the counties which will receive full certification	Number	0	Project monitoring report	annually	20	20
	Number of methodologies and registers	Methodologies and register of SME measures and incentives, as specified in the Operation	Number	0	Project monitoring report	annually	One methodology	3 sets of methodologies; 1 register

Measure 2.2: Technology transfer and support services for knowledge-based start-ups

Objective	Output Indicator	Definition	Unit	Baseline value	Source	Frequency of reviewing	Mid term target (2010)	Target (2012)
To improve technology transfer and commercialization capacities of higher education institutions and public research organizations	Number of knowledge transfer projects completed	Projects involve establishment and/or equipping of technology transfer offices, science incubation centres, centres for contract research and innovation centres, as specified in the Operation	Number	0	Project monitoring report	annually	5	10
	Number of participants in educational events	Participants: members of research institutes, higher education institutions Educational events: trainings, consultations, workshops etc.	Number	0	Project monitoring report	annually	50	100
	Biotechnology incubation center (BioCenter) completed	BioCenter construction and equipping completed, together with accompanying facilities as specified in the Operation	Number	0	Project monitoring report	annually	0	1
	Projects prepared for submission to IPA with complete documentation	Projects concern types of investments specified in the grant scheme under the measure	Number	0	Implementing body	annually	5-10	15-20
	Total value of projects prepared	Projects concern types of investments specified in the grant scheme under the measure	EUR	0	Implementing body	annually	1.500.000 EUR	4.500.000 EUR

Priority Axis 3: Technical assistance

Objectives	Result Indicator	Definition	Unit	Baseline value	Source	Frequency of reviewing	Mid term target (2010)	Target (2012)
To develop the institutional capacity for managing and absorbing IPA	OP funds absorbed		%	0	MELE, implementing body, final beneficiaries, project monitoring report	twice during programming period	70%	100%

Measure 3.1: OP management and capacity building

Objectives	Output Indicator	Definition	Unit	Baseline value	Source	Frequency of reviewing	Mid term target (2010)	Target (2012)
To ensure efficient and effective OP management	OP management and administration staff trained	Management and staff within the Operating Structure	%	0	Operating Structure, final beneficiaries, project monitoring report	annually	70%	100%
	Sectoral Monitoring Committee meetings		Number	0	Head of Operating Structure	annually	7	10
	Publicity events	Publicity events such as launches, press conference, seminars, publications, brochures, TV/radio broadcast	Number	0	Head of Operating Structure, project monitoring reports	annually	8	10

## 3.2. HORIZONTAL ISSUES

### Equal opportunities for men and women

In September 2006, the Croatian Government adopted the National Policy for the Promotion of Gender Equality 2006-2010. The objectives of the policy which are of particular relevance to Components III and IV of IPA include the reduction of female unemployment and elimination of discrimination, promotion of women's entrepreneurship and improved enforcement of relevant labour laws. It also strengthens and promotes measures that support the reconciliation of professional and family obligations.

The Government has also adopted a strategic document on the main tasks of state administrative bodies in the process of accession to EU 2004-2007, one of which is noted as being to strengthen cooperation between national and local state mechanisms in relation to gender mainstreaming and continuous cooperation with non-governmental organisations active in the field of gender equality.

Mainstreaming equal opportunities is a horizontal principle of Structural Funds interventions and the implementation of this principle will be considered and monitored in the process of implementation and evaluation of the RCOP. This will require adequate monitoring indicators, data collection, implementation procedures and guidelines which will be able to draw on support from the technical assistance priority.

To ensure that this principle is taken into account at all levels of implementation, the following procedures will be adopted:

- The requirement to ensure and demonstrate gender equality in the operation of IPA projects will be included in both **information and publicity campaigns**, and materials provided during calls for proposals / tender processes;
- **Applicants** for IPA assistance will be expected to demonstrate how their project promotes equal opportunities or otherwise takes account of potential gender bias (e.g. by providing gender segregated information on the local labour market, and the efforts of the project to overcome any barriers to equality);
- The requirement to observe equality of opportunity during project implementation will be built into **agreements with beneficiaries**, and will be checked, as part of the **internal controls and independent audit process**;
- The outputs and results indicators for projects will be broken down by gender where appropriate for the purposes of project and programme monitoring;
- Commentary will be prepared on operations linked to equal opportunities in the **annual implementation reports** of the Operational Programme;
- The impact of the OP on gender equality will be considered as part of its evaluation, where relevant.

### Environmental protection and sustainable development

There are no specific environmental measures in this Operational Programme. However, to ensure that sustainability and environmental protection are taken into account throughout programme management and implementation, the following procedures will be adopted:

- The requirement for IPA to promote environmental protection and sustainable development will be included in both **information and publicity campaigns**, and materials provided during calls for proposals / tender processes;
- **Applicants** for IPA assistance will be expected to demonstrate that their project will not have a detrimental environmental impact, to certify that it is environmentally neutral, and/or to present how the project will make a positive contribution to sustainable development; these factors will be taken into account through the project appraisal process and selection criteria, if appropriate; where appropriate,

projects should be compliant with the EU environmental acquis, including the Environmental Impact Assessment (EIA) legislation;

- Any consequences of the appraisal of environmental impact during the selection stage will be reflected in agreements with beneficiaries, and will be checked, as part of the internal controls and audit process;
- Commentary will be prepared on operations linked to environmental protection and sustainable development in the annual implementation reports of the Operational Programme;
- The impact of the OP on environmental protection and sustainable development has been considered as part of its ex ante evaluation.

All necessary environmental impact assessment procedures in line with EU standards will be carried out by MEPPPC or competent local authority. To implement the environmental impact assessment procedure, existing institutional structures will be used, and TA assistance will be sought to enhance professional capacity.

The Republic of Croatia has been performing environmental impact assessment for single developments since 1984, when the procedure was defined by the Act on Physical Planning and Spatial Development. Since 1994, when the Environmental Protection Act was adopted (OG 94/1994, 128/1999), the environmental impact assessment procedure is governed by this Act and its implementation regulation. The effective implementation regulation is the Ordinance on Environmental Impact Assessment (OG 59/00, 136/2004, 85/2006). The Act and Ordinance include most of the requirements from Council Directive 85/337/EEC of 27 June 1985 on the assessment of the effects of certain public and private projects on the environment, as amended by the Directives 97/11/EEC and 2003/35/EC, relating to the following: establishment of responsible bodies, EIA in a trans-boundary context, description of the EIA procedure, and assessment of direct and indirect effects.

The transposition of the remaining provisions of the Directive into Croatian legislation will be ensured by adoption of the new Environmental Protection Act in the second half of 2007, and the implementation regulation on environmental impact assessment, in addition to it. In that sense the CARDS 2003 project "EIA Guidelines and Training", which started in July 2005 has been recently implemented. This project assisted in the transposition of Council Directive 85/337/EEC, as well as in the building of administrative capacities of civil servants working on EIA at the national and county level, as well as in promoting public participation in the EIA procedure. Further capacity-building actions are likely to be required.

By adopting the new Environmental Protection Act and its subordinate special regulations:

- the provisions of Directive 2001/42/EC of the European Parliament and Council of 27 June 2001 on the assessment of the effects of certain plans and programmes on the environment will be transposed,
- the provisions of Council Directive 96/61/EC of 24 September 1996 on Integrated Pollution Prevention and Control (IPPC) will be transposed.

Moreover, a transposition of Directive 2004/35/EC of the European Parliament and Council of 21 April 2004 on environmental liability with regard to the prevention and remedying of environmental damage is envisaged. Recognised principles of environmental protection, including also the polluter pays principle, are already in force in Croatia.

### 3.3. COMPLEMENTARITIES AND SYNERGIES WITH OTHER FORMS OF ASSISTANCE

This section gives an overview of complementarities and synergies of this OP with other IPA OPs as well as with other foreign assistance extended to Croatia in the relevant policy areas in the past. With regards to project level coordination, the standard rule applies preventing financing a project from more than one EU source. On the other hand, a beneficiary should be able to ensure part of co-financing through International



Financing Institutions' projects and programmes in a similar policy area (e.g. World Bank, UNDP) as long as the latter fund expenditure complements in scope rather than being overlapping to that financed through IPA.

### 3.3.1. Coordination and coherence with assistance provided under other IPA components

Because of the multi-sectoral character of regional development, there is need for coherent programming across the different IPA components, most of which have a more or less direct impact on territorial development. In the programming of this OP, particular care was therefore taken to promote complementarities with activities supported by the other two OPs under IPA Component III and activities supported under IPA Components II (Cross-Border Cooperation, CBC), IV (Human Resources Development) and V (Rural Development). By avoiding overlaps and enhancing synergy across measures, it was sought to enhance the impact of limited IPA financing available to Croatia.

Component I of the IPA programme primarily addresses the institution building needs and supports Croatia in meeting EU accession criteria. It focuses on priorities identified in the Accession Partnership<sup>111</sup> and those emerging from the screening and accession negotiations process across the chapters of the *acquis*. IPA funds under Components III and IV will, on the other hand, be used to prepare Croatia for the Cohesion policy upon accession. Component I will contribute to this effort by supporting capacity building of relevant institutional structures at the central and local level, short of supporting direct management of Operational Programmes (covered under IPA III and IV).

All Croatian counties qualify for support under Component II (although not all are border regions)<sup>112</sup>. In addition, cross-border cooperation programmes which are supported through Community Initiatives cater to development needs similar to those addressed by the "mainstream" regional development programmes (i.e. those supported under Objectives 1, 2 and 3 in place until 2007). However, measures financed under the CBC OPs are expected to contribute also to improved cross-border governance, cross-border networking and to an exchange of experiences and policy learning. This additional requirement means that duplication of activities is unlikely. For activities co-financed under the RCOP, it will be ensured in the selection process that projects do not feature a cross-border effect which is either formalized or represents an essential characteristic of the project. (A project would remain eligible for RCOP funding if its results would represent a positive spill-over effect beyond the administrative boundaries of the area in question).

The process of programming CBC OPs with the EU Member States as well as with the non EU Member States has been completed, and the OPs sent to the European Commission for approval in May 2007. Several types of interventions are recurrent across the different OPs, suggesting that key needs of all border areas in this region of Europe revolve around investment into entrepreneurship (including R&D and tourism), preservation and improved economic use of natural and cultural heritage, environmental protection, enhanced social services and community action.

In comparison to the Transport OP and the Environment OP, the RCOP supports ERDF-type infrastructure targeted at improved social and economic cohesion. Transport or environment infrastructure is exceptionally eligible under this OP provided they are directly business-related and small in scale (no "major projects" envisaged).

There is much scope for complementarity with respect to the Human Resources Development OP (HRDOP). The RCOP has two operational Priority Axes, namely:

- *Improving the development potential of lagging regions*

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<sup>111</sup> Council Decision 2006/145/EC.

<sup>112</sup> City of Zagreb and County of Požega-Slavonia can participate in Component II under transnational and interregional programmes, as well as associated regions under cross border programmes.

- *Enhancing the competitiveness of the Croatian economy.*

For its part, the HRDOP contains three operational Priority Axes, namely

- *Enhancing access to employment and labour market re-integration*
- *Reinforcing social inclusion of disadvantaged*
- *Enhancing human capital and employability.*

It is clear that the implementation of the measures under the RCOP Priority Axes will strengthen the potential for achieving a more efficient labour market. At the same time, the measures implemented under this Operational Programme should contribute to the development of a more cohesive and competitive Croatian economy.

In the context of developing 'complementarity' across both OPs, the combination of the proposals presented in the table hereunder should achieve a net effect of strengthening cohesion as well as competitiveness. While all such proposals will be assessed in terms of appropriate delivery mechanisms, their acceptance and implementation will be determined at the level of individual activities undertaken including the application of appropriate selection criteria which reflect the objectives of both OPs.

Also in the context of achieving a wider complementarity, certain indirect effects will also contribute to this objective. In particular, the overall strengthening of cohesion and competitiveness should promote an *increased and sustainable demand for an appropriately qualified workforce* in line with Priority Axes 1 and 3 of the HRDOP. At the same time, the results arising under Priority Axis 2 (*Reinforcing social inclusion of people at a disadvantage*) should also contribute towards this objective though less immediate in terms of impact.

The table below details the elements of complementarity across the Priority Axes of these two OPs. In practice, co-ordination and complementarity between these two OPs will be assured by 'cross-membership' of their respective sectoral Monitoring Committees. See Chapter 5 for details.

Table 11: Complementarity between RCOP and HRDOP

Priority Axis / OP	Complementarity between RCOP and HRDOP
Priority Axis 1 (HRDOP) <i>Enhancing access to employment and labour market re-integration</i>	Measure 1 will focus on the establishment of Local Employment Partnerships (LEPs) in each Croatian county; moreover, since the first eight such LEPS are already established in lagging behind regions, 'inter-county partnerships' will also be promoted in those regions.  A 'pilot lifelong career guidance centre' will be established through Measure 2 in conjunction with a local 'Centre for SMEs' included as a partner. At the same time, activities of a more horizontal nature will incorporate specific selection criteria which take account of regional disadvantage.
Priority axis 2 (HRDOP) <i>Reinforcing social inclusion of the disadvantaged</i>	For both Measures proposed under Priority Axis 2 ( <i>Supporting access to employment <u>and</u> to education by disadvantaged groups</i> ), new activities will also be developed which focus specifically on regional disadvantage and will be supported by more horizontally-based activities which will also build in this focus through specific selection criteria.

<p>Priority Axis 3 (HRDOP)</p> <p><i>Enhancing human capital and employability</i></p>	<p>Under Measure 1 (<i>Strengthening the development of a National Qualifications Framework</i>), the development of initial curricula will include IT and Biotechnology-related<sup>113</sup> disciplines and will involve representatives of the 'cluster' and 'Biotechnology Incubator' projects under Priority Axis 2 of the RCOP in the work of the relevant VET Sectoral Councils charged with curricula development in these sectors; moreover, a significant proportion of the 'model' schools to be supported under the VET innovation fund will be located in the lagging behind regions.</p> <p>Under Measure 2 (<i>Strengthening the provision of lifelong learning and professional higher education</i>), steps will be taken to ensure that activities related to lifelong learning will also focus on the lagging behind regions.</p>
<p>Priority Axis 1 (RCOP)</p> <p><i>Improving the development potential of lagging behind regions</i></p>	<p>Because of their 'geographical' focus, activities supported under this measure will target certain groups of disadvantaged, in particular those located within the lagging behind regions. In addition, further priority may also be given to projects which promote increased employment, particularly for groups most affected by other forms of disadvantage including the long-term unemployed, women, the disabled and minority groups.</p>
<p>Priority Axis 2 (RCOP)</p> <p><i>Enhancing the competitiveness of the Croatian economy</i></p>	<p>Activities supported under this Priority Axis will be complementary to the wider role of the HRDOP. In particular, they will focus on targeted consultancy services for SMEs as well as support which contributes to the creation and growth of technological and knowledge-based 'spin-offs' (mostly from universities and research establishments) as well as SMEs through enhanced infrastructure and access to technology and business development services especially for high value-added sectors.</p>

Coordination of the RCOP with Component V of IPA is carried out systematically through the inclusion of a representative of the Ministry of Agriculture, Forestry and Water Management (MAFWM) in the RCOP intergovernmental working group. There is no concern of overlap between the RCOP and the Integrated Plan for Agriculture and Rural Development (IPARD), even though IPARD envisages similar investments – into basic infrastructure and SMEs in rural<sup>114</sup> areas. Rather, there is scope for synergy between the RCOP and all three Priority Axes of the IPARD Plan.

Under Priority Axis 3 of IPARD “Development of rural economy”, Measure 3.1 “Improvement and development of rural infrastructure” envisages, among other, investments by local self-government units into local public unclassified roads in agricultural zones, sewerage systems and wastewater treatment plants. In the RCOP access roads, water, wastewater and sewerage systems are eligible – not as self-standing investments intended to enhance the quality of life of the rural population in general but for the purpose of developing public business-related infrastructure. IPARD Measure 3.2 “Diversification and development of rural economic activities” and Measure 1.2 “Investments in the processing and marketing of agriculture and fishery products to restructure those activities and to upgrade them to Community standards” enable infrastructural investments for SMEs i.e. investments into immovable property, equipment and machinery. SMEs are not entitled to such investments under the RCOP. Infrastructural investments eligible under the RCOP are of public and not private character; as such, they are intended to service not individual SMEs but clients of business-related

<sup>113</sup> NB – these could include basic laboratory technology and support skills as well as advanced vocational qualifications in research activity.

<sup>114</sup> These areas make up 84% of Croatia’s overall territory and include also Areas of Special State Concern.

infrastructure in general and their purpose is to contribute to the economic attractiveness of a certain area or to the competitiveness of a sector underpinning national competitiveness. Measure 2.1 of the RCOP provides assistance to SMEs by means of advisory services. Advisory services are up to a certain level eligible under the IPARD Measures as well, but only as an expenditure linked to and accompanying an infrastructural investment. The RCOP Measure excludes activities financed through IPARD.

As can be seen, interventions under the RCOP complement those under IPARD Plan as they adopt a different approach in addressing a common goal – economic competitiveness and spatially equal development and growth. Whereas IPARD mostly targets SMEs (with direct investments), the RCOP for the most part focuses on public sector service providers whose skills and capacity (including infrastructural capacity) are essential to providing quality business services essential to competitiveness and ensuring a quality business environment. This complementarity is also pursued in building local capacity for endogenous growth. Both programmes will build on the experience of Regional Operational Programmes (ROP). Under Measure 2.2 of IPARD “Preparation and implementation of local development strategies” ROPs feature as a point of reference in encouraging rural local development initiatives, through LEADER-type activities.

Any risk of double financing of projects will be eliminated through selection criteria for individual grant scheme calls for proposals under IPARD and RCOP. Under IPARD a database will also be set up regarding finances granted to each applicant from IPARD as well as other programmes; with the help of the said database verification will be carried out before any payments are effectuated from the IPARD programme.

In conclusion it can be said that the co-ordination of the RCOP with the other OPs will not only ensure that overlapping or double funding is avoided but will also promote complementarities and synergies wherever possible. Preference under this OP will normally be given to projects that are complementary to actions supported by another IPA OP or Component, provided that they meet the relevant selection criteria.

On the general IPA level, efforts at coherence and coordination are pursued through a number of institutional arrangements. CODEF takes overall responsibility for coordinating programming and monitoring activities under the IPA programme in Croatia. CODEF Department for EU Programmes in the Field of Capacity Building for EU Accession is responsible for co-ordinating IPA Components I, II and V. The Department for EU Programmes in the Field of Economic and Social Cohesion takes responsibility for the co-ordination of IPA Components III and IV. In addition to the overall co-ordination function that will be assumed by the IPA Monitoring Committee, representatives of Sectoral Monitoring Committees (SMC) will be invited for Components II (Cross-Border Cooperation), IV (Human Resources Development and V (Rural Development) will be invited to attend the RCOP SMC as observers.

### 3.3.2. Coordination and coherence with previous EU assistance

Coordination issues with regards to the programming of this OP differed across the different policy segments: regional development, science and technology, innovation and R&D, ICT and the SME sector. While the pre-accession assistance so far placed a strong emphasis overcoming internal development disparities, support for sectors and activities of importance to an enhanced national competitiveness (e.g. SME, R&D) has been less present. This trend, due to the nature of the CARDS programme and of the *acquis*-related early phase of the accession process, has started to change with the opening up of PHARE to Croatia and the start of Economic and Social Cohesion grant schemes. However, the experience of grant scheme management in ERDF-type areas of investment remains at this time very limited and needs to be strengthened, especially in view of the emphasis which the new generation of the Structural Funds places on the Lisbon Strategy and an enhanced European competitiveness. This sub-chapter gives an overview of projects within policy areas covered by the OP and a brief account of the nature and focus of EU-financed interventions so far.

#### *Regional Development*

EU assistance in the area of regional development has so far targeted two sets of issues: general policy and institution building, on the one hand, and – with a financially much larger allocation – development capacity at

the county level. The first type of projects aim at enhancing the administrative capacity at the national level: establishing the legal, institutional and programming framework that is required, not least to absorb funds from EU Cohesion assistance.

The second type of project aims to establish and improve strategic planning and institutional and programming arrangements in the counties. This is envisaged as a bottom-up contribution to the long-term goals of overcoming development disparities among Croatia's regions and absorbing the EU Structural Funds. Counties have benefited from CARDS technical assistance for drafting Regional Operational Programmes (ROPs), setting up the accompanying institutional system and creating a project pipeline, as well as from grant schemes, for implementing individual ROP projects. Assistance was at first focused on war-damaged counties and later extended to other counties as well. With PHARE, the focus of grant schemes shifted to business-related infrastructure. Following the recent DIS accreditation, the grant scheme management capacity at the national level is planned to be strengthened under CARDS and tested through the implementation of a grant scheme project under PHARE.

It is proposed to use IPA to enhance the general administrative and grant scheme management capacity of the relevant national institutions, as well as to continue the capacity building effort at the sub-national level. With regards to financing of investments with IPA funds, it is necessary to adopt a selective approach. This OP will finance county development projects (ROP pipeline and CARDS pipeline) which contribute to socio-economic cohesion as well as to capacity building of county and other sub-national actors as future final beneficiaries of the Structural Funds.

Table 12: Relevant EU projects in the field of regional development

Programme/Year	Project Title	Status (as of July 2007)
CARDS 2001	Refugee Return – Reconstruction of Houses, Public and Social Infrastructure; De-mining and Start-up Packages for the Entrepreneurs	completed
CARDS 2002	Strategy and Capacity Building for Regional Development	completed
CARDS 2002	Sustainable Development In Return Areas	completed
CARDS 2003	Sustainable Development In Areas of Special State Concern	ongoing
CARDS 2004	Sustainable Development of Croatia's War Affected Areas	ongoing
CARDS 2004	Capacity Building for Managing Funds for Regional Development	ongoing
PHARE 2005	Business-related Infrastructure Grant Scheme under ESC	ongoing
PHARE 2006	Development of Institutional Capacity for the Management of EU Structural Funds Post-Accession	planned

Through EU funded projects, a pipeline worth over 50 million EUR has been prepared (see Annex 9). A project pipeline of about 40 projects (for an amount of 32 MEUR) has been prepared under the CARDS 2003 Project "Sustainable Development in War Affected Areas" for the Vukovar-Srijem and the Sisak-Moslavina County. The project pipeline covers business and community infrastructure, and environmental management. Through the CARDS 2004 project „Sustainable Development In War Affected Areas“, a pipeline worth 30 MEUR will be prepared by mid 2008, covering ROPs in four counties (Lika-Senj, Karlovac, Slavonski Brod-Posavina, Požega-Slavonia Counties). Projects are being prepared for financing by all available sources of financing: World Bank, EIB II, SAPARD, IPA, etc. Eight projects were already prepared as applications for financing under the EIB II loan. Through CARDS 2004 project "Support to the Management of Economic and Social Cohesion Projects", 26 projects of business-related infrastructure have been prepared with complete tender documentation. Projects come from the thirteen counties without previous EU assistance.

It is worth noting that the needs of the counties are much larger than the project pipelines being developed through the mentioned EU projects. Technical assistance extended to individual counties through CARDS projects targets a relatively small number of projects with a good co-financing prospect; a much larger number of project proposals – generally in a much less developed stage – features in the counties' ROPs as investments essential to counties' socio-economic development. It is also worth noting that some of these

projects may apply for funding under the OPs for CBC, Environment, Human Resources Development and Rural Development as well as for this OP.

**Table 13: Available sources of funding for regional development projects in Croatia**

Source	Amount	Location and type of activity supported
Integrated Development of Local Community, 2005-2008	300 MEUR of which EIB II loan of 150 MEUR	Primarily directed to war effected and other disadvantaged areas: communal, social and environmental infrastructure.
Social and Economic Recovery of the Areas of Special State Concern, 2005-2009	60 MEUR (35 MEUR IBRD loan, 25 MEUR State budget)	Social cohesion and economic recovery of the ASSC: infrastructure, social inclusion, SMEs, cooperatives, de-mining, institutional development and TA
PHARE 2005 ESC Business Related Infrastructure grant scheme (BRI)	5 MEUR plus some 1,6 MEUR national co-financing (by final beneficiaries); grant value between 500,000 EUR and 1 MEUR; max. 9 projects	Basic infrastructure related to local business and tourism development; upgrading of business infrastructure; tourist infrastructure; innovation, ICT and R&D infrastructural base; training and TA for using and maintaining the infrastructure.
Six IPA Cross-Border Cooperation (CBC) Operational Programmes	40.3 MEUR during 2007-2009	Border regions (NUTS III) eligible for individual CBC programmes Approx. half of the allocation for RCOP-type projects
Regional Competitiveness OP	47 MEUR during 2007-2009, of which 35,35 MEUR IPA	Eligibility area is the entire country; however, infrastructure related measures focused on disadvantaged areas.

**Table 14: Project pipeline developed through EU projects (counties' funding requirements)**

Project	Amount	Location and type of activity supported
Support to the Management of Economic and Social Cohesion Projects – CARDS 2004	26 project proposals with complete tender documentation developed, in 0.5 MEUR - 1 MEUR cost range. Some of these projects applied for PHARE 2005 BRI which can finance max 9 projects with its total grant of 5 MEUR	Same as Business-related Infrastructure PHARE 2005.  Projects from the 13 counties which are not ar-affected areas and have not received EU assistance so far.
Sustainable Development in Croatia's War Affected Areas – CARDS 2003	In addition to 11.6 MEUR for selected ROP projects financed under CARDS programme, the project pipeline being prepared concerns some 40 projects (32 MEUR) relating to business, communal and environment infrastructure – in two counties	Vukovar-Srijem and Sisak-Moslavina Counties
Sustainable Development In Croatia's War Affected Areas – CARDS 2004	In addition to 11,3 MEUR for selected ROP projects financed under CARDS programme, the project pipelines of 30 MEUR total are under preparation, and will be prepared by April 2008.	Lika-Senj, Karlovac, Slavonski Brod-Posavina, Požega-Slavonia Counties.

### Small and Medium Enterprises (SME)

The challenge for Croatian SMEs is to introduce structural changes to the sector in order to enhance its capacity to successfully meet the competitive pressures of the Single European Market. Anticipating participation in the internal market, CARDS projects supplied technical assistance to the relevant line ministry and SME support structures in order to enhance the overall business environment. They targeted issues of administrative barriers to investments, enhanced investment promotion and regulatory impact assessment with regards to SME.

Under PHARE, attention to policy improvement aligned with the European Charter for Small Enterprises was complemented by grant schemes, channelling assistance for the first time to individual SMEs. A PHARE 2005 project aims at enhancing the SME institutional framework, policies, programmes and strategies, business advice and the regulatory regime. This should help Croatian SMEs to meet EU standards as required by the SME Chapter of the *acquis* and the EU Charter for Small Enterprises. Under PHARE 2006, a pilot grant scheme is envisaged to enhance the technological capacity of SMEs and hence their competitiveness, productivity and export potential. The grant scheme is also an opportunity to test programmes, procedures and planning structures and thus prepare MELE for the management of a wide range of grants available through the Structural Funds. MELE staff has already gained some experience by participating in the design and implementation of another PHARE grant scheme – in the segment of regional development. These skills will be extended once MELE launches its own PHARE 2006 grant scheme for SMEs. Until the effects of that grant scheme become evident and more insight is gained into the appropriateness of supplying SMEs with direct investments under EU programmes, the Operating Structure decided to direct OP funding into other types of support which enhance competitiveness “indirectly” – through investments into business support services and related infrastructure rather than through direct investments into SMEs.

Croatia is also a beneficiary of three SME Finance Facilities co-financed by the European Bank for Reconstruction and Development (EBRD), the Council of Europe Development Bank (CEB, in cooperation with the German Kreditanstalt für Wiederaufbau, KfW) and the European Investment Bank (EIB), under 2005 PHARE Multi-Beneficiary programmes (Bulgaria, Romania, Croatia, Turkey). These programmes combine PHARE support with the resources of International Financing Institutions (IFIs) in order to contribute more effectively to the strengthening of the financial sector’s capacity to finance SMEs. The total value of these SME Finance Facilities under the PHARE programme is 32 MEUR.<sup>115</sup>

Table 15: Relevant EU projects in the SME field

Programme/Year	Project Title	Status (as of July 2007)
CARDS 2002	Development of the Business and Investment Climate in Croatia	finished
CARDS 2003	Strategic Plan for the Long-term Development of Existing Economic Free Zones in Croatia	ongoing
CARDS 2004	Improving Information to the Croatian Business Community	ongoing
PHARE 2005	Capacity Building of the SME Support Structure and Alignment of Policy and Actions to the SME Charter and to the Chapter of <i>Acquis Communautaire</i> on SME	ongoing
PHARE 2006	Support for Increasing the Competitiveness and Exports of Croatian SMEs	planned
PHARE 2005	Three SME Finance Facilities (PHARE multi-beneficiary programme)	ongoing

<sup>115</sup> The value of the SME Finance Facility co-financed by the EBRD (Bulgaria, Croatia, Romania) is 18 MEUR, of the one co-financed by the CEB and the KfW (Bulgaria, Romania, Croatia, Turkey) 9 MEUR and of the one co-financed by the EIB (Bulgaria, Romania, Croatia, Turkey) 5 MEUR.

Croatia also intends to participate in the new Competitiveness and Innovation Programme (CIP).<sup>116</sup> CIP helps enterprises innovate by providing access to finance: sharing risks and reward with private equity investors and providing counter or co-guarantees to national guarantee schemes. Through CIP, SMEs will also have simple, clear and efficient access to information on the EU via business support networks made up of Euro Info Centres and Innovation Relay Centres. CIP also introduces instruments such as a risk capital instrument for high growth and innovative companies, the "securitisation" of bank SME loan portfolios and an enhanced role for innovation and business support networks.

While both CIP and the RCOP aim for the most part at enhancing institutional capacity of intermediaries (direct assistance to SMEs is less present as a delivery mode), they remain complementary. The OP aims to strengthen and build up institutional structures (including infrastructure) to support cohesion and competitiveness, which can then evolve and adopt EU practice and know-how through international projects characteristic of CIP. In other words, there is work to be done on strengthening the capacity and quality of intermediaries and other economic actors in Croatia prior to their successful engagement and effective participation and learning from CIP-like initiatives with an EU value added.

That said there is, however, a certain risk of overlap in activities eligible under IPA and CIP. Both envisage assistance for intermediate bodies (albeit not of the same level of sophistication): technical assistance with policy making and policy evolution, assistance to those active in the finance sector, soft measures of support for initiatives launched by incubators, clusters, networks etc. In order to ensure synergies between these two sources of funding, the Operating Structure will pursue close and regular coordination with persons who are contact points for the different CIP components in the line ministries (mostly in MELE).

#### *Science, Technology, R&D and Innovation*

In the research and development sector, limited action has been taken with relevance to ERDF-type activities so far. There have been no EU projects that would support scientific research and development in response to the business sector needs and there is great potential under the IPA programme to undertake such types of intervention. On the other hand, there is much scope for the OP to build on the results (being) accomplished.

Much attention under EU assistance has gone to solving issues of intellectual property rights protection. The State Intellectual Property Office (SIPO) has benefited from a series of CARDS projects (national and regional) enhancing the legal and institutional framework and building up skills and capacity for assessing applications and granting of intellectual property rights. More recently, policy enforcement issues are addressed across a number of national institutions through a PHARE 2006 project "Strengthening the Enforcement of Intellectual Property Rights". The project targets institutions<sup>117</sup> relevant for intellectual, commercial and industrial property rights protection in order to establish and/or strengthen cooperation, coordination and enforcement mechanisms, to put in place an appropriate legal and regulatory framework, improve enforcement capacities and capacities for raising public awareness on property rights issues.

Efforts have been undertaken to solidify the understanding of intellectual property rights in the R&D sector, as well. The CARDS 2003 project "Intellectual Property Infrastructure for the Research and Development Sector" whose beneficiary is the Ministry of Science, Education and Sports, aims to develop a stimulative and effective IPR system within the R&D community. The main objectives of the project are to increase awareness and understanding of IPR (esp. patents) and technology transfer, to provide a range of services in legal protection, and enable economic evaluation and commercial exploitation of IP developed by R&D institutions, researchers and innovators. The value of the project is € 600.000. One of its outcomes is a comprehensive manual on

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<sup>116</sup> Croatia holds an observer status in CIP since 2006, when it initiated its official application procedure, and should start participating in the Programme during the course of 2007.

<sup>117</sup> State Intellectual Property Office, Ministry of Justice, Ministry of Interior, Ministry of Finance (Customs Administration), State Inspectorate.



technology transfer which also includes a generic procedures document which will be of value to project applicants under the MSES grant scheme in Measure 2.2 of this OP. Furthermore, the whole concept will be implemented in nine pilot project institutions (see Measure 2.2).

Under the CADSES Programme (INTERREG III C), beneficiaries from Croatia are participating in the Tec Park Net Project. The project concentrates on science and technology park co-operation in the EU-Future Region in Central Europe. The Tec Park Net consists of regions from Austria, Italy, Slovenia, Croatia and Hungary and aims at achieving improved competitiveness and a better economic situation for the regions involved. It focuses on innovative small and medium sized companies, clusters and also to stimulate new businesses. The exchange of knowledge, competent partners and specialized infrastructure is to facilitate integration of the regional economies on a higher level. On the Croatian part, project participants are the Zagreb technology park and the Rijeka technology-innovation centre.

Croatia participates in the programme TEMPUS which features much scope for coordination with both RCOP and HRDOP. The purpose of TEMPUS is to assist in the reform of the higher education system according to the Bologna process. Unlike IPA, where infrastructural investments are possible, TEMPUS focuses only on capacity building activities. On the other hand, its contribution is a valuable precondition for Croatia's effective use of funding available through Community Programmes such as Lifelong Learning, Erasmus Mundi, CIP etc.

So far there have been two TEMPUS projects of relevance for this OP. One of them contributes to the creation of partnerships between universities and the business sector. Joint European TEMPUS Project CREATE "Stimulating Croatia's Entrepreneurial Activities and Technology Transfer in Education" supports the creation of three Entrepreneurship and Technology Transfer Offices at Universities in Zagreb, Rijeka and Split, mostly in the area of natural sciences. Offices are to offer consulting, publishing services and training courses or workshops. The project is a welcome contribution to IPA and Community Programmes CIP and FP: it builds an entrepreneurial mentality and accompanying capacity in higher education institutions, which is essential to sustained and successful technology transfer and technology commercialization – topics featuring high on EU's agenda. The project commenced in 2005 and is expected to last for 36 months. A total of € 500,000 has been secured for its implementation. The grant co-ordinator in Croatia is the Faculty of Natural Sciences at the University of Split.

Of relevance is also the TEMPUS Joint European Project *Capacity Building for Research in Croatia*, which began in January 2007. The aim of the project is the establishment of Research Offices at all universities, and the National Foundation for Science, Higher Education and Technology Development, as well as to enhance the national administrative structure for the FP7 Community Programme at the MSES. The project includes development and implementation of Research Strategies and training of academic and administrative staff of Research Offices. Project leader in Croatia is the University of Split. A total of € 490,000 has been secured for the project. Consortium members from Croatia are the Universities of Osijek, Dubrovnik, Rijeka, Zadar and Zagreb, the National Foundation for Science, Higher Education and Technology Development, and the MSES.

There is scope under this OP for continuing efforts invested so far in the R&D sector in Croatia, and indeed for ensuring the sustainability of achievements through EU-financed projects. Prime candidates for assistance under the OP are pilot project centers in the domain of intellectual property rights, set up under the CARDS 2003 project, and the Technology Transfer Offices set up in three Universities through the TEMPUS CREATE project. Both projects are nearing completion, whereby the pilot centers are now ready for the next stage i.e. for engagement with concrete technology transfer activities.

Table 16: Relevant EU projects in the field of science, R&D and innovation

Programme/Year	Project Title	Status (as of July 2007)
CARDS 2001	Improving the legal and institutional framework for effective implementation and enforcement of intellectual property rights	completed
CARDS 2002	Industrial and Intellectual Property Rights – regional CARDS	completed

CARDS 2003	Strengthening the Intellectual Property Implementation System	completed
CARDS 2003	Intellectual Property Infrastructure for the Research and Development Sector	ongoing
PHARE 2006	Strengthening the Enforcement of Intellectual Property Rights	planned
INTERREG III C – CADES	Technological Park Net	ongoing
TEMPUS	Joint European Project <i>CREATE Stimulating Croatia's Entrepreneurial Activities and Technology Transfer in Education</i>	ongoing
TEMPUS	Joint European Project <i>Capacity Building for Research in Croatia</i>	ongoing

A significant source of funding for science, R&D and innovation is the 6<sup>th</sup> Framework Programme for Research and Technological Development (FP6), chosen as one of priority Community Programmes for Croatia to participate in. The objective of participation in the Framework Programmes is to fully align with the *acquis* in the field of research by stimulating scientists to join the European scientific network. Croatia has been fully participating in FP6 from January 2006 and has shown high absorption capacity during that time. A total of 10 contracts have been signed with Croatian partners, for whose activities a total of 10 million EUR has been accorded (Croatia's membership fee amounted to 6.4 MEUR). The greatest absorption capacity has been demonstrated in the fields of information and communication technologies, medicine and biotechnology, food biotechnology, construction, microelectronics and physics.

Participation in FP7 is regarded similarly as being of priority as it offers the following possibilities:

- direct financial assistance to the research and economic community for innovative scientific research;
- active participation in the creation of results of high value and applicability across the society;
- development of research institutions, of a system for managing and ensuring quality of scientific research, for the use of research equipment, facilities and premises, improvement of the position of young scientists and the development of quality administration in the research sector.

In the process of preparing<sup>118</sup> for FP7, the MSES is encouraging practices which represent a positive trend in the R&D sector in general: strategic planning of the use of R&D premises and equipment on the part of institutes and higher education institutions, ensuring of transfer of research results achieved through FP projects, etc.

This OP has a contribution to make to Croatia's successful absorption of FP7 funds as it seeks to enhance infrastructure and cooperation in high value added sectors (biosciences, ICT) which feature as a theme of EU-wide cooperation under the new Framework Programme. Investments into human capital and infrastructure capacity in these sectors are, in other words, a pre-requisite for successful engagement of Croatian scientists, clusters, academic institutions and SMEs into FP-type international initiatives with a European value-added.

#### *Information Society*

EU-financed intervention in the ICT sector has so far been restricted to one project providing assistance to central state administration bodies in the introduction of ICT based operations and the provision of efficient services to the business sector and citizens. Only one project targeted the use of ICT by entrepreneurs as a specific group within the information society. This is the INTERREG TELEACCESS project (December 2006-December 2008) through which MELE and the CSAOeC set up two pilot telecenters on the premises of two

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<sup>118</sup> For the sake of successful participation in FP7, MSES is developing a short- and medium-term action plan to raise the absorption capacities of the Croatian scientific community. Special focus is placed on networking with partners from foreign institutions and SMEs with regard to R&D activities. MSES has enhanced the FP7 contact point network in order to better support project implementation and partner search. MSES also benefits from a TEMPUS project whose goal is among other to enhance Croatia's absorption capacity of FP7 funds ("Capacity Building for Research in Croatia").

existing SME centers in remote areas (Skrad and Vinkovci) to provide the local labour force and citizens with a fast Internet access to opportunities for lifelong learning, creativity and development.

IPA and the RCOP recognize the importance of access to and use of ICT precisely with regards to bridging the digital gap between the more and the less developed areas. There is thus scope under the RCOP for building on the achievements of the TELEACCESS project, notably by expanding the model of e-business service provision to other entrepreneurial centers in Croatia, notably those servicing SMEs from the less developed areas. Investments into ICT infrastructure remain to be considered in a future OP.

In October 2006 the EC and Croatia signed a Memorandum of Understanding (MoU) on the participation of Croatia in the Community Programme on the interoperable delivery of pan-European eGovernment services to public administrations, businesses and citizens (IDABc) for the period 2006-2009. Through IDABc Croatia will be able to participate in the process of defining European Interoperability Framework and align electronic services provided by the Government with EU standards, thus enabling EU citizens and businesses access to Croatian services, and Croatian citizens and businesses access to the services of the EU member states.

Croatia also intends to take part in the Competitiveness and Innovation Programme (CIP) 2007-2013, whose ICT component (CIP ICT PSP) will be coordinated by Central State Administrative Office for e-Croatia. Croatia participates in the ICT PSP Committee currently as an observer. Croatia expects to benefit from the ICT component of the Programme by participating in pilot projects and thematic networks, as well as in benchmarking activities, conferences and events that complement domestic efforts on monitoring the development of the information society.

MSES will participate in Community Programmes Safer Use of the Internet and eContentplus. The coordinator of the implementation of the programmes will be the Croatian Academic and Research Network (CARNet).

Table 17: Relevant EU projects in the ICT field

Programme/Year	Project Title	Status (as of July 2007)
PHARE 2006	Enhancing Capacity of the Croatian State and Public Administration for Providing User-Oriented Service	planned
INTERREG IIIB CADSES Neighbourhood programme	Creation of telecenters to support learning, entrepreneurship and access to information society in isolated areas- TELEACCESS	ongoing

### 3.3.3. Coordination and coherence with other donors' assistance (IFI)

As a country which is facing both, the challenges of transition and of preparations for EU membership, Croatia continues to draw on multiple sources of assistance. Because the funding made available through bilateral, international and EU sources targets a list of issues identified as priority in Croatia's EU accession process, there is need for coordination between the different donors as well as between foreign and domestic funds. A system of aid coordination has been developed with time, based on three main institutions – the Ministry of Foreign Affairs and European Integration (MFAEI), in charge of bilateral aid, the Ministry of Finance, in charge of international financing institutions (IFIs) and CODEF, in its role of the National Aid Coordinator (NAC), National ISPA Coordinator (NIC) and National IPA Coordinator (NIPAC).

Coordination of international donors' assistance is ensured all along the programme cycle. In the programming phase, both CODEF and the Ministry of Finance coordinate the preparation of strategies and projects financed by the EU and IFIs in order to avoid duplication and achieve maximum synergies. In the implementation phase, representatives of the Ministry of Finance will be included in the IPA Monitoring Committees for projects which are financed by IFIs, while CODEF representatives will participate in progress monitoring meetings organised by the Ministry of Finance for projects financed through foreign loans and credits, as well as in audit missions undertaken by IFIs. In case of any audit or evaluation mission organised by the European Commission for a specific project, representatives of the Ministry will be at the disposal of auditors/evaluators as necessary.

Co-ordination with bilateral donors will be ensured along the same lines, through the participation of CODEF in the programming missions of bilateral donors and regular monthly meetings between CODEF and the MFAEI on the progress of specific projects or programmes. This will help avoid duplication of interventions.

Scope for coordination at a higher political level is ensured through the participation of the State Secretary of CODEF in weekly Government meetings, where she has the mandate to propose to the Cabinet members priorities to be financed from EU-funded programmes and to act as mediator in case of diverging views on the use of EU assistance. In addition, the State Secretary holds the function of the Deputy Chief Negotiator for EU Accession while the Deputy State Secretary is Sectoral Coordinator for Components III and IV as well as a member of the working group for negotiations on Chapter 22 Regional Policy and Coordination of Structural Instruments. This direct link with the process of accession negotiations enables CODEF to ensure a close coordination between EC funding and the accession process priorities – across all five of IPA components.

Foreign donors have so far been very active in identifying areas of need. In cooperation with the relevant line ministries numerous programmes, projects and loans have been extended in policy areas of concern to this OP as well. The main initiatives in the relevant sectors are briefly explained below.

In the area of economic development, investment promotion and enterprise growth, several initiatives are of relevance to priorities and measures under this OP. They are the following:

- *Enhancing Small and Medium Enterprise Performance* Project (“Poduzetna Hrvatska”) is a private sector development project funded by the USAID. The objective of the project is to promote job creation and sustainable economic growth through increases in business sales and exports and through the promotion of strategic investments in Croatia. Technical assistance with the improvement of financial as well as non-financial business services is envisaged for intermediary institutions (both public and private) servicing businesses. The project targets much the same type of soft services as are envisaged under this OP but deals with intermediary business support institutions rather than with SMEs directly. There is thus no risk of double funding. Moreover, the USAID project is nearing completion.
- *Economic Development and Employment Promotion in Croatia* project by the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) supports export-oriented companies in the meat processing and wine sector by helping to improve conditions for export and working with relevant supporting institutions in this field. The project can be regarded as complementary to the OP as the Operation targeting SMEs under this OP does not include businesses in the agriculture sector of the food industry.
- *Investment Certification Programme for Regions* (ICPR) project by the USAID, launched in May 2007, is a follow up of a similar CARDS project managed by MELE, which achieved significant success. This project seeks to improve the investment certification methodology and apply it to three regions (six counties) in order to enhance investment skills of counties and their partners in local and regional development. The project is complementary to the OP as the Operation on investment certification in fact extends the ICPR programme to the remaining counties not covered so far by either the CARDS or the USAID project. MELE staff involved in the USAID project is, moreover, directly involved with the OP and will ensure that the good practice and the lessons learned from the USAID project are applied fully to the OP Operation.

With regards to the R&D sector, the contribution of the World Bank to policy evolution and the improvement of the infrastructural base is of particular significance and relevance to this OP. In fact, the BioCenter Operation under this OP is made possible thanks to previous World Bank-financed technical assistance which is part of an entire assistance package to Croatian R&D. In October 2002, the MSES had started the preparation of a broad-based Technology Program. This work has been supported through the World Bank Technical Assistance Project for Institutional and Regulatory Reform (TAL-2) and resulted in a Science and Technology Project (STP) 2005-2009. STP is financed through an IBRD loan of 31 MEUR aimed at strengthening and restructuring selected research and development institutions to promote applied research, increasing the ability of enterprises to develop, use, adapt and commercialize technology as well as engaging Croatian scientific Diaspora in joint projects and other initiatives, transfer their knowledge and skills for the benefit of Croatian society (Unity through Knowledge Fund). Thus World Bank funding helped launch a new Agency for Innovation

Services and Transfer of Technology that will deal with patents, financially support the advancement of new innovative products, and act as an incubator of sorts for new technologies developed locally.<sup>119</sup> The project also funds implementation costs, including audit, financial management, and monitoring and evaluation. The PIU includes experts from BICRO and the MSES.

Significant funding for regional development has been and continues to be available through EIB, IBRD and EBRD loans as well as through UNDP projects. This assistance is for the most part complementary to the OP. It covers investments which are essential to overcoming the regional development gap but are not always directly related to economic growth and are as such not eligible under Component III of IPA.

An important source of such financing is the EIB II loan through with the Gouvernement is co-financing the project "Integrated Development of Local Community". During 2005-2008 the Government will invest a total of 300 MEUR while the European Investment Bank is extending a loan of 150 MEUR. The aim of this assistance is to reduce the development gap between war affected and other disadvantaged areas and the rest of the country by setting up preconditions for sustainable social and economic development. Investments are targeting specifically:

- communal infrastructure (local facilities including water supply, sewage systems, electrical power facilities, local roads, renewal of public space, markets, etc.)
- social infrastructure (e.g. homes for elderly and disabled, kindergartens, schools, schools sports halls, playgrounds, health centres and ambulances, local government facilities, museums, libraries, and similar)
- environmental infrastructure (solid waste sites, facilities for waste recycling, etc.)

These investments are extended under the coordination of the MSTTD (Directorate for Regional and Local Infrastructure). The risk of overlap with the RCOP is minimal as the EIB project targets non-business related infrastructure investments and the OP does not at this time envisage investments into educational and training infrastructure.

Another loan taken by the MSTTD for the purpose of regional development is used to finance the project of Social and Economic Recovery of the Areas of Special State Concern (2005-2009). The funding for the project is ensured through a World Bank (IBRD) loan of 35 MEUR and national funding of 25 MEUR through the state budget. The project implementation unit is part of the MSTTD Department for Integrated Regional Development and thus ensures coordination with other assistance. The project is complementary to assistance under this OP for it allows for direct aid to SMEs and cooperatives as well as communal infrastructure investments unrelated to business, neither of which is eligible under the OP. The project component relevant to the OP concerns investments into community (36.5 MEUR). Of this sum, 22.5 MEUR will be invested into economic revitalization of lagging behind regions, which will be pursued through grants<sup>120</sup> to existing and new cooperatives and SMEs and the strengthening of the capacity<sup>121</sup> of cooperatives and SMEs. The project also targets small local infrastructure investments with 7 MEUR, to finance reconstruction, building and equipping of education, health, cultural and other institutions, local communication infrastructure as well as entrepreneurship centres, markets and other economy related infrastructure. With regards to these latter activities, the MSTTD will ensure that there is no double funding for the same investment from this OP. The project will also spend 3,5 MEUR on developing and strengthening institutions and building capacity for planning and management of regional development on national, county and local as well as for preparing and implementing development projects.

Of relevance is also a USAID project (2005-2008) Raising Incomes in Economically Distressed Areas (RIEDA). The project's objective is to increase sustainable employment and income in the agricultural sector in regions lagging behind. The project is complementary to and does not overlap with efforts under this OP as it engages with farmers and their associations directly (50 partners i.e. 3000 family farms in total), in order to improve the

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<sup>119</sup> The Agency has been operational since the second quarter of 2007.

<sup>120</sup> Grants will target improvement of production activities, entrepreneurship in industry and service sectors, new and innovative technologies, joint investment of local and foreign partners, business clusters and networking, etc.

<sup>121</sup> Capacity building activities will support education and training, information campaigns, presentation at exhibitions, fairs, etc.

effectiveness and the quality of production processes and increase of processing capacities. The project also helps small producers increase their production in order to engage in commercial agriculture.

Three UNDP projects of around 3 MEUR each have also been launched for the purpose of socio-economic recovery of Areas of Special State Concern and Underdeveloped Regions, during the period 2006-2008. The projects target a number of local self-government units which qualify as ASSCs, in the following counties: Ličko-Senjska, Zadarska, Šibensko-kninska, Sisačko-moslavačka, Vukovarsko-Srijemska and Karlovačka counties. The projects envisage the following investments: small, limited infrastructure (re)construction; provision of business (agriculture) development services, including provision of small, targeted grants; support in (re)establishment of community support structures aimed at providing specific services for the most vulnerable social groups; support to local authorities in capacity building for strategic planning and delivery of services. The project envisages assistance which is complementary rather than overlapping with the RCOP.

#### 4. FINANCIAL TABLES

Based on the given allocations in the Multi-Annual Indicative Financial Framework (MIFF)<sup>122</sup> for 2008-2010 and envisaged priorities and measures the following national and EU co-financing amounts are proposed for the OP Regional Competitiveness under the Component III of the IPA programme.

Table 18: Financial table of the RCOP

YEARS 2007 - 2009	Public expenditure			IPA cofinancing rate	For information
	Total Public expenditure	Community Contrib. (IPA)	National Public Contrib.		Other (IFI, etc)
	(1) =(2) + (3) (Eur)	(2) (Eur)	(3) (Eur)	(4)=(2)/(1) (%)	(Eur)
<i>Priority Axis 1 - Improving the development potential of lagging behind regions</i>	<i>14.610.001</i>	<i>10.957.500</i>	<i>3.652.501</i>	<i>75%</i>	<i>0</i>
Measure 1.1 - Business-related infrastructure	14.610.001	10.957.500	3.652.501	75%	0
<i>Priority Axis 2 - Enhancing the competitiveness of the Croatian economy</i>	<i>28.610.000</i>	<i>21.457.500</i>	<i>7.152.500</i>	<i>75%</i>	<i>0</i>
Measure 2.1 - Development of business climate	14.530.250	10.895.500	3.634.750	75%	0
Measure 2.2 - Technology transfer & support services for knowledge-based start-ups	14.079.750	10.562.000	3.517.750	75%	0
<i>Priority Axis 3 - Technical Assistance</i>	<i>3.913.000</i>	<i>2.934.750</i>	<i>978.250</i>	<i>75%</i>	<i>0</i>
Measure 3.1 - OP management and capacity building	3.913.000	2.934.750	978.250	75%	0
<i>Total 2007-2009</i>	<i>47.133.001</i>	<i>35.349.750</i>	<i>11.783.251</i>	<i>75%</i>	<i>0</i>

<sup>122</sup> Communication from the Commission to the Council and the European Parliament on the IPA Multi-Annual Indicative Financing Framework for 2008-2010 which had been adopted by the Commission on 8<sup>th</sup> November 2006.

YEAR 2007	Public expenditure			IPA cofinancing rate	For information
	Total Public expenditure	Community Contrib. (IPA)	National Public Contrib.		Other (IFI, etc)
	(1) =(2) + (3) (Eur)	(2) (Eur)	(3) (Eur)	(4)=(2)/(1) (%)	(Eur)
<i>Priority Axis 1 - Improving the development potential of lagging behind regions</i>	4.567.667	3.425.750	1.141.917	75%	0
Measure 1.1 - Business-related infrastructure	4.567.667	3.425.750	1.141.917	75%	
<i>Priority Axis 2 - Enhancing the competitiveness of the Croatian economy</i>	8.943.000	6.707.250	2.235.750	75%	0
Measure 2.1 - Development of business climate	4.542.000	3.405.250	1.136.750	75%	
Measure 2.2 - Technology transfer & support services for knowledge-based start-ups	4.401.000	3.302.000	1.099.000	75%	
<i>Priority Axis 3 - Technical Assistance</i>	1.223.000	917.250	305.750	75%	0
Measure 3.1 - OP management and capacity building	1.223.000	917.250	305.750	75%	
<i>Total Year 2007</i>	14.733.667	11.050.250	3.683.417	75%	0



YEAR 2008	Public expenditure				For information
	Total Public expenditure	Community Contrib. (IPA)	National Public Contrib.	IPA cofinancing rate	Other (IFI, etc)
	(1) =(2) + (3) (Eur)	(2) (Eur)	(3) (Eur)	(4)=(2)/(1) (%)	(Eur)
<i>Priority Axis 1 - Improving the development potential of lagging behind regions</i>	4.794.667	3.596.000	1.198.667	75%	0
Measure 1.1 - Business-related infrastructure	4.794.667	3.596.000	1.198.667	75%	
<i>Priority Axis 2 - Enhancing the competitiveness of the Croatian economy</i>	9.387.000	7.040.250	2.346.750	75%	0
Measure 2.1 - Development of business climate	4.767.250	3.575.250	1.192.000	75%	
Measure 2.2 - Technology transfer & support services for knowledge-based start-ups	4.619.750	3.465.000	1.154.750	75%	
<i>Priority Axis 3 - Technical Assistance</i>	1.285.000	963.750	321.250	75%	0
Measure 3.1 - OP management and capacity building	1.285.000	963.750	321.250	75%	
<i>Total Year 2008</i>	15.466.667	11.600.000	3.866.667	75%	0

YEAR 2009	Public expenditure				For information
	Total Public expenditure	Community Contrib. (IPA)	National Public Contrib.	IPA cofinancing rate	Other (IFI, etc)
	(1) =(2) + (3) (Eur)	(2) (Eur)	(3) (Eur)	(4)=(2)/(1) (%)	(Eur)
<i>Priority Axis 1 - Improving the development potential of lagging behind regions</i>	5.247.667	3.935.750	1.311.917	75%	0
Measure 1.1 - Business-related infrastructure	5.247.667	3.935.750	1.311.917	75%	
<i>Priority Axis 2 - Enhancing the competitiveness of the Croatian economy</i>	10.280.000	7.710.000	2.570.000	75%	0
Measure 2.1 - Development of business climate	5.221.000	3.915.000	1.306.000	75%	
Measure 2.2 - Technology transfer & support services for knowledge-based start-ups	5.059.000	3.795.000	1.264.000	75%	
<i>Priority Axis 3 - Technical Assistance</i>	1.405.000	1.053.750	351.250	75%	0
Measure 3.1 - OP management and capacity building	1.405.000	1.053.750	351.250	75%	
<i>Total Year 2009</i>	16.932.667	12.699.500	4.233.167	75%	0

As can be seen from the financial tables, Priority Axis 3. Technical Assistance amounts to around 8% of the Community contribution for the Operational Programme. This is somewhat more than the standard TA allocation envisaged by the IPA Implementing Regulation (6%) but remains within the limits of what is allowed (10%) in exceptional cases and when duly justified with regard to the scope of the programme. This OP is precisely such an exceptional case, for the following reasons:

- unlike some other OPs which are sector specific, the RCOP involves a number of institutions all of which are – as members of Operating Structure and/or beneficiaries of assistance – entitled to technical assistance under Priority Axis 3;
- most of the institutions involved with the OP have so far had limited experience with EU projects and no experience with managing EU funding (coordinating the processes of programming, partnership consultations, monitoring, project implementation). In addition, part of the assistance under the OP will be extended through grant schemes which present a particular management and implementation challenge and require external expert input (fees for assessors and evaluators of project applications);
- this OP is to give rise to two Operational Programmes in the next generation of EU programmes - one for regional development issues and another for (horizontally pursued) competitiveness issues. Extra assistance and efforts will be necessary to prepare the relevant institutions for single-handed management of an OP in the near future as well as to secure a quality project pipeline for these OPs.

## 5. IMPLEMENTATION PROVISIONS

This chapter of the operational programme describes the systems and arrangements in place as they are known at the time of the drafting of the operational programme. However, a number of critical decisions regarding structures and responsibilities as well as management and information systems will be taken in the context of the accreditation for conferral of decentralised management, which follows a different timing from the adoption of the operational programme. To this end, the Framework Agreement, as well as the Financing Agreement to be signed after conferral of decentralised management, will set out detailed provisions regarding management and control systems. The provisions in this chapter must therefore be understood as subject to latter adaptations by the applicable provisions of these agreements, where required.

### 5.1. MANAGEMENT AND CONTROL STRUCTURES

#### 5.1.1. Bodies and authorities

Based on the IPA Implementing Regulation<sup>123</sup>, the Croatian Government has adopted its own legal act/s to designate specific bodies for IPA management and implementation<sup>124</sup>.

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<sup>123</sup> Commission Regulation (EC) No 718/2007 implementing Council Regulation No 1085/2006.

<sup>124</sup> Regulation on the Scope and Contents of Responsibilities and the Authority of Bodies Responsible for Managing the Instrument for Pre-Accession Assistance (OG 18/2007); Amendments to the Regulation on the Scope and Contents of Responsibilities and the Authority of Bodies Responsible for Managing the Instrument for Pre-Accession Assistance (OG 82 /2007)

Decision on the Appointment of Individuals Responsible for Managing the Instrument for Pre-Accession Assistance (IPA) (OG 18/2007); Amendment to the Decision on the Appointment of Individuals Responsible for Managing the Instrument for Pre-Accession Assistance (IPA) (OG 82/2007)

Under the provisions of this Regulation, the following individuals/bodies have been or will be designated / established:

- National IPA Coordinator
- Strategic Coordinator for the regional development and the human resources development components
- Competent Accrediting Officer
- National Authorising Officer
- National Fund
- Audit Authority
- Operating Structure

With the exception of the Operating Structure and the role of the Strategic Coordinator, these bodies essentially perform tasks that are generally applicable to all IPA components, their functions are specified in the relevant articles of the IPA Implementing Regulation and in Annex A of the Framework Agreement (FWA), to be concluded between the Commission and Croatia.

Accordingly, in line with the provisions of Article 7.3 of the afore-mentioned Regulation and as specified in the 'model' Framework Agreement adopted by the Commission on 6 July 2007 [ref C(2007) 3208 final – E/1368/2007], such functions will be incorporated under the Framework Agreement to be concluded between the Commission and Croatia.

#### Operating Structure

The Regional Competitiveness Operational Programme (RCOP) will be managed by the Head of the Operating Structure, who will be responsible for the following functions in compliance with Article 28.2 of the IPA Implementing Regulation:

- a. Drafting the annual or multi-annual programmes;
- b. Programme monitoring and guiding the work of the sectoral monitoring committee as defined in Article 59, notably by providing the documents necessary for monitoring the quality of implementation of the programmes;
- c. Drawing up the sectoral annual and final implementation reports defined in Article 61(1) and, after their examination by the sectoral monitoring committee, submitting them to the Commission, to the national IPA co-ordinator and to the National Authorising Officer;
- d. Ensuring that operations are selected for funding and approved in accordance with the criteria and mechanisms applicable to the programmes, and that they comply with the relevant Community and national rules;
- e. Setting up procedures to ensure the retention of all documents required to ensure an adequate audit trail, in accordance with Article 20;
- f. Arranging for tendering procedures, grant award procedures the ensuing contracting, and making payments to, and recovery from, the final beneficiary;
- g. Ensuring that all bodies involved in the implementation of operations maintain a separate accounting system or a separate accounting codification;
- h. Ensuring that the National Fund and the National Authorising Officer receive all necessary information on the procedures and verifications carried out in relation to expenditure;

- i. Setting up, maintaining and updating the reporting and information system;
- j. Carrying out verifications to ensure that the expenditure declared has actually been incurred in accordance with applicable rules, the products or services have been delivered in accordance with the approval decision, and the payment requests by the final beneficiary are correct. These verifications shall cover administrative, financial, technical and physical aspects of operations, as appropriate;
- k. Ensuring internal audit of its different constituting bodies;
- l. Ensuring irregularity reporting;
- m. Ensuring compliance with the information and publicity requirements.

The Operating Structure is composed of the following specific bodies, in accordance with Article 31 of the IPA Implementing Regulation:

- The Ministry of Economy, Labour and Entrepreneurship (MELE),
- The Ministry of Science, Education and Sports (MSES),
- The Ministry of Sea, Tourism, Transport and Development (MSTTD),
- Central Finance and Contracting Agency for EU Programmes and Projects (CFCA).

Table 19: The position and level of responsibility, as well as the Heads of specific bodies within the Operating Structure

Level of Responsibility	Titles of the bodies within the Operating Structure	Specific bodies within the Operating Structure			
		Heads of specific boies within the Operating Structure			
I. Operational Programme level	Body Responsible for OP	The Ministry of Economy, Labour and Entrepreneurship Department for Preparation and Implementation of EU Programmes and Projects Ulica grada Vukovara 78, 10000 Zagreb  State Secretary for Entrepreneurhsip			
II. Priority/Measure level	Body Responsible for Priority/Measure	Priority Axis 1, Measure 1.1  The Ministry of Sea, Tourism, Transport and Development Directorate for Integrated Regional Development Prisavlje 14 10000 Zagreb  State Secretary for Development	Priority Axis 2, Measure 2.1  The Ministry of Economy, Labour and Entrepreneurship Directorate for SMEs and cooperatives Directorate for Investment and Export Promotion Ulica grada Vukovara 78 10000 Zagreb  Assistant Minister for SMEs	Priority Axis 2, Measure 2.2  The Ministry of Science, Education and Sports- Directorate for Science Trg hrvatskih velikana 6 10 000 Zagreb  State Secretary for Science and Technology	Priority Axis 3, Measure 3.1  The Ministry of Economy, Labour and Entrepreneurship Department for Preparation and Implementation of EU Programmes and Projects Ulica grada Vukovara 78, 10000 Zagreb  State Secretary for Entrepreneurship
III. Project level	Implementing Body (Contracting Authority)	Central Finance and Contracting Agency for EU Programmes and Projects (CFCA) Katančićeva 5 10000 Zagreb  Head of Agency			

State Secretary for Entrepreneurship in the Ministry of Economy acts as Head of the Operating Structure in the meaning of Article 167 (3) of the IPA Implementing Regulation.

Any personnel changes in Heads of the specific bodies referred to above will be notified to the Commission, as appropriate, including any changes which affect the accreditation of the Operating Structure and the Commission's subsequent conferral of management powers.

### Distribution of functions

The Ministry of Economy, Labour and Entrepreneurship (as the Body responsible for OP) bears overall responsibility for the management of the Operational programme and executes the following functions in relation to the Operational Programme as a whole:

- Coordination of the Operational Programme preparation and its adjustments;
- Coordination of programme monitoring in accordance with the provisions of Article 59 of the IPA Implementing Regulation;
- Coordination of the preparation of sectoral annual and final reports in accordance with the provisions of Article 169 of the IPA Implementing Regulation;
- Setting up procedures for retention of all documents to ensure a sufficiently detailed audit trail (Article 20 of IPA Implementing Regulation);
- Organisation of interim evaluation during the period of programme implementation, in cooperation with CODEF;
- Setting up, maintaining and updating the reporting and information system;
- Ensuring that all bodies involved in the implementation of operations maintain a separate accounting system or a separate accounting codification;
- Ensuring that the National Fund and the National Authorising Officer receive all necessary information on the procedures and verifications carried out in relation to expenditure;
- Ensuring internal audit;
- Ensuring irregularity reporting;
- Ensuring risk management reporting;
- Ensuring compliance with the information and publicity requirements.

In relation to Priority Axis 2: Enhancing the Competitiveness of the Croatian Economy, Measure 2.1 – Improvement of Business Climate, and Priority Axis 3: Technical Assistance, the Ministry of Economy, Labour and Entrepreneurship (as the Body Responsible for Priority Axis / Measure) will specifically execute the following tasks:

- Preparation of the sections of the Operational Programme within its sectoral area of responsibility;
- Preparation of monitoring data/reports within its sectoral area of responsibility;

- Preparation of relevant sections of sectoral annual and final reports, within their area of responsibility;
- Ensuring that all the relevant information is available to ensure at all times a sufficiently detailed audit trail;
- Identification of the intended final beneficiaries, the expected selection modalities and possible related specific selection criteria (Article 155 of IPA Implementing Regulation);
- Ensuring that operations within their sectoral area of responsibility are selected for funding and approved in accordance with criteria applicable to the OP, including, in the case of grant schemes, preparation of guidelines for applicants and application forms and their submission to the CFCA, and participation in project selection committees (see section 5.2.4);
- 
- Submission to the National Fund of requests for payment and all supporting documents;
- Preparation and submitting all necessary information on the procedures and verifications carried out in relation to expenditure;
- Retention of all documents and ensuring that all the relevant information is available to provide for a sufficiently detailed audit trail;
- Ensuring internal audit;
- Ensuring irregularity reporting;
- Ensuring risk management reporting;
- Ensuring compliance with the information and publicity requirements.

In relation to Priority Axis 2 Enhancing the Competitiveness of the Croatian Economy, Measure 2.2. Technology Transfer and Support Services for Knowledge-based Start-ups, the Ministry of Science, Education and Sports (as the Body responsible for Priority Axis / Measure) will execute the following functions:

- Preparation of the sections of the Operational Programme within its sectoral area of responsibility;
- Preparation of monitoring data/reports within its sectoral area of responsibility;
- Preparation of relevant sections of sectoral annual and final reports, within their area of responsibility;
- Ensuring that all the relevant information is available to ensure at all times a sufficiently detailed audit trail;
- Identification of the intended final beneficiaries, the expected selection modalities and possible related specific selection criteria (Article 155 of IPA Implementing Regulation);
- Ensuring that operations within their sectoral area of responsibility are selected for funding and approved in accordance with criteria applicable to the OP, including, in the case of grant schemes, preparation of guidelines for applicants and application forms and their submission to the CFCA, and participation in project selection committees (see section 5.2.4);
- Submission to the National Fund of requests for payment and all supporting documents;
- Preparation and submitting all necessary information on the procedures and verifications carried out in relation to expenditure;



- Retention of all documents and ensuring that all the relevant information is available to provide for a sufficiently detailed audit trail;
- Ensuring internal audit;
- Ensuring irregularity reporting;
- Ensuring risk management reporting;
- Ensuring compliance with the information and publicity requirements.

In relation to Priority Axis 1 – Improving Development Potential of Lagging Regions, Measure 1.1. Business-related Infrastructure, the Ministry of Sea, Tourism, Transport and Development (as the Body responsible for Priority Axis / Measure) will execute the following functions:

- Preparation of the sections of the Operational Programme within its sectoral area of responsibility;
- Preparation of monitoring data/reports within its sectoral area of responsibility;
- Preparation of relevant sections of sectoral annual and final reports, within their area of responsibility;
- Ensuring that all the relevant information is available to ensure at all times a sufficiently detailed audit trail;
- Identification of the intended final beneficiaries, the expected selection modalities and possible related specific selection criteria (Article 155 of IPA Implementing Regulation);
- Ensuring that operations within their sectoral area of responsibility are selected for funding and approved in accordance with criteria applicable to the OP, including, in the case of grant schemes, preparation of guidelines for applicants and application forms and their submission to the CFCA, and participation in project selection committees (see section 5.2.4);
- Submission to the National Fund of requests for payment and all supporting documents;
- Preparation and submitting all necessary information on the procedures and verifications carried out in relation to expenditure;
- Retention of all documents and ensuring that all the relevant information is available to provide for a sufficiently detailed audit trail;
- Ensuring internal audit;
- Ensuring irregularity reporting;
- Ensuring risk management reporting;
- Ensuring compliance with the information and publicity requirements.

The Central Finance and Contracting Agency for EU Programmes and Projects (CFCA) as the Implementing Body will execute the following functions in relation to the entire Operational Programme:

- Acting as the Contracting Authority;
- Verification of tender documents/guidelines for calls for proposals received from beneficiary institutions and preparation of complete tender dossier/application package;

- Arranging for tendering, grant award and contract award procedures, including the publication of calls for proposals (for grants) and calls for tender (procurement), the receipt of submitted applications (grants) and tender bids (procurement), and the chairing and organization of project selection committees and tender selection committees (see section 5.2.4);
- Contract implementation, preparation and submission of payment claims to the body responsible for measure/priority;
- Making payments to, and recovery from, the final beneficiary;
- Ensuring that the body/ies responsible for priority/measure receive(s) all necessary information on the procedures and verifications carried out in relation to expenditure;
- Carrying out verifications to ensure that the expenditure declared has actually been incurred in accordance with applicable rules, the products or services have been delivered in accordance with the approval decision, and the payment requests by the final beneficiary are correct. These verifications shall cover administrative, financial, technical and physical aspects of operations, as appropriate;
- Support in preparation of documents for the sectoral monitoring committee on progress made towards achieving targets of the measures;
- Support in the preparation of sectoral annual and final implementation reports;
- Maintain a separate accounting system or a separate accounting codification;
- Internal audit;
- Retention of all documents and ensuring that all the relevant information is available to provide for a sufficiently detailed audit trail;
- Irregularity reporting.

For pre-selected operations which involve national public bodies (see section 5.2.4.), the tender documentation will be drafted by these bodies, as final beneficiaries, and submitted to the CFCA. These final beneficiaries will also be involved in the verification of delivered outputs by selected contractors and in the technical supervision and approval of the works, services or supplies delivered.

Preparations for the accreditation of additional bodies to be charged with tendering, contracting and payments will be launched in 2008 so that RCOP implementation may at a later date be carried out through three institutions instead of only one. Bodies proposed for a second phase of accreditation are the Croatian Agency for Small Enterprises (HAMAG) for the MELE measures, the Business and Innovation Center of Croatia (BICRO) for the MSES measure and the Directorate for Regional and Local Infrastructure within the MSTTD for the MSTTD measure. In the meantime, CFCA will undertake significant efforts in order to build in-house capacity so that it may more effectively extend regular support to bodies implementing EU assistance in the future.

All the bodies within the Operating Structure are ultimately accountable to the Ministry of Economy, Labour and Entrepreneurship, which bears overall responsibility for the Operational Programme management, for the execution of their respective tasks in relation to this Operational Programme.

A detailed organigramme of the RCOP management system is provided in Annex 10.

### 5.1.2. Separation of functions

In accordance with the Article 21.2 of the IPA Implementing Regulation, the appropriate segregation of duties will be ensured between and within the designated bodies.

#### *Separation of functions between the bodies*

- on the one hand, a clear separation between verifications, controls, and evaluations to be carried out by the Operating Structure and by the National Fund; and on the other
- a clear separation between the audits carried out by the Audit Authority and the implementation and payment procedures.

#### *Separation of functions within the bodies*

The organizational structure of the bodies and their internal management and control procedures take into account all requirements to ensure a proper separation of functions. This includes the following principles:

- before an operation is authorized, the operational and financial aspects shall be verified by members of staff other than the one responsible for initiation or implementation of the operation;
- certificates of statement of expenditure shall be drawn up by a person or department within the National Fund who is functionally independent from any services that approve claims;
- the initiation, ex-ante, and ex-post controls are separate functions, to be carried out by different persons, functionally independent from each other.

## **5.2. MONITORING AND EVALUATION**

### **5.2.1. Monitoring arrangements**

In order to ensure coherence and coordination in the implementation of the IPA components, programmes and operations as well as to follow the progress in the implementation of IPA assistance, the following monitoring committees will be established:

- IPA Monitoring Committee;
- Sectoral Monitoring Committee for the Regional Competitiveness Operational Programme.

#### *IPA Monitoring Committee*

Croatia will establish an IPA Monitoring Committee to ensure coherence and coordination in the implementation of all five Components of IPA.

#### *Sectoral Monitoring Committee*

The Head of the Operating Structure for the Regional Competitiveness Operational Programme will establish a Sectoral Monitoring Committee within 6 months after the entry into force of the IPA Implementing Regulation.

The Sectoral Monitoring Committee will be co-chaired by the Head of the Operating Structure for the OP and a representative of the Commission. The following will be members of the Sectoral Monitoring Committee: National IPA Coordinator or his/her representative, National Authorising Officer or his/her representative, representative of the Commission, Strategic Coordinator for Components III and IV or his/her representative, head of the National Fund or his/her representative, representatives of all specific bodies which make up the Operating Structure, as well as representatives of civil society partners and socio-economic partners. The Sectoral Monitoring Committee will also include regional and/or national organizations whose contribution is relevant to effective OP implementation. Representatives of these organizations will be agreed at the first Sectoral Monitoring Committee meeting.

The composition of the Sectoral Monitoring Committee can be reviewed and extended by the Head of the Operating Structure in agreement with the Commission in order to guarantee sufficient representation and membership.

The Sectoral Monitoring Committee will be assisted by a permanent secretariat provided by the Operating Structure for the preparation of papers for discussion by the committee or for clearance by written procedure. The Secretariat of the Monitoring Committee will be set up in the Department for Preparation and Implementation of EU Programmes (Section for Monitoring and Evaluation).

The Sectoral Monitoring Committee will report to the IPA Monitoring Committee. Its tasks will include to:

- a. Consider and approve the general criteria for selecting the operations and approve any revision of those criteria in accordance with programming needs;
- b. Review at each meeting progress towards achieving the specific targets of the operational programme on the basis of documents submitted by the operating structure;
- c. Examine at each meeting the results of implementation, particularly the achievement of the targets set for each priority axis and measures and interim evaluations, it shall carry out this monitoring by reference to the indicators agreed;
- d. Examine the sectoral annual and final reports on implementation, including OP summary tables;
- e. Inform itself of the annual audit activity report or of the part of the report referring to the operational programme;
- f. Examine any proposal to amend the financing agreement of the programme and propose to the operating structure any revision or examination of the programme likely to make possible the attainment of the programme's objectives or to improve its management, including its financial management, as well as to oversee the cross cutting themes and publicity measures.

The Sectoral Monitoring Committee shall confirm or make proposals to the Head of the Operating Structure, to the Commission, the Strategic Co-ordinator and the National IPA Co-ordinator to revise the programme where relevant following where relevant an evaluation, including its results as well as output and financial indicators used to monitor the assistance.

The Sectoral Monitoring Committee will set up its rules of procedure in agreement with the Operating Structure and the IPA Monitoring Committee. It will meet at least twice a year at the initiative of the Beneficiary country or the Commission. Intermediate meetings may also be convened as required.

As a principle the Sectoral Monitoring Committee will aim to take decisions by reaching consensus.

### 5.2.2. Management Information System

The Head of the Operating Structure is responsible for the efficiency and correctness of management and implementation and in particular for setting up, maintaining and updating regularly a reporting and information system to gather reliable financial and statistical information on implementation, for the monitoring indicators and for evaluation and for forwarding this data in accordance with arrangements agreed between the NIPAC and the Commission.

This system will be developed into one or several computerised system(s), in a form chosen by the Operating Structure and NIPAC, which will enable it to:

- Monitor and manage the implementation of operations and projects, from the moment of tendering and call for proposal to the closure of the OP, in particular results whenever feasible and outputs;
- Carry out and monitor financial transactions;
- Ensure the reporting requirements on the implementation of the OP.

The Operating Structure and all other bodies involved in the implementation of the OP shall have access to this system(s).

The Management Information System will be developed under the Technical Assistance component of this Operational Programme. The establishment of the Management Information System will be done under the guidance and supervision of NIPAC and Strategic Coordinator, in order to ensure consistency and complementarity across all the Operational Programmes. Until the system becomes operational, reporting and collection of data will be done manually.

### 5.2.3. Monitoring System and Indicators

The quantitative and qualitative progress made in implementing the programme as well as its efficiency and effectiveness in relation to its objectives will be measured by the use of evaluation and monitoring indicators related to the results and outputs of the individual measures.

In identifying appropriate monitoring and evaluation indicators, account has been taken of the methodologies, guidelines and lists of examples of indicators issued by the Commission, in particular the "Indicative guidelines on evaluation methods: Monitoring and evaluation indicators" (August 2006, working document No. 2 for the programming period 2007-2013).

The Head of the Operating Structure is responsible for programme monitoring. In this context, the Operating Structure will collect performance data (outputs, results and expenditure) from operations and projects. It will establish, maintain and update the reporting and information system by taking this project-level data and aggregate it to measure, priority axis and whole OP levels. Data on individuals who are the ultimate beneficiaries must be collected for each project and used for aggregation at measure and priority level. On this basis, the Operating Structure will assess the progress of the OP at each level against objectives and targets, prepare reports to the Sectoral Monitoring Committee, draft the sectoral annual and final reports on implementation and to launch interim evaluations if required.

In the context of monitoring and for the purpose of using indicators, the role of the Operating Structure will also be to ensure that:

- a. monitoring requirements are built into the calls for tender and proposals documents (application forms and guidelines for applicants);
- b. project applications (when appraised and selected) include proposed outputs and results, as well as data on individuals, that are consistent with the OP indicators for the appropriate measure;
- c. provision of data is built into the contract with beneficiaries as an obligation, and that performance data is provided systematically and in a timely manner by beneficiaries alongside the project reimbursement claim;

### 5.2.4. Selection of operations

All operations which are not major projects and which are implemented by final beneficiaries other than national public bodies shall be selected through calls for proposals.

The Operating Structure will set up a Selection Committee for each call for proposals launched for the selection of operations financed under a specific measure. The Selection Committee will have an odd number of members and it will be composed of the most appropriate officials and experts with technical competence to undertake a qualitative appraisal of project applications. These members will be nominated by the institutions in which where they are employed at the invitation of the body in charge of implementation, and they will have voting rights in the selection process. A member of the Operating Structure who prepared the guidelines for applicants will also participate in the Selection Committee work. The Committee will be chaired by a member of

the Implementing Body without a voting right. The Selection Committee will appraise project applications in compliance with the selection criteria and methodologies agreed by the Sectoral Monitoring Committee. The applications will first be screened for their compliance with the eligibility and administrative criteria meeting the relevant eligibility requirements set out in the relevant measures (completeness, accuracy, etc) and thereafter will be evaluated according to their quality. The Selection Committee will then make recommendations to the Operating Structure, in compliance with Article 158 of the IPA Implementing Regulation.

Procurement (including the award of any major projects) will follow the contract award procedures contained in the "Practical Guide to Contract Procedures for EC External Actions" (PRAG). Tender Selection Committees will be established for the evaluation of service, works and supply tenders.

#### 5.2.5. Sectoral annual and final reports on implementation

Sectoral annual and final reports on implementation will be prepared by the Operating Structure in accordance with Article 169 of the IPA Implementing Regulation. These reports will assess the implementation progress covering the attainment of set objectives, the problems encountered in managing the programme and the measures taken, the financial execution as well as monitoring and evaluation activities carried out. These reports will be discussed at least at the second meeting of the Sectoral Monitoring Committee each year.

#### 5.2.6. Evaluation arrangements

Evaluations are a tool for assessing the relevance, efficiency and effectiveness of the financial assistance as well as the impact and sustainability of the expected results. As a minimum, an ex ante evaluation and an interim evaluation will be carried out under the responsibility of the Head of the Operating Structure in accordance with the principles laid down in the IPA Implementing Regulation and guidance provided by the Commission.

The evaluation arrangements and activities of each programme will fully respect the principle of proportionality.

##### Ex ante evaluation

Under the responsibility of the Operating Structure, an ex ante evaluation of the Regional Competitiveness Operational Programme has been carried out by the European Policy Research Centre at the University of Strathclyde in Glasgow and is annexed to the programme. A summary of the results of the ex-ante evaluation and the way the evaluation was conducted is set out in section 1.4.

##### Interim evaluation

During the implementation of the programme, interim evaluations complementing the monitoring of the Regional Competitiveness Operational Programme will be carried out, in particular where this monitoring reveals a significant departure from the goals initially set or where proposals are made for the revision of the programme. At any rate, evaluations are planned to provide data on indicators agreed upon in the OP that cannot be obtained through the monitoring system. In addition, strategic evaluations or thematic evaluations can be carried out under the responsibility of the Operating Structure and/or CODEF. The results will be sent to the ad-hoc committee on evaluations, to the Sectoral Monitoring Committee and to the Commission.

##### Evaluation function

The Head of the Operating Structure is responsible for ensuring that adequate evaluations of the Operational Programme are carried out. The evaluations will be carried out by experts or bodies, internal or external, functionally independent from the management and control system.

Each of the line ministries constituting the Operating Structure will nominate a person in charge of commissioning and managing the evaluation process. Capacity building for the evaluation will be undertaken within the framework of the technical assistance project under Priority Axis 3 of this Operational Programme.

##### Evaluation committee

The Sectoral Monitoring Committee will designate an ad-hoc committee to assist the operating structure in its evaluation activities. The Committee will adhere to the 'partnership principle' and will include members (and invitees where relevant) who are experts in evaluation. Moreover, the assistance of the Committee will be availed of at all stages of the process (including guidance, planning, implementation and communication of results) in order to ensure the overall quality of the evaluations undertaken. At the same time, all relevant stakeholders and institutions/organisations will be invited to contribute where appropriate.

The designation and establishment of this *ad hoc* Committee will be made in accordance with the Sectoral Monitoring Committee's rules of procedures in accordance with Article 167.2 of the IPA Implementing Regulation.

#### Evaluation activities and timing

Given that this programme covers the period 2007-09, but involves operational activity up to 31 December 2012 under the 'N+3' rule, only one interim evaluation will be carried out which will commence in October 2009.

### 5.3. INFORMATION AND PUBLICITY

#### 5.3.1. Introduction

Information and publicity are important aspects of pre-accession assistance and in particular to the successful design and delivery of this operational programme, given the partnership basis on which they are undertaken. Communicating for a successful management and implementation of the operational programme are broken down into a series of information and publicity activities.

To this end, Article 62 of the IPA Implementing Regulation sets out certain requirements regarding the information to be provided and publicity of programmes and operations financed by the Community, addressed to citizens and beneficiaries with the aim of highlighting the role of Community funding and ensuring transparency.

Accordingly, the information to be provided by the Operating Structure will include inter alia the publication of the list of final beneficiaries, the names of the operations and the amount of Community funding allocated to operations. For its part, the Commission will also ensure the publication of the relevant information on tenders and contracts in the official Journal of the European Union and other relevant media and websites.

Moreover, Article 63 of the IPA Implementing Regulation provides that the Commission and the relevant authorities of the beneficiary country will agree on a coherent set of activities, to be funded from the TA priority of this operational programme, in order to make available and publicise information about IPA assistance.

In accordance with the above-mentioned provisions, the Public Relations and Information Department – Section for Information and Publicity IPA component IIIc & IV, within the Cabinet of the Minister of Economy, Labour and Entrepreneurship will be responsible for information and publicity activities under the programme. Design and implementation of these activities will be undertaken in cooperation with Directorates of the Ministry of Sea, Tourism, Transport and Development and the Ministry of Science, Education and Sports which are part of the Operating Structure of the RCOP. The information will be addressed to the citizens of Croatia, to European citizens in general, and to (potential) beneficiaries. It will aim to highlight the role of the Community and ensure that IPA assistance is transparent.

#### 5.3.2. Requirements

In compliance with Article 63 of the IPA Implementing Regulation, the Public Relations and Information Department (Section for Information and Publicity for IPA components IIIc & IV) within the Ministry of Economy, Labour and Entrepreneurship will formulate a coherent set of strategic activities (Communication Action Plan, CAP) to publicise information about IPA assistance. The CAP shall be consistent with the

information and publicity strategy issued by NIPAC. The CAP shall cover the period 2008-2012. In drafting the Communication Action Plan, the Ministry of Economy, Labour and Entrepreneurship will be assisted by the Ministry of Sea, Tourism, Transport and Development and the Ministry of Science, Education and Sports which will each appoint a person responsible for RCOP information and publicity activities.

The Section for Information and Publicity for IPA Components IIIc & IV within the Public Relations and Information Department will submit a draft of the communication action plan to the Commission within four months of the date of signature of the Financing Agreement covering this Operational Programme. As a minimum the communication action plan shall include its:

- aims and target groups;
- strategy and content;
- indicative budget;
- administrative departments;
- criteria used for evaluation of project proposals.

### 5.3.3. Activities

The Section for Information and Publicity IPA component IIIc & IV within the Public Relations and Information Department of the Ministry of Economy, Labour and Entrepreneurship, will ensure that the information and publicity measures are implemented in accordance with the communication action plan aiming at the broadest possible media coverage using all suitable forms and methods of communication at the appropriate territorial level. In the implementation of ensuing activities, the Ministry of Economy, Labour and Entrepreneurship will cooperate closely with the relevant Directorates in the Ministry of Sea, Tourism, Transport and Development and the Ministry of Science, Education and Sports.

The Ministry of Economy, Labour and Entrepreneurship, Public Relations and Information Department – Section for Information and Publicity IPA component IIIc & IV will be responsible for organising at least the following information and publicity measures:

- A major information activity publicizing the launch of the Operational Programme, even in the absence of the final version of the communication action plan;
- At least one major information activity a year, as set out in the communication action plan, presenting the achievements under the Operational Programme ( including major projects where appropriate);
- The publication (electronically or otherwise) of the list of beneficiaries, the names of the operations and the amount of Community and national funding allocated to the operations

The Ministry of Economy, Labour and Entrepreneurship, Public Relations and Information Department – Section for Information and Publicity IPA component IIIc & IV will provide potential beneficiaries with clear and detailed information on at least the following:

- The possibility of financing opportunities offered jointly by the Community and the beneficiary country through the OP;
- The conditions of eligibility to be met in order to qualify for financing under the Operational Programme;



- A description of the procedures for examining applications for funding and of the time periods involved;
- The criteria for selecting the operations to be financed, and
- The contacts at national, regional or local level that can provide information on the Operational Programme.

#### 5.3.4. Indicative budget

The indicative budget for the communication action plan under this Operational Programme for the period 2007-2009 is 300,000 EUR allocated from the TA budget, to cover the costs for the publicity and information measures. The budget allocation per year as well as the indicative amounts necessary for the period 2010-2013, will also be presented in the communication action plan.

#### 5.3.5. Management and implementation

Management and implementation of information and publicity activities will be carried out by the Public Relations and Information Department – Section for Information and Publicity IPA components IIIc & IV within the Ministry of Economy, Labour and Entrepreneurship in close cooperation with the relevant Directorates in the Ministry of Sea, Tourism, Transport and Development and the Ministry of Science, Education and Sports. The information and publicity team of the Ministry of Economy, Labour and Entrepreneurship will be composed of 2 officials whose tasks will involve supporting the Head of the Operating Structure in the performance of the following functions and responsibilities:

- Discuss the communication action plan with the Commission and NIPAC;
- Coordinating the information and publicity activities under other IPA funded programmes for the given Operational Programme;
- Communications with the media;
- Elaboration, implementation and assessment of the programme's communication action plan;
- Represent the programme in the relevant national and Commission information networks;
- Handling enquiries from beneficiaries;
- Monitoring and control on the fulfillment of the publicity and information requirements by beneficiaries;
- Development, production and distribution of information materials; preparation and implementation of public events;
- Development and maintenance the contents of programme website;
- Liaison with IT regarding technical maintenance;
- Management of out-sourced services;
- Elaboration and monitoring the communication action plan and coordination of internal events and trainings.

Given that some of the information and publicity measures will require out-sourcing for professional services (such as design and pre-print, web page, printing, advertising, photography and opinion pools), it will be the

responsibility of the information and publicity team to manage such services and ensure they are contracted in accordance with public procurement rules.

### 5.3.6. Monitoring, evaluation and reporting

Monitoring, evaluation and reporting are compulsory requirements for the implementation of the publicity measures included into the communication action plan of the programme.

The progress made in the implementation of the communication action plan will be reported during the meetings of the Sectoral Monitoring Committee. Moreover, the Head of the Operating Structure will inform the Sectoral Monitoring Committee of the information and communication measures carried out and the means of communication used. The Head of the Operating Structure will also provide the Sectoral Monitoring Committee with examples of communication measures carried out.

The annual and final reports on implementation of the Operational Programme will include the following information:

- Examples of information and communication measures for the Operational Programme undertaken in implementation of the communication action plan;
- The arrangements for the information and publicity measures concerning the publication electronically or otherwise of the list of beneficiaries, the names of the operations and the amount of public funding allocated to the operations;
- The content of major amendments to the communication action plan.
- The set of indicators for evaluation of the publicity measures which have been included in the communication action plan to assess the efficiency and effectiveness of the implemented publicity activities.
- The yearly results of the qualitative and quantitative analysis which have been used for the elaboration of the annual communication action plans including any modifications thereof.

### 5.3.7. Partnership and networking

Bodies that can act as relays for the programme and disseminate the information concerning the general public will include the following:

- Professional and trade associations and organizations;
- Economic and social partners;
- Non-governmental organisations;
- National, regional and local authorities and development agencies;
- Educational institutions;
- Organisations representing business;
- Information centres on the EU and Commission representations in particular the EC Delegation;;
- Other main stakeholders under each Priority Axis.

The Operating Structure will work in close cooperation with the above-mentioned bodies for the dissemination of information regarding the programme and in particular the IPA pre-accession assistance strategy.

### 5.3.8. Internet

The website of the programme will be linked to the CODEF, MFIN, ECD, DG ELARG, DG EMPL and DG REGIO websites and with the websites of the other Operational Programmes. It will be created according to the following principles:

- Accessibility to as many users as possible – ensuring the site has a simple address; registering it on main search engines so it can be found easily; designing it to be viewable with low specification screens and software; ensuring it is quick to download.
- Prioritizing fast access to rich information – the site should be clearly organized so users can find what they are looking for quickly and easily; the information should be available as downloadable pdf documents, where possible.
- Visual appeal – strong visual identity through logos, use of colors etc. without limiting the clarity, speed and simplicity
- Developing as an ongoing resource
- Interactive content, exploiting the unique strengths of website

ANNEX 1 - COUNTY DATA RELATED TO SOCIO-ECONOMIC DEVELOPMENT

Table 20: Demographic Structure on County Level

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

Source: Central Bureau of Statistics (Census 2001)

Table 21: Economic Indicators on County Level

County	GDP per capita PPP in 2004 (RoC =100)	Administrative unemployment rate (%) (end of March 2006)
County of Zagreb	74.8	14.2
County of Krapina-Zagorje	68.5	14
County of Sisak-Moslavina	74.5	28.9
County of Karlovac	73.9	26.1
County of Varaždin	85.7	13.6
County of Koprivnica-Križevci	90.6	17
County of Bjelovar-Bilogora	74.0	25.9
County of Primorje-Gorski Kotar	113.7	13.4
County of Lika-Senj	126.9	22.1
County of Virovitica-Podravina	72.8	30.3
County of Požega-Slavonia	71.1	21.7
County of Brod-Posavina	58.2	29.6
County of Zadar	78.7	20.9
County of Osijek-Baranja	76.9	26.1
County of Šibenik-Knin	71.8	25
County of Vukovar-Srijem	56.8	31.3
County of Split-Dalmatia	79.3	22.2
County of Istria	136.9	8.4
County of Dubrovnik-Neretva	94.5	18.3
County of Međimurje	77.7	15.8
City of Zagreb	180.5	9.2
<b>TOTAL</b>	<b>100.0</b>	<b>17.7</b>

Source: Central Bureau of Statistic, Zagreb 2007, Croatian Employment Service, Zagreb, 2007.

Table 22: Development disparities among Croatia's counties

County	Surface area (km <sup>2</sup> )	Population 2001 Census	Population density	GDP per capita PPP in 2004, EUR	GDP per capita PPP in 2004, EUR (RoCH = 100)	Inter-census change 2001/1991 (%)	Population with high education 2001 census (%)	Population with high education 2001 census	Share of population with high education (%) 2001 census	Unemployment rate <sup>125</sup> (end March 2006) (%)
County of Zagreb	3,060	309,696	101.2	4,830	74.8	110.58	4.9	12,379	4.3	14.2
County of Krapina-Zagorje	1,229	142,432	115.9	4,429	68.5	96.45	3.2	3,816	1.3	14
County of Sisak-Moslavina	4,468	185,387	41.5	4,8120	74.5	74.79	4.6	7,084	2.5	28.9
County of Karlovac	3,626	141,787	39.1	4,774	73.9	79.08	5.1	6,095	2.1	26.1
County of Varaždin	1,262	184,769	146.4	5,534	85.7	98.76	4.9	7,522	2.6	13.6
County of Koprivnica-Križevci	1,748	124,467	71.2	5,856	90.6	96.99	4.1	4,235	1.5	17
County of Bjelovar-Bilogora	2,640	133,084	50.4	4,781	74.0	93.37	4.0	4,330	1.5	25.9
County of Primorje-Gorski	3,588	305,505	85.1	7,349	113.7	95.47	9.9	25,927	9.0	13.4
County of Lika-Senj	5,353	53,677	10.0	8,196	126.9	65.06	3.8	1,701	0.6	22.1
County of Virovitica-Podravina	2,024	93,389	46.1	4,705	72.8	90.84	3.5	2,678	0.9	30.3
County of Požega-Slavonia	1,823	85,831	47.1	4,594	71.1	87.49	4.0	2,765	1.0	21.7
County of Brod-Posavina	2,030	176,765	87.1	3,757	58.2	102.56	4.2	5,987	2.1	29.6
County of Zadar	3,646	162,045	44.4	5,082	78.7	76.78	6.7	8,840	3.1	20.9
County of Osijek-Baranja	4,155	330,506	79.5	4,968	76.9	91.62	6.3	17,051	5.9	26.1
County of Šibenik-Knin	2,984	112,891	37.8	4,641	71.8	76.79	5.6	5,273	1.8	25
County of Vukovar-Srijem	2,454	204,768	83.4	3,667	56.8	90.28	3.9	6,439	2.2	31.3
County of Split-Dalmatia	4,540	463,676	102.1	5,127	79.3	98.48	8.5	32,028	11.1	22.2
County of Istria	2,813	206,344	73.4	8,843	136.9	101.40	7.3	12,663	4.4	8.4
County of Dubrovnik-Neretva	1,781	122,870	69.0	6,104	94.5	98.56	8.2	8,195	2.8	18.3
County of Međimurje	729	118,426	162.2	5,023	77.7	100.97	3.7	3,536	1.2	15.8
City of Zagreb	641	779,145	1,215.5	11,160	180.5	100.82	16.8	109,323	38.0	9.2
<b>TOTAL</b>	<b>56,594</b>	<b>4,437,460</b>	<b>78.4</b>	<b>6,641</b>	<b>100.0</b>	<b>93.89</b>	<b>7.9</b>	<b>287,867</b>	<b>100.0</b>	<b>17.7</b>

Source: CBS

<sup>125</sup> Administrative unemployment rate,

Table 23: Counties' shares (%) in Gross Value Added (GVA) of specific sectors in total GVA of the Republic of Croatia, 2004

County	A, B	C, D, E	F	G	H	I	J, K	L, M, N, O, P	Total
County of Zagreb	8.4	7.3	4.6	7.3	2.8	5.1	2.5	3.4	5.4
County of Krapina-Zagorje	3.1	3.0	2.2	1.3	1.5	2.0	1.0	2.3	2.2
County of Sisak-Moslavina	5.2	3.9	2.5	2.0	1.5	3.2	1.4	3.3	3.0
County of Karlovac	3.0	2.7	2.0	1.8	2.4	1.8	1.4	2.7	2.3
County of Varaždin	5.2	4.3	3.4	3.1	2.4	2.6	2.6	3.5	3.5
County of Koprivnica-Križevci	6.8	3.8	1.7	1.3	1.1	1.5	1.4	1.9	2.5
County of Bjelovar-Bilogora	7.8	1.8	1.5	1.2	1.1	1.6	1.5	2.1	2.2
County of Primorje-Gorski Kotar	1.8	7.3	9.1	7.9	15.9	10.7	7.9	7.3	7.8
County of Lika-Senj	2.2	0.6	9.2	0.7	1.7	1.2	0.3	1.2	1.5
County of Virovitica-Podravina	5.9	1.5	0.9	0.8	0.5	0.8	0.6	1.5	1.5
County of Požega-Slavonia	3.4	1.3	1.2	1.1	0.5	0.8	0.5	1.8	1.4
County of Brod-Posavina	5.4	2.1	2.0	1.8	1.0	2.0	1.3	2.8	2.3
County of Zadar	3.0	1.7	5.0	3.0	4.5	2.8	2.6	3.8	3.0
County of Osijek-Baranja	13.0	4.6	4.6	5.4	2.1	4.8	4.1	6.8	5.7
County of Šibenik-Knin	1.7	1.0	3.8	1.8	3.1	2.0	1.3	2.3	1.8
County of Vukovar-Srijem	8.9	1.6	2.7	1.8	1.3	1.9	1.0	3.3	2.6
County of Split-Dalmatia	3.7	7.8	9.4	9.3	10.3	9.5	7.9	9.8	8.5
County of Istria	3.3	8.3	7.7	5.2	22.4	4.0	5.8	4.6	6.5
County of Dubrovnik-Neretva	2.8	1.2	2.9	2.0	8.2	4.3	2.5	2.8	2.6
County of Međimurje	3.9	2.9	2.3	1.6	1.0	1.1	1.6	1.6	2.1
City of Zagreb	1.6	31.5	21.3	39.6	14.8	36.2	50.7	31.2	31.8

Source: web site of the Central Bureau of Statistics

A - Agriculture, hunting and forestry; B - Fishing; C - Mining and quarrying; D - Manufacturing; E - Electricity, gas and water supply; F - Construction; G - Wholesale and retail trade; repair of motor vehicles, motorcycle and household goods; H - Hotels and restaurants; I - Transport, storage and communication; J - Financial intermediation; K - Real estate, renting, business activities; L - Public administration and defence, compulsory social security; M - Education; N - Health and social work; O - Other community, social and personal service activities; P - Private household with employed persons.

Table 24: Gross Domestic Product (GDP) per capita PPP on County level, 2001-2004, in EUR

County	2001	2002	2003	2004	Index 2004/2001	2004 RoC =100
County of Zagreb	3,392	4,247	4,385	4,830	142.4	74.8
County of Krapina-Zagorje	3,948	4,112	4,287	4,429	112.2	68.5
County of Sisak-Moslavina	4,335	4,472	4,549	4,812	111.0	74.5
County of Karlovac	4,243	4,708	4,592	4,774	112.5	73.9
County of Varaždin	4,752	5,407	5,564	5,534	116.5	85.7
County of Koprivnica-Križevci	5,168	5,613	5,661	5,856	113.3	90.6
County of Bjelovar-Bilogora	3,923	4,397	4,414	4,781	121.9	74.0
County of Primorje-Gorski Kotar	5,871	6,197	6,977	7,349	125.2	113.7
County of Lika-Senj	4,008	5,011	6,109	8,196	204.5	126.9
County of Virovitica-Podravina	3,994	4,303	4,453	4,705	117.8	72.8
County of Požega-Slavonia	3,691	3,921	4,264	4,594	124.5	71.1
County of Brod-Posavina	3,048	3,311	3,398	3,757	123.3	58.2
County of Zadar	3,601	4,045	4,734	5,082	141.1	78.7
County of Osijek-Baranja	3,877	4,411	4,447	4,968	128.1	76.9
County of Šibenik-Knin	3,179	3,624	4,115	4,641	146.0	71.8
County of Vukovar-Srijem	2,898	3,213	3,397	3,667	126.5	56.8
County of Split-Dalmatia	3,785	4,136	4,446	5,127	135.5	79.3
County of Istria	6,718	7,471	8,122	8,843	131.6	136.9
County of Dubrovnik-Neretva	4,504	4,783	5,225	6,104	135.5	94.5
County of Međimurje	4,152	4,678	4,736	5,023	121.0	77.7
City of Zagreb	8,812	9,634	10,586	11,160	126.6	180.5
Croatia	4,995	5,510	5,909	6,461	129.3	100.0

Source: Central Bureau of Statistics, Zagreb, 2006



Table 25: Regional dimension of entrepreneurial capacity across regions in Croatia

NB: For the purpose of the GEM project, Croatian counties were grouped into “regions” which correspond to Croatia’s geographic and historical regional structure. The five regions are made of the following counties:

- *Zagreb and the surroundings*: City of Zagreb, Zagrebačka County
- *Slavonia and Baranja*: Brodsko-posavska, Osječko-baranjska, Požeško-slavonska and Vukovarsko-srijemska counties
- *Northern Croatia*: Bjelovarsko-bilogorska, Krapinsko-zagorska, Koprivničko-križevačka, Međimurska, Varaždinska and Virovitičko-podravska counties
- *Lika and Banovina*: Karlovačka, Ličko-senjska and Sisačko-moslavačka counties
- *Istra, Primorje and Gorski Kotar*: Istarska and Primorsko-goranska counties
- *Dalmatia*: Dubrovačko-neretvanska, Splitsko-dalmatinska, Šibensko-kninska and Zadarska counties

TEA index 2002-2006	2002	2003	2004	2005	2006
Zagreb and surroundings	4,89	4,30	4,42	8,43	7,77
Slavonija and Baranja	2,11	1,00	4,44	4,91	8,84
Northern Hrvatska	2,83	1,99	3,00	4,40	9,15
Lika and Banovina	2,71	1,78	3,99	5,11	8,69
Istra, Primorje and Gorski Kotar	4,47	3,05	5,29	5,74	7,10
Dalmatia	3,95	2,43	1,68	6,34	9,85
<b>Total</b>	<b>3,62</b>	<b>2,56</b>	<b>3,74</b>	<b>6,11</b>	<b>8,58</b>
Croatia’s position with respect to other participants	32 <sup>nd</sup> out of 37		19 <sup>th</sup> out of 35		18 <sup>th</sup> out of 42

Source: *What makes Croatia an entrepreneurial country? Results of Global Entrepreneurship Monitor (GEM) 2002-2005 for Croatia*, Center for SME Development Policy, Zagreb, 2006.

Table 26: Infrastructure Indicators on County Level

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

Source: Statistical Yearbook 2005, Central Bureau of Statistics.

## ANNEX 2 - LEGAL ACTS REGULATING THE REGIONAL DEVELOPMENT POLICY IN CROATIA

1. **Act on Areas of Special State Concern (ASSC)**<sup>126</sup> determines ASSCs in order to eliminate consequences of war, stimulate population return and demographic and economic progress, and generally to near their level of development to the national average. Assistance is intended for natural and legal persons having residence/permanent residence or registered seat in ASSCs, which are local self-governments fitting into one of three categories. The first two groups comprise territories of towns and municipalities occupied during the Homeland War. For the third group criteria relate to: economic development, structural difficulties, demographics and a set of special criteria (municipalities near the border which became a state border following Croatia's independence, and mined municipalities that do not qualify for the first two groups).

Development of ASSCs is pursued through the following: housing care for certain segments of the population (granting of houses, apartments, land for building and construction material); tax relief for transaction and acquirement of immovable property, tax relief on inheritance and gifts; ceding to local units of revenue tax and profit tax revenues realized on their territory; and compensation for exploitation of mineral raw materials.

The Act evolved with time, allowing for the inclusion of all territory lagging behind. However, it falls short of an effective tool of regional development as it fails to regulate issues crucial to building a coherent system of managing development activities.

2. **The Act on Hilly and Mountainous Areas**<sup>127</sup> defines another set of areas requiring special Government concern. The Act lists local self-government units having the status of hilly-mountainous areas and whose development is not regulated by other legislation. The development focus is on stimulating demographic reconstruction, creating preconditions for a better usage of natural and economic resources in order to achieve socio-economic growth and development, and ensuring preservation of biological and landscape diversity.

Measures envisaged are the following: right of harvesting forest fruit for free; advantage to exercise the right for lease of agricultural and forest land and other natural resources; advantage to lease and exercise the right of fishing; compensation for exploitation of mineral raw materials; tax relief on profit and revenue, granting of tax revenues from revenue tax and profit tax to local units in hilly-mountainous areas, and the right of priority at purchase of wood from the wood mass for natural and legal persons in this area performing activities of wood processing and woodworking.

3. **The Act on Reconstruction and Development of the Town of Vukovar**<sup>128</sup> seeks to remove consequences of the Homeland War which had completely devastated this town. Measures mostly relate to the following: reconstruction of buildings damaged or destroyed in the war; de-mining; return of refugees and displaced persons; employment and opening of new jobs; introduction of information technology to economic and social entities and bodies of state and local administration; technical and technological modernisation; education and vocational training; development of entrepreneurship; protection of environment. Specific projects, with named sources of financing, schedules and deadlines for implementation are annually decided upon by the Government, in consultation with the Council for Reconstruction and Development of Vukovar and the City Council of the Town of Vukovar (the local representative body).

Other measures envisaged by the Act are the following: customs duty relief for import of initial equipment for performance of economic activities, relief at settling expenditures of pension and health insurance, scholarships for students, possibility to lease Government-owned immovable property, pecuniary support for living and housing, grant of land for building. The focus of these measures varies. Some target professions for which there is a special need; others target the Vukovar-Srijem county as a whole; others support development and establishment of various crafts, cooperatives, and SMEs. In addition, a Fund<sup>129</sup> for Reconstruction and

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<sup>126</sup> Official Gazette No. 44/96, 57/96, 124/97, 73/00, 87/00, 94/01, 88/02, 26/03 and consolidated text 42/05 and 90/05

<sup>127</sup> Official Gazette No. 12/02, 32/02, 117/03, 42/05 and 90/05

<sup>128</sup> Official Gazette No. 44/01 and 90/05

<sup>129</sup> The Fund is run up by a Management Board, a Supervisory Board and a Chairman. Members of the Management and the Supervisory Board are appointed by the Government, while the Chairman and his/her Deputy are appointed by the

Development of the Town of Vukovar perform a wide spectrum of development activities: granting of loans and their investment into the economy and the municipal infrastructure, expert information and investor consulting, assisting with drafting project documentation, cooperating with other relevant public bodies.

4. The Islands Act<sup>130</sup> seeks to protect and stimulate the development of islands as a natural resource of particular national importance. It defines the management of islands' development at the central, county and municipalities and city level. Islands are categorized into two groups, based on a combination of development and demographics criteria.<sup>131</sup> The Act is based on the annual National Island Development Programme and the Sustainable Island Development Programmes for individual islands or groups of islands.<sup>132</sup> Local programmes are drafted in consultations with the representatives of the central government, islands and the Parliament.<sup>133</sup>

The Act regulates transport connections with the mainland and stimulates activities in line with sustainable island development: production of original island products by introduction of the certificates of origin ("Croatian island product"), advantageous loans for specific activities, assistance to island employers for preservation of jobs, benefits in water consumption, setting up of a body for common performance of municipal activities, etc.

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Government at the proposal of the City Executive Council and a central body of state administration. The Fund reports its activities to the Parliament.

<sup>130</sup> Official Gazette No. 34/99, 32/02 and 33/06

<sup>131</sup> The 1<sup>st</sup> group includes insufficiently developed/underdeveloped and small, occasionally populated or non-populated islands or very small islands. The 2<sup>nd</sup> group covers islands not included in the 1<sup>st</sup> group and the Peješac peninsula.

<sup>132</sup> The Sustainable Island Development Programmes are adopted by the Government at the proposal of central government bodies and units of local self-government, and implemented by the relevant local and county self-government units. The National Island Development Programmes are adopted by the Government following consultation with the Island Council and Island Committees. The programmes are implemented based on an annual implementation plan adopted by the Government (Annual Island Plan).

<sup>133</sup> The Islands Council is established by the Act as a special advisory body of the Minister with the duty of advising during the implementation of measures as well as activities of overall sustainable island development. Its members include the representatives of central bodies of state administration, members of Parliament and representatives of islands. In coastal-island counties, special Island Committees are established.

### ANNEX 3 - CROATIAN DEFINITION OF SMES AS COMPARED TO THE EU DEFINITION

Table 27: Croatian and EU SME definitions<sup>134</sup>

Criteria	Croatian SME definition in the Small Business Encouragement Act	Croatian SME definition in the Accounting Act	EU SME definition
Size of a company (number of employees)	Micro < 10		
	Small 10 to 49		
	Medium 50-249		
	Large >250		
Annual Turnover	Micro <1,92 mil. €	Micro no criteria	Micro < 2,00 mil. €
	Small < 7,41 mil. €	Small < 7,41 mil. €	Small < 10,00 mil. €
	Medium < 29,65 mil. €	Medium < 29,65 mil. €	Medium < 50,00 mil. €
	Large > 29,65 mil. €	Large > 29,65 mil. €	Large > 50,00 mil. €
Assets	Micro <0,96 mil. €	Micro no criteria	Micro < 2,00 mil. €
	Small <3,71 mil. €	Small < 3,71 mil. €	Small < 10,00 mil. €
	Medium < 1482 mil. €	Medium < 14,82 mil. €	Medium < 43,00 mil. €
	Large >14,82 mil. €	Large > 14,82 mil. €	Large > 43,00 mil. €

Source: Ministry of Economy, Labour and Entrepreneurship

<sup>134</sup> Calculated on the basis of an average central exchange rate (1€=7.4kn)

## ANNEX 4 - LEGAL ACTS REGULATING CROATIAN SME POLICY

**Small Business Encouragement Act** (Official Gazette no. 29/2002, 63/2007) prescribes the basis for the implementation of economic policy incentives aimed at SME development, restructuring and adjustment to the market, as well as the basis for the establishment of the Croatian Agency for Small Enterprises (HAMAG). According to the Act, the small business entities are divided to micro, small and medium entities according to their size.

**Trades and Crafts Act** (Official Gazette no. 77/93, 90/96, 64/01, 71/01, 49/03, 68/07) refers to economic activities of craft businesses. The Act stipulates the activities in the field of production or services which can be carried out by crafts - natural persons - with the objective of generating profits in its own name and for its own account. A craft can employ other persons for carrying out such activities. Crafts can be established in the form of free crafts businesses (no qualifications or the master craftsman's examination required), associated crafts businesses (requires necessary qualifications or and/or the master craftsman's examination) or privileged crafts businesses (requires certificate issued by the relevant ministry).

**Companies Act** (Official Gazette no. 111/93, 34/99, 121/99, 118/03, 52/00) provides definition of a merchant, company and sole trader as well as their establishment and functioning (rights and obligations).

**Cooperatives Act** (Official Gazette no. 36/95, 67/01, 12/02) defines a co-operative as a voluntary organisation which promotes and protects its economic and other professional interests of its members, in which every member participates directly and by means of joint operations based on the principle of mutual support, with the objective of achieving both its own as well as mutual profits of its members pursuant to the law and its rules.

**Accounting Act** (Official Gazette no. 146/05) regulates accounting within enterprises, in particular the following: data collection and processing; bookkeeping and business records; inventory taking; financial reporting with the emphasis on accounting principles, financial reporting standards, principle annual accounts, layout of balance sheet and profit and loss account, annual reports, consolidation of annual accounts, compilation, presentation and disclosure of annual accounts.

**State Aid Act** (Official Gazette no. 140/05) sets out general conditions and rules for the authorisation, monitoring the implementation and recovery of state aid for the purpose of the implementation of the international commitments undertaken by the Republic of Croatia, arising under the Stabilisation and Association Agreement between the Republic of Croatia and the European Communities and their Member States

**Investment Funds Act** (Official Gazette no. 107/95, 150/05) sets out conditions for the establishment of investment funds and investment fund management companies, issuing and selling of stock and shares, stock redemption, promotion of funds, activities executed for the fund by the third persons as well as the supervision of activities of the funds, investment fund management companies, deposit banks and persons who conducts the sale of stocks and shares.

**Investment Promotion Act** (Official Gazette no. 138/06; Regulation implementing the Investment Promotion Act, Official Gazette no. 64/07) is another legal instrument supporting SME competitiveness, adopted in 2006. The Act is fully aligned with the competition *acquis* i.e. the EU regional aid regulations. The purpose of the Act is to stimulate technological investments, export and international activities, value added production, new and improved services and products, human resource development and employment in SMEs. The Act does so through tax benefits, tariff preferences, aid for investment-related job creation and training as well as for equipment and fixed assets. Incentives target companies in the manufacturing sector, technology centres and strategic business support services. The Act is also considered as an instrument of regional policy; it envisages an intensity of aid proportional to the socio-economic development of a given county, measured by the unemployment rate.

## ANNEX 5 - GOVERNMENT PROGRAMMES ADMINISTERED BY THE BUSINESS INNOVATION CENTER (BICRO)

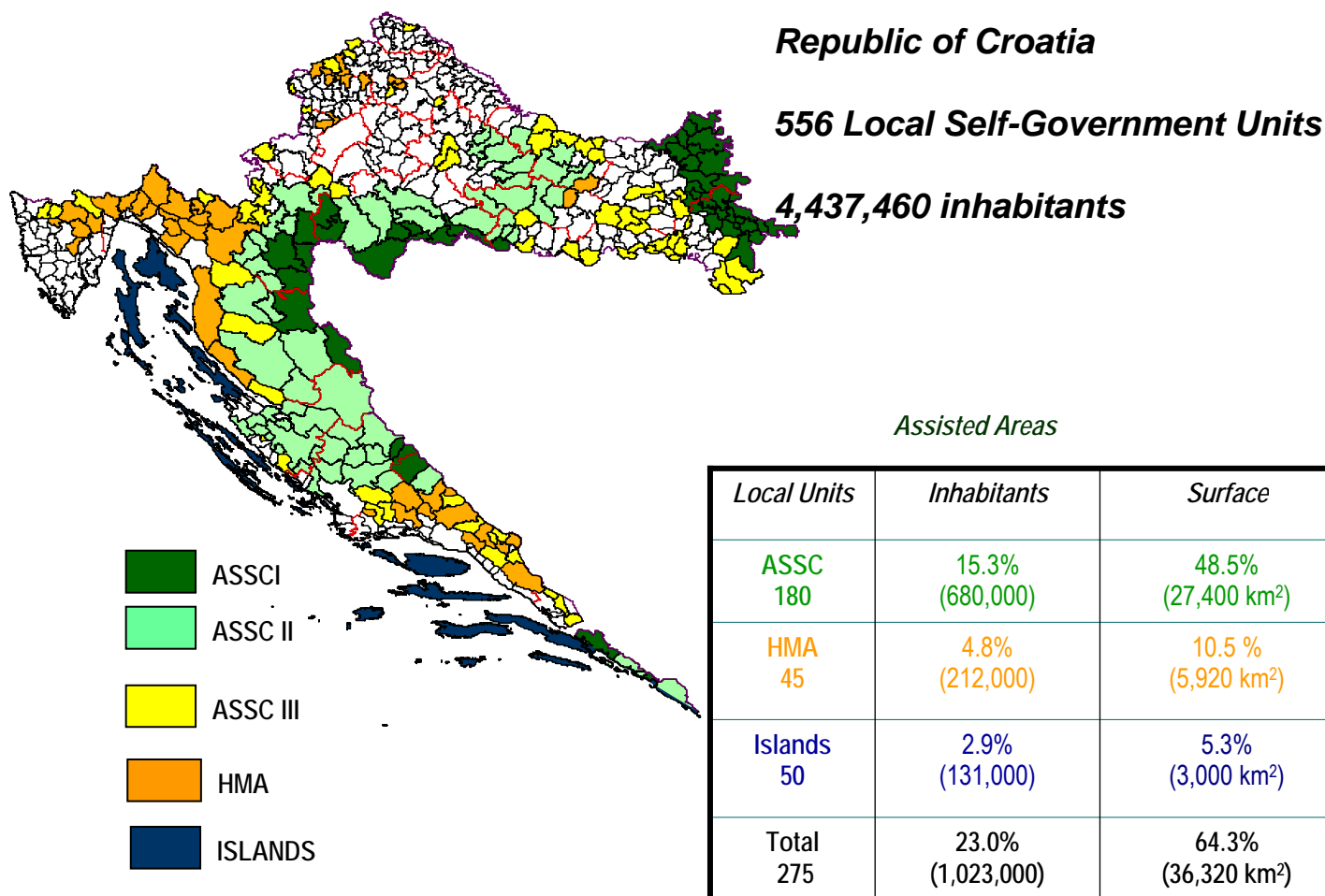
In 2006 BICRO began carrying out the following support programmes:

1. The new RAZUM, a seed capital and innovation commercialization programme aims to ensure a sustainable increase in the number of knowledge-based SMEs. BICRO identifies projects and firms, evaluates their capabilities and on that basis provides them with early seed financing. The programme operates based on public support and other sources of financing contributing 70% of project costs in the form of conditional grants, and the remaining 30% is contributed from the private sector. The programme is expected to combine €86,000,000 of financing in the next four years, with €20,000,000 coming from the private sector.
2. The Technology Infrastructure Development Programme (TEHCRO) aims to enable appropriate technology infrastructure to support commercialization of research outputs and development and growth of knowledge-based SMEs. The Government initiative is supported by the World Bank, which will grant support for creation of technology incubators, commercial R&D centres and technology-business centres linked to research/academic institutions and R&D-based industry. The Government shall commit €6,500,000 to the programme during 2007-2009 and the private sector is expected to contribute around €2,000,000 to this sum.
3. The Venture Capital Programme (VENCRO) is set up as a Government initiative in order to encourage potential fund managers to start venture capital funds in Croatia. Under the VENCRO programme, the Government will match up to 30% of other investors' capital, up to €4,600,000, to start a commercially-based venture capital fund in Croatia with a target size of around 20 million €.
4. The Research and Development Programme (IRCRO) is intended to encourage and stimulate demand for services of public research institutions, as well as to encourage SMEs to invest in R&D activities. Projects under the IRCro programme involve cooperation between an industrial firm and research/academic institution and are jointly funded by the IRCro programme and the industrial company involving a 50/50 matching grant scheme. Thus, the private sector participates 50% in funding of R&D activities. A total of €1,500,000 has been secured in the State Budget up until the end of 2009 for this programme.
5. The Business Competitiveness Upgrading Programme (KONCRO) assists SMEs to become more competitive by increasing productivity, improving product quality, upgrading business organization by introducing ISO standards, helping in the patenting procedure, product design and environmental protection. A total of €1,500,000 will be made available from the State Budget, for disbursement to firms as grants. Each individual grant to a service-using firm must be matched by an equal contribution by the private sector firm.

## ANNEX 6 - MAP OF ASSISTED AREAS IN CROATIA

According to the current criteria determining areas in need of Government development assistance, 23% of Croatia's total population falls under the "assisted area" category. The number of inhabitants living in assisted areas amounts to 1.023.000. The ASSCs encompass 180 local self-government units (municipalities and towns), amounting to 680.000 inhabitants, i.e. 15,3% of Croatia's total population according to the 2001 population census. The population of hilly and mountainous areas amounts to 212.000, i.e. 4,8% of the total population, while 131.000 inhabitants living on islands make up 2,9 % of Croatia's total population.

Map 4: of assisted areas: Areas of Special State Concern, Hilly-Mountainous Areas and Islands  
Source: MSTTD





## ANNEX 7 - MEMBERSHIP OF REGIONAL COMPETITIVENESS INTER-MINISTERIAL WORKING GROUP

### Central Office for Development Strategy and Coordination of EU Funds (CODEF)

- *Ms Nataša Mikuš, Deputy State Secretary (Chair, IWG)*
- *Ms Iva Frkić, Head of Section*
- *Ms Marijana Spajić, Specialist*

### Ministry of Economy, Labour and Entrepreneurship (MELE)

- *Ms Tajana Kesić-Šapić, State Secretary*
- *Ms Spomenka Rakušić, Head of Department*
- *Ms Sanja Fišer, Head of Section*
- *Ms Marina Lang-Perica, Head of Section*
- *Mr. Neven Kos, Head of Section*
- *Ms Jasminka Keser, Head of Section*

### Ministry of the Sea, Tourism, Transport and Development (MSTTD)

- *Mr Zdravko Livaković, State Secretary*
- *Ms Franka Vojnović, Head of Department*
- *Ms Helga Bubanović, Head of Department*
- *Ms Emina Štefičić, Head of Section*
- *Ms Marija Rajaković, Specialist Advisor*
- *Ms Jelena Mušterić, Associate*

### Ministry of Science, Education and Sport (MSES)

- *Mr Dražen Vikić-Topić, State Secretary*
- *Ms Antonija Gladović, Head of Project Implementation Unit*
- *Ms Emira Bečić, Senior Specialist Advisor*
- *Ms Gabrijela Herceg, associate*
- *Ms Nataša Maršić, member of Intellectual Property unit*
- *Ms Andrijana Anić-Antić, associate*

### Ministry of Agriculture, Forestry and Water Management (MAFWM)

- *Ms Tatjana Borbaš, Head of Department*

### Ministry of Foreign Affairs and European Integration (MFAEI)

- *Ms. Petra Šantić, Specialist*
- *Ms Petra Radić, Specialist Advisor*

### Central State Administrative Office for E-Croatia

- *Ms Diana Šimić, Deputy State Secretary*
- *Ms Marina Škrinjar, Head of Department*

### Business Innovation Centre of Croatia – BICRO Ltd.

- *Ms Ivana Nagy, Programme Manager*
- *Mr Ivo Friganović, Programme Manager*

### Central Bureau of Statistics

- *Ms Biserka Nikšić Paulić, Senior Specialist Advisor*

### CARDS 2003: Support to National Development Planning

- *Mr Iain Mackie, project team leader*
- *Mr Ian Igor Zagrečki, local expert*
- *Mr Conor Kearney, expert*

### DFID: GOF – Support for EU Integration

- *Mr Simon Armstrong, expert*

## ANNEX 8 - LIST OF PARTNERS AT THE PARTNERSHIP CONSULTATIONS FOR THE RCOP

### MINISTRY OF THE SEA, TOURISM, TRANSPORT AND DEVELOPMENT

1. Ms. Franka Vojnović, Head of Department
2. Ms. Marija Rajaković, Expert Advisor
3. Ms. Emina Štefičić, Head of Section

### MINISTRY OF ECONOMY, LABOUR AND ENTREPRENEURSHIP

4. Ms. Tajana Kesić Šapić, State Secretary
5. Ms. Spomenka Rakušić, Head of Department
6. Ms. Marina Lang-Perica, Head of Section
7. Ms. Sanja Fišer, Head of Section
8. Ms. Jasminka Keser, Head of Section
9. Ms. Lidija Mekić, Head of Department

10. Ms. Ivana Sakar, expert assistant

### MINISTRY OF SCIENCE, EDUCATION AND SPORTS

11. Prof. PhD. Sc. Dražen Vikić-Topić, State Secretary
12. PhD Emira Bečić, Senior Adviser
13. Ms. Nataša Maršić, Consulting Expert
14. Ms. Antonija Gladović, Expert Assistant
15. Ms. Andrijana Anić Antić, Expert Assistant
16. Ms. Gabrijela Herceg, Expert Assistant

### CENTRAL STATE ADMINISTRATIVE OFFICE FOR e-CROATIA

17. Ms. Diana Šimić, Deputy State Secretary
18. Ms. Marina Škrinjar, Head of Department

### CENTRAL STATE OFFICE FOR DEVELOPMENT STRATEGY AND COORDINATION OF EU FUNDS

19. Ms. Iva Frkić, Head of Section
20. Ms. Marijana Spajić, Expert Assistant

### BUSINESS INNOVATION CENTRE CROATIA (BICRO)

21. PhD. Sc. Ivo Friganović, Programme Director
22. Ms. Nensi Radulović, EU Advisor
23. Mr. Zoran Barišić, Industry Sector Deputy Director
24. Ms. Vesna Torbarina, EU Advisor
25. Ms. Nina Zečić, Expert Assistant – EICC

### CENTRE FOR SMALL COMPANIES DEVELOPMENT POLICY (CEPOR)

26. Ms. Sanja Crnković Pozaić, Director

### CROATIAN CHAMBER OF CRAFTS (HOK)

27. Ms. Sanja Želinski Matunec, Chief of Advisory Service

### CROATIAN AGENCY FOR SMALL ENTERPRISES (HAMAG)

28. Mr. Tomislav Kovačević, Director
29. Ms. Tihana Jelinović, Head of Section for Support to SMEs

### TRADE AND INVESTMENT PROMOTION AGENCY (APIU)

30. Ms. Mirela Mrvelj, Director of SSP
31. Ms. Marija Vukelić, Senior Advisor

### CROATIAN EMPLOYERS ASSOCIATION (HUP)

32. Ms. Andrea Dokić, Project Manager

### CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (HBOR)

33. Ms. Marija Jerkić, Member of Board
34. Ms. Jadranka Sabljak, Independent Specialist

### RUĐER BOŠKOVIĆ INSTITUTE (IRB)

35. dr.sc. Mladen Žinić, Director
36. Ms. Andrea Moguš-Milanković, Assistant Director

### FACULTY OF ENGINEERING AND COMPUTING (FER)

37. Mr. Vedran Bilas

### INSTITUTE OF PHYSICS, ZAGREB UNIVERSITY

38. PhD. Milorad Milun, Director

UNION OF ASSOCIATION OF CITIES AND OF ASSOCIATION OF MUNICIPALITIES

39. Mr. Ivica Malatestilić, Deputy Mayor

CROATIAN ASSOCIATION OF COUNTIES

40. Mr. Ivica Đopar, Advisor for Integration

DEVELOPMENT AGENCY NORTH (DAN)

41. Ms. Normela Radoš, Head of Section for EU Funds and Regional Development

AGENCY FOR DEVELOPMENT OF OSJEČKO-BARANJSKA COUNTY

42. Ms. Sandra Filipović, Assistant of the Head

REGIONAL DEVELOPMENT AGENCY PORIN

43. Ms. Doris Šošić, President of the Board

ISTRIAN DEVELOPMENT AGENCY (IDA)

44. Mr. Darko Lorencin, Director

THE UNION OF AUTONOMOUS TRADE UNIONS OF CROATIA (SSSH)

45. Mr. Hrvoje Dujmić, Member of the Board

NATIONAL COMPETITIVENESS COUNCIL

46. Ms. Jadranka Gable, Expert Assistant

INSTITUTE OF ECONOMICS, ZAGREB

47. Ms. Maja Vehovec, Scientific Advisor

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)

48. Mr. Damir Novinić, Regional Manager

DELEGATION OF THE EUROPEAN COMMISSION TO THE REPUBLIC OF CROATIA

49. Mr. Florian Hauser, Task Manager

ANNEX 9 - PIPELINE OF PROJECTS ELABORATED IN 10 COUNTIES DESIGNATED AS LAGGING BEHIND REGIONS UNDER THE REGIONAL COMPETITIVENESS OP (FEBRUARY 2007)

Table 28: Project pipeline in tourism-related infrastructure

Project title	BUDGET	Application Form	Feasibility Study/Cost-benefit analysis	Tender Dossier
Castle in Virovitica– Pearl of Slavonia	1,100,000	OK	OK	OK
Wine Road, Virovitica-podravina county	968,058	OK	OK	Preparing
Culture and Business Centre Korenica	1.815.000	NO	OK	OK
Construction of water supply system in Primošten Aurora		NO	OK	OK
Construction of a water supply system in Primošten Bilo		NO	OK	OK
Construction of a secondary sewage and waste water system in Biograd na Moru	440.000	NO	OK	OK
Construction of a jetty in Kali	1.700.000	NO	OK	OK
Construction of a Glagolitic school and library in Tkon	110.000	NO	OK	OK
Reconstruction of the waterfront in Novigrad	1.095.000	NO	OK	OK
Reconstruction of the local harbour in Rovnjaska	654.000	NO	OK	OK
Construction of a water supply system in Vinjerac-Slivnica	460.000	NO	OK	OK
Lonjsko polje access road – upgrading of a tourist road	1.000.000	OK	NO	Partially
Reconstruction of the Old Fortress in Sisak	2.500.000	OK	NO	Partially

Reconstruction of the town gallery in Sisak	2.500.000	OK	NO	Partially
Roman archaeological site Kutinska lipa in Kutina	684.000	NO	OK	Partially
Historic-tourist park Utinja - Petrinjčica	7.810.000	NO	NO	NO
Reclaiming the lost heritage of Town Petrinja	900.000	NO	NO	NO
Reconstruction of sewage treatment facility in Topusko settlement	1.000.000	NO	NO	Partially
Reconstruction of Veliki Kaptol	8.000.000	NO	NO	NO
<b>Total</b>	<b>32.736.058</b>			

Table 29: Project pipeline in other business-related infrastructure

Project title	BUDGET	Application Form	Feasibility Study/Cost-benefit analysis	Tender Dossier
Entrepreneurial Zone Osijek	1,488,659	OK	OK	OK
Industrial Zone Beli Manastir	1,578,000	OK	OK	OK
Danube Port, Aljmas	1,076,881	OK	OK	OK
Business Zone of Kutjevo	1,780,000	OK	OK	OK
Business zone "Šopot"	1.000.000	NO	OK	OK
Business zone Kutina II	1.395.000	NO	OK	Partially
Upgrading and equipping educational centre for entrepreneurs in the Business zone Željezara	670.000	NO	NO	Partially
Communal zone Sisak - Upgrading / expansion of business infrastructure	9.600.000	NO	NO	NO
Business zone, phase I in Velika Ludina	608.000	NO	NO	OK
<b>Total</b>	<b>19.196.540</b>			

**GRANT TOTAL: €51.932.598**

ANNEX 10 – ORGANIGRAMME OF THE REGIONAL COMPETITIVENESS OPERATIONAL PROGRAMME MANAGEMENT STRUCTURE

