PHARE 2005 PROJECT FICHE

1 BASIC INFORMATION

1.1 CRIS Number: HR2005/8/1
1.2 Title: Business-related infrastructure Grant Scheme under PHARE ESC 2005
1.3 Sector: 32110
1.4 Location: Croatia
1.5 Duration: 24 months

2 OBJECTIVES

2.1 Overall Objective(s)

The overall objective of the project is the effective absorption of Phare Economic and Social Cohesion funds (ESC), Instrument for Pre-accession Assistance (IPA) funds and, subsequently, Cohesion and Structural Funds and Human Resources development component resources to reduce internal and external regional disparities.

2.2 Project purpose

The purpose of the project is to pilot test programmes and planning structures that will implement PHARE ESC and IPA pre-accession and the Structural Funds after accession through very selective focusing on a limited number of investment priorities.

2.3 European Partnership (EP) and NPIEU priority

In the Council decision on principles, priorities and requirements contained in the European Partnership there have been no short-term priorities established in the fields of regional policy and structural instrument co-ordination relating to harmonisation of national legislation with the acquis communautaire, or to the institutional and administrative adjustments. However, the EP defines the Chapter 21 medium-term priorities, inter alia, as “ensuring a clear distribution of responsibilities and effective inter-ministerial co-ordination in order to develop a comprehensive and coherent strategy in the field of regional development. Setting up partnership structures ensuring close co-operation between relevant stakeholders at national and regional level”.

In the same way, the European Commission’s “Opinion on Croatia's Application for Membership of the European Union” highlights that Croatia will need significant administrative strengthening and reform in order to meet EU accession criteria. In addition, it highlights that “Considerable and sustained efforts to define strategies, create administrative structures and implement programmes will be necessary to allow Croatia, in the medium term, to apply Community rule and channel the funds from the EU structural instruments”.

The National Programme for the Integration of the Republic of Croatia into the EU – 2005, section 3.21.1, says “With regard to legal regulation of the
national regional policy a single legal framework is planned to be drafted by
the end of 2005, the aim of which is systematic incorporation of the existing
fragmentary legislation related to underdeveloped regions in the Republic of
Croatia. In drafting this framework, account will be taken of harmonisation
with the obligations contained in structural fund regulations, primarily by
adopting and applying the fundamental principles of EU regional policy, such
as programming, partnership, concentration, monitoring and evaluation,
subsidiary and co-financing.”

In addition, Comments of the Commission services on the National
Programme for the Integration of the Republic of Croatia into the EU – 2004,
says “ While the SF are operating on a programme basis, it is, of course,
essential to develop, in parallel to the programming process, a pipeline of
projects ready to be financed when the fund will be released…”

The project will contribute towards the achievement of these medium-term
objectives by establishing pilot testing of the partnership structures at sub-
national level and the improvement of inter-ministerial coordination essential
to implement the grant scheme, as well as by implementing sound project
proposals that are in line with investment priorities.

2.4 Contribution to National Development Plan
The Croatian National Development Plan (NDP) is currently under
preparation. Namely, in June this year the CARDS 2003 project “Support to
National Development Planning” is starting with implementation. This
project is of key importance to help Croatia prepare for the effective use of
both EU pre-accession and Structural Funds. The overall objective of this
project is to enhance Croatia’s development planning and implementation
capacity through the elaboration of the National Strategic Reference
Framework (NSRF) and the corresponding Operational Programmes (OP)
based on a wide consensus and in line with EU best practices and regulations.
Furthermore, one of the specific objectives of the project is to prepare NSRF
according to EU best practices and regulations - including priorities;
measures and indicative budgets. As such, the NSRF should include relevant
sectoral and regional operational programmes and should incorporate relevant
existing strategies.
In accordance, the future NDP/NSDF should be closely linked to the National
Strategy of Regional Development, which is in the final stage of preparation
under the CARDS 2002 project “Strategy and Capacity Building for Regional
Development”. There is an expectation that the NSRD will be incorporated as a
key component alongside a number of sectoral priorities within the NDP. In the
first instance, the NSRD has the explicit and unique purpose of setting in place
a development infrastructure across the country at county and inter-county
level, which will provide the capacity – and the mechanisms – for the effective
use of the resources provided through the NDP for the development needs of
the counties and wider regions
The National Strategy for Regional Development is intending to provide the
means to introduce and implement a more “joined-up” (coordinated) approach
to the sustainable socio-economic development of all of the parts of the
country. As such, it will represent a significant cross-sectoral, area-focused strand of the National Development Plan, linking a range of central government ministries and institutions with socio-economic actors and institutions across the country in a concerted long-term “top-down – bottom-up” effort to achieve a more balanced development of the country and to reduce socio-economic disparities.

There are two strategic objectives of the NSRD: 1) All counties and “wider regions” enabled to contribute to sustainable national development and competitiveness – and reduced social and economic disparities across the country, 2) Effective management system for regional development established.

This project is directly linked and contributes to both aforementioned strategic objectives. Having in mind these objectives and the fact that the NSRD will become part of the NDP, it can be said without restraint that the project will not be in contradiction with the future NDP.

2.5 Cross Border Impact

Not applicable.

3 Description

3.1 Background and justification

3.1.1 Involvement of Stakeholders and Civil Society in the programming process

The nature of the required investment support in business-related infrastructure was discussed on a workshop in February 2005 involving all key stakeholders (including representatives of all Croatia’s counties). The findings of that workshop have been built into the design of the project, namely:

- Concentration on a small number of larger projects,
- Necessary areas of intervention with respect to business-related infrastructure.

3.1.2 Justification

Croatia received EU candidate status in June 2004. From 2005, Croatia has participated in the EU’s pre-accession instruments, PHARE, ISPA and SAPARD and it will need significant administrative strengthening and reform in order to meet EU accession criteria.

The basic economic indicators show the relative weakness of the Croatian economy compared to EU member states. In 2001 Croatia reached just slightly over 40% of EU15 GDP per capita. Croatia’s GDP reaches about 84% of average GDP per capita of the 10 new member states. The country also suffers from a high unemployment rate of more than 20%. Nevertheless, Croatia’s favourable geography, tourism attractiveness and relatively well-educated labour force give the country significant development potential.

Achieving balanced socio-economic development throughout Croatia’s territory is a challenge. The advanced development of the capital city, Zagreb, as well as parts of northern Croatia and Istria stands in stark contrast to the
war-affected areas (about 1/3 of the territory) mainly along the Serb and Bosnian borders. These areas have been classified as Areas of Special State Concern by the Croatian government.

The EU CARDS programme, and subsequently EU pre-accession funds provide technical assistance and some investment funds to strengthen Croatia’s administrative capacity in preparation for EU membership.

Under the Phare 2005 Programme, Croatia will have access to Economic and Social Cohesion (ESC) support for the first time and will need to operate grant schemes for ESC investment. The primary purpose of the investments under ESC are to develop the capacity of regional and local actors, as well as other relevant partners, to prepare and implement projects of the type that will in future be financed by EU Structural Funds. The Government will, at the same time, develop the capacity to ensure that project selection and decision-making is managed within a framework established on the basis of transparency, efficiency and reliability. The actual investment in business-related infrastructure is therefore considered, while still important, to be of secondary importance compared to the gaining of experience and skills in the preparation and implementation of the type of schemes that will in future be financed by EU Structural Funds. The objective of the business-related infrastructure scheme is to improve Croatia’s business-related infrastructure thus contributing to regional development. While the scheme will be open to all eligible applicants throughout Croatia preference in terms of weighting will be given to projects likely to benefit SMEs and/or projects located within the Areas of Special State Concern and preference in terms of co-financing will be given to projects located within the Areas of Special State Concern.

Detailed project selection criteria will be elaborated within the Guidelines for Applicants (in accordance with the PRAG rules). In general, under PHARE ESC 2005 BRI the following projects will be selected: modernization of infrastructure related to business development, development of existing business incubators, business centres, communal infrastructure related to tourism, tourist infrastructure, infrastructure base for R&D, ICT infrastructure, TA projects to maximise the effective use of the new infrastructure and ensure, where feasible, that long-term sustainability is achieved etc. For all projects it will be of importance to demonstrate contribution to the goals of the Lisbon agenda, i.e. to contribute to enhancement of growth, employment, R&D and ICT.

Much effort in terms of preparing relevant institutions to manage grant schemes and development of a pipeline of feasible projects ready to be implemented under PHARE 2005-2006 has already been done through various CARDS projects. The following ones represent the most important projects in that respect:

As mentioned within the above section 2.4., the National Strategy for Regional Development (under elaboration within CARDS 2002 project “Strategy and Capacity Building for Regional Policy”) will create a strategic base for planning PHARE ESC, as well as PHARE IB component in the area of regional policy, especially in the absence of a National Development Plan.
Furthermore, as such it will also serve for future project programming under the Regional Development component of IPA (Integrated Pre-accession Instrument).

Based upon results and achievements of CARDS 2002 project “Strategy and Capacity Building for Regional Policy”, a new CARDS 2004 Institution Building project is going to be proposed (by October this year), which will be mainly focused on enhancing necessary institutional structures for sound management of future IPA and SF in the area of regional development. Furthermore, within CARDS 2002-2004 projects “Sustainable Development in Areas of Special State Concern”, in parallel to the national policy framework, Croatia has started preparing county based development programmes. These so called «Regional Operational Programmes» (ROP) follow a “bottom up” methodology, based on stakeholder consultation. So far 8 Croatian counties have received EU technical assistance in ROP preparation and implementation and additional 9 counties have recently started the process of ROP elaboration.

The county programmes help to: familiarise potential beneficiaries with EU procedures, create ownership for programmes and projects, enhance capacity for project identification and management, and provide a valuable input in national partnership structures. The approach is to “simulate” structural funds, by first assisting in the preparation of a so-called ROP, and subsequently by providing funds for investment in priority projects that were identified through the ROP, through the CARDS programme. The CARDS programme 2002-04 invests more than €40 million in this process (see section 3.5).

The county ROPs are expected to become an integrated part of the NSRD within the County and Wider Region Development Programme that will be one of the instruments for achieving NSRD strategic objectives. Integration of ROPs into the NSRD, as well as integration of NSRD into the future NDP (as mentioned above) will enable the creation of a unified framework and strong links between all levels in regional development planning and implementation.

The project which is directly linked to PHARE ESC 2005-2006 is the CARDS 2004 project “Technical support to the management of economic and social cohesion projects” (i.e. before start of this project). The CARDS 2004 project is focused on enhancing the operation of the grant scheme management system and on establishing a Project Generation Facility for PHARE ESC 2005-2006. The improved grant scheme management system should be achieved by improving capacities of the CFCU to undertake financial management and control of ESC grant schemes and by improving the capacities of relevant state institutions (Ministry of the Sea, Tourism, Transport and Development-MSTTD, Ministry of Economy, Labour and Entrepreneurship-MELE and Croatian Employment Service-CES) to undertake technical management of grant schemes.

Due to its envisaged objectives and purpose this project is a precondition for PHARE ESC 2005. Although focused on preparation for PHARE 2005-2006 ESC grant schemes, it will be also focused on creating capacities for future management of IPA and SF. The project will have two main components: 1) Grant scheme management component, focused on capacity building and
establishment of a proper system for GS management; 2) Project Generation Facility component, focused on establishment of a project pipeline system to support the implementation of further project generation activities for the PHARE ESC 2005-2006 and subsequently IPA and SF.

As a strategic basis for component 2 existing strategic documents (relevant for economic and social cohesion) will be used – in the first instance it will be the NSRD and ROPs.

Grant schemes in the area of ESC emulate the Structural Funds "measures", defined as "the means by which a priority is implemented, which enables projects or actions - carried out by the final beneficiaries – to be financed".

Grant schemes in support of ESC were formally codified in the Phare 2000 Review (Oct. 2000), with a view to moving away from the discrete project approach (> € 2 million Phare contribution) towards the programmatic approach of the Structural Funds, providing for projects similar in size (> € 50,000 < € 2 million Phare contribution) and nature to the ERDF and ESF-funded projects.

**Increased use of grant schemes is necessary and desirable as part of intensifying Phare support to ESC and moving towards Structural Funds.**

According to the Phare 2005 Programming Guidelines, Phare ESC should be used selectively to pilot test the kind of programmes that are going to be implemented with Structural Funds after accession, as well as the capacity of the Managing Authorities and Intermediate Bodies to implement them effectively. The Programming Guidelines also state:

- Grant schemes should be encouraged, and be designed to be as similar as possible to the measures implemented under Structural Funds. A rigorous approach to the implementation of grant schemes should be pursued.
- To ensure concentration and impact, all ESC investments should be very selective, focusing on a limited number of priorities, and should be used to pilot test the programmes and planning structures that will implement Structural Funds after accession.

Since the above mentioned CARDS 2004 project is creating a base for future sound preparation and implementation of Economic and Social Cohesion projects and of the design and operation of “open call” grant schemes (section 6.3.1.2. of PRAG says: “Call for proposals are open as a rule and all applicants are free to submit a grant application form in response to the guidelines for applicants published on Internet”), the logical continuation would be to pilot test the programmes and planning structures that will implement the IPA pre-accession and the Structural Funds after accession to help identify training and institutional/systems development needs.

The implications of this are that “open calls” grant schemes should be introduced under ESC 2005, but these should be kept small and simple until both the Government and beneficiaries have experience in the process, which implies that:
• ESC 2005 should be designed in a manner that is likely to reduce the number of applications to an easily manageable number. For this reason, business-related infrastructure involving a limited number of applications from state or parastatal applicants has been selected as the focus for business-related investment under Phare ESC 2005. This approach has been confirmed through workshops with key stakeholders.

• Technical management (design of the open calls, development of selection criteria, etc.) should be handled by those institutions that are already receiving relevant assistance and that are most likely to be managing a comparable measure post-accession together with the authorities responsible for the reduction of internal regional disparities in order to ensure the introduction of appropriate differentiation techniques (weighting, co-financing). The institutional structure has been developed with this approach in mind.

• Pilot testing of ways of addressing internal disparities within national sectoral programmes should be a high priority, which is in line with the NSRD.

• Financial and contractual management should rest with the CFCU.

Other than Malta and Cyprus, the EU-10 had significant experience of the operation of ESC Grant Schemes to help develop the necessary systems and initial capacity. Bulgaria and Romania have also significant experience of the management of ESC grant schemes. Croatia has only received access to ESC investment funds in 2005, but will have access to the IPA in 2007 and the Structural and Cohesion Funds upon its accession to the EU. Unless the pilot testing of the systems and structures for grant scheme management commences immediately, Croatia is unlikely to be able to effectively absorb its Structural and Cohesion Funds, immediately on accession.

The pilot testing of the systems and structures to management ESC grant schemes is therefore a vital part of Croatia’s accession strategy.

3.2 Sectoral rationale
Not applicable

3.3 Results
The results of the project will be:

• Effective and transparent operation of the calls for proposals process for the business-related infrastructure grant scheme. This will be demonstrated through the receipt of approximately 30 business-related infrastructure project applications for consideration under the business-related infrastructure grant scheme.

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1 “Any support for ESC must be consistent with the approach to be taken by the Candidate Countries with regard to the implementation of the unified Instrument for Pre-accession Assistance as of 2007 and Structural Funds after accession.” Phare 2005 Programming Guide
2 The Phare 2005 Programming Guide states that “The need for concentration and impact in the use of pilot testing remains critical, to avoid ESC investment support being spread too thinly and diluting its impact. Pilot testing must retain a focus – whether regional, sectoral (e.g. SME support) or a specific restructuring issue (e.g. coal).”
• Effective and transparent operation of the project evaluation, contracting and monitoring system for the business-related infrastructure grant scheme. This will be demonstrated through the evaluation, contracting, implementation and monitoring of 10-12 business-related infrastructure projects approved under the business-related infrastructure grant scheme.

• Enhanced capacity to manage grant schemes and thus enhanced absorption capacity.

• Improved business climate and opportunities

3.4 Activities (including Means)

The project results will be achieved through the implementation of a single grant scheme for business-related infrastructure (BRI).

The scheme will operate through a local open call for proposals in accordance with Section 6.3 of the Practical Guide. The essential elements of the BRI Grant Scheme are as follows:

• Overall allocation: € 6,630,000 (Phare 2005 €4,970,000 and Government of Croatia €1,660,000)

• Minimum individual grant size: €500,000

• Maximum individual grant size: €1,000,000

• Co-financing will be provided from Croatian public financial resources (national, regional or local). Areas of Special State Concern will be expected to co-finance only to the extent of 25% of the cost of an investment project, while all other areas of Croatia will have to co-finance to the extent of 35% of the cost of an investment project.

• Focus on supporting public goods and not private goods investment.

• Range of eligible areas for support:
  o Modernisation/extension of infrastructure essential to business development (e.g. access roads to tourism sites, business incubators, industrial zones, etc)
  o Development of existing business incubators, business centres, industrial parks, etc.
  o Development of communal infrastructure related to tourism (water, wastewater, electricity, social and cultural centres, etc. development in areas of high tourism potential whose potential is adversely affected by poor infrastructure)
  o Development of tourist infrastructure (e.g. tourism information centres, protection of cultural heritage sites with a high tourism potential, development of sporting and cultural infrastructure primarily aimed at tourism development, tourism signposting, etc.)
  o Development of the infrastructural base for research, technology and innovation for business (including testing laboratories, cluster-based R&D facilities and training institutions, etc.)
Development of multi-user Information and Communications Technology infrastructure (for example, public internet access points in smaller communities)

Training and technical assistance to maximise the effective use of the new infrastructure and ensure, where feasible, that the long-term sustainability is achieved.

- Eligibility of beneficiaries: Counties, municipalities, county/municipal institutions and agencies; county SME support centres; county tourism associations. The scheme would be open to beneficiaries nationally, but weighting and co-financing would ensure a high level of precedence for applicants from the Areas of Special State Concern (ASSC). A CARDS 2004 project would provide strong project generation support to the ASSC to ensure a high inflow of high quality applications.

3.5 Linked Activities

**CARDS 2002 “Strategy and Capacity Building for Regional Development” (under implementation)** - This two-year programme aims to assist the Government of Croatia to develop a coherent, consensus-based policy for the balanced development of the regions. The main results of the project are: NSRD and Law on Regional development elaborated, defined institutional structure for sound management of regional policy and strengthened culture of partnership. The NSRD places stakeholders from across the country at the heart of the development challenge. It brings central government and public institutions into a new, more open and structured relationship with development actors at local, county and wider region level. Furthermore, the NSRD draws together, for the first time, government and other resources to tackle the causes underlying the widening disparities between more prosperous and lagging areas. The NSRD (among other strategic documents relevant for economic and social cohesion) will and can easily serve as a strategic base for planning PHARE ESC, as well as PHARE IB component in the area of regional policy, especially in the absence of a National Development Plan. Furthermore, as such it will also serve for future project programming under the Regional Development component of IPA (Integrated Pre-accession Instrument). The NSRD, as well as the new Law on Regional Development is planned to enter the Government adoption procedure in October this year (see section 2.4. and 3.1.2).

**CARDS 2004 project “Support to the Management of Economic and Social Cohesion Projects” (tendering procedure underway; procurement notice has been published) –** This project is directly linked to the PHARE 2005 ESC BRI project due to its envisaged objectives and purpose which are: to prepare relevant institutions to manage grant schemes and to develop a pipeline of feasible projects ready to be implemented under PHARE 2005-2006. It is focused on enhancing the operation of a grant scheme management system and on establishing a Project Generation Facility for PHARE ESC 2005-2006. The improved grant scheme management system should be achieved by improving capacities of the CFCU to undertake financial management and control of ESC
grant schemes and by improving the capacities of relevant state institutions (Ministry of the Sea, Tourism, Transport and Development-MSTTD, Ministry of Economy, Labour and Entrepreneurship-MELE and Croatian Employment Service-CES) to undertake technical management of grant schemes. The project will have two main components: 1) Grant scheme management component, focused on capacity building and establishment of a proper system for GS management; 2) Project Generation Facility component, focused on establishment of a project pipeline system to support the implementation of further project generation activities for the PHARE ESC 2005-2006 and subsequently IPA and SF. Start of the project is foreseen for 1 November 2005 and the period of execution of the contract will be 15 months from this date (see section 3.1.2).

The CARDS 2002, 2003 and 2004 Programmes “Sustainable Development of War-affected areas” (under implementation) – These programmes have led to the preparation of NUTS 3 so called “Regional Operational Programmes” with projects identified and partly prepared which are likely to fit the eligibility requirements of the grant scheme. These so called «Regional Operational Programmes» (ROP) follow a “bottom up” methodology, based on stakeholder consultation. So far 8 Croatian counties have received EU technical assistance in ROP preparation and implementation. The county programmes help to: familiarise potential beneficiaries with EU procedures, create ownership for programmes and projects, enhance capacity for project identification and management, and provide a valuable input in national partnership structures. The approach is to “simulate” structural funds, by first assisting in the preparation of a so-called ROP, and subsequently by providing funds for investment in priority projects that were identified through the ROP, through the CARDS programme. The ROPs are expected to become an integrated part of the NSRD (within the County and Wider Region Development Programme) (see section 3.1.2).

CARDS 2003 project “Support to National Development Planning” (start of implementation is expected in June) - The objective of this project is to enhance Croatia’s development planning and implementation capacity through the elaboration of the National Strategic Reference Framework (NSRF) and corresponding Operational Programmes (OP) based on a wide consensus and in line with EU best practices and regulations. The National Strategic Reference Framework will be the future basis for the effective allocation of funds towards development priorities, integrating both sectoral and regional dimensions. National Strategy for Regional Development will become an integral part of future NDP/NSRF (see section 3.1.2). The project will start in June this year and the period of execution of the contract will be 26 months from that date.

CARDS 2004 “Support to the development of SF Management Structures” (under preparation) – The project will be built upon the results and achievements of the CARDS 2002 project “Strategy and Capacity Building for Regional Development” and mainly focused on enhancing institutional structures and procedures necessary for future sound management of IPA and SF in the area of regional policy (see section 3.1.2).
3.6 Lessons learned

Most of the EU-10 faced significant problems in managing “open call” grant schemes – even though most of them (unlike Croatia) operated some form of open call national grant schemes:

- “The capacity of regional and local actors as well as other relevant partners to prepare, and implement projects, needs to be considerably strengthened. Hungary will also have to ensure that project selection and decision-making is managed within a framework established on the basis of transparency, efficiency and reliability in the implementation of programmes” (Regular Report, Hungary 2002).
- “Project selection and decision-making should be managed within a framework that ensures transparency, efficiency and reliability in the implementation of programmes.” (Regular Report, Poland 2002).
- “Project selection and decision-making should be managed within a framework that ensures transparency, efficiency and reliability in the implementation of programmes”. (Regular Report, Cyprus 2002).
- “Project selection and decision-making should be managed within a framework that ensures transparency, efficiency and reliability in the implementation of programmes”. (Regular Report, Estonia 2002).
- “Project selection and decision-making should be managed within a framework that ensures transparency, efficiency and reliability in the implementation of programmes”. (Regular Report, Lithuania 2002).

Many of the EU-10 thus had problems in operating grant schemes efficiently – despite having operated ESC investment schemes for some years prior to the date of these 2002 Regular Reports (the last prior to their accession to the EU).

Since so far none of the Croatian institutions was involved in managing grant schemes according to the PRAG rules it is reasonable to assume that Croatia will also need to expend significant effort to operate grant schemes efficiently. In Croatia the CARDS grant schemes have been mainly operated to date (since 2003) by the EC Delegation and therefore in real terms there has been no capacity building in this field for Croatian institutions. What has been visible from that process is that the potential beneficiaries have been struggling with EC procedures and that procurement within a grant according to EU rules tends to cause problems, especially when local authorities are obliged to use English language in the secondary procurement.

So far, the only Croatian authorities that have managed CARDS GS were in the civil sector but experience in that respect has not been widely shared and in such way it could not have had a bigger impact on the future PHARE ESC GS management.

Accordingly, it has to be mentioned that in terms of GS in Croatia a critical issue relates to the absence of grant schemes in the sense understood in
development programmes in the EU. Therefore, significant capacity building in that respect is needed.

4 INSTITUTIONAL FRAMEWORK

The Contracting Authority for the project will be the CFCU. The CFCU will be responsible for all tendering, contracting and grant disbursement in relation to the Business-related Infrastructure Grant Scheme. The CFCU shall further be responsible for:

- establishing an appropriate project monitoring and evaluation system in accordance with the Practical Guide.
- finalising and circulating of eligibility and funding criteria, issuing of calls for grant proposals in accordance with the Practical Guide, the evaluation and assessment of grant proposals recommended by the Evaluation Committee, the awarding and conclusion of grant contracts and the disbursement of grants to grant beneficiaries;
- publishing and regularly updating information and data on their Internet website, including Grant Scheme Annual Workplans, Guidelines for Applicants and tender notices;
- establishing a Coordination Committee for the Grant Scheme under its chairmanship with representation from the Ministry of the Sea, Tourism, Transport and Development and the Ministry of the Economy, Labour and Entrepreneurship. The purpose of the Committee will be to provide final advice to the CFCU on the approval of the annual work plan and guidelines for applicants (including the establishment of eligibility and selection criteria and co-financing basis). It will have particular responsibility for assisting the CFCU to agree final selection and co-financing criteria which balance appropriately the need to reduce regional disparity and the need to develop the SME sector.
- establishing the Evaluation Committee in accordance with the Practical Guide;
- reviewing, approving and forwarding to the ECD for approval all Programme Documentation, Fund Guidelines and other similar documentation as required by the Practical Guide.

The Ministry of the Sea, Tourism, Transport and Development shall be responsible for the technical development and management of the business-related infrastructure grant scheme with respect to the establishment of conditions of the grant scheme to ensure the reduction of regional disparities. This shall include but not be limited to the marketing and stimulation of awareness and understanding of the business-related infrastructure grant scheme within the assisted areas and the establishment of selection criteria and co-financing criteria with respect to the reduction of regional disparities. Ministry of the Sea, Tourism, Transport and Development shall also be responsible to:

- promote awareness of the business-related infrastructure grant scheme in the assisted areas among potential stakeholders and stimulate grant applications;
• design open calls, define selection criteria, prepare Guidelines for Applicants

• conduct site visits and project monitoring and evaluation and ensuring that grant beneficiaries comply with their contractual requirements with the CFCU and comply with EC Regulations;

• prepare, in conjunction with the Ministry of the Economy, Labour and Entrepreneurship, an Annual Work Programme for the business-related infrastructure grant scheme. The Ministry of the Sea, Tourism, Transport and Development shall be responsible primarily for ensuring that the business-related infrastructure grant scheme is addressing regional disparities;

• appoint member(s) of the evaluation committee on request of the CFCU.

The Ministry of the Economy, Labour and Entrepreneurship shall be responsible for the technical development and management of the business-related infrastructure grant scheme with respect to the development of the SME sector nationally. Specifically they will:

• promote awareness of the business-related infrastructure grant scheme to business associations and other SME stakeholders nationally and stimulate grant applications;

• prepare, in conjunction with the Ministry of the Sea, Tourism, Transport and Development, an Annual Work Programme for business-related infrastructure grant scheme. The Ministry of the Economy, Labour and Entrepreneurship shall be responsible primarily for ensuring that the business-related infrastructure grant scheme is addressing national sectoral issues;

• appoint member(s) of the evaluation committee on request of the CFCU.
## 5 DETAILED BUDGET

<table>
<thead>
<tr>
<th>€M</th>
<th>Phare/Pre-Accession Instrument support</th>
<th>Co-financing</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>National Public Funds (*)</td>
<td>Other Sources (**)</td>
</tr>
<tr>
<td>Year 2005 - Investment support jointly co funded</td>
<td>4,970,000</td>
<td>1,660,000</td>
<td>0</td>
</tr>
<tr>
<td>Sub-project 1: Grant Scheme</td>
<td>4,970,000</td>
<td>1,660,000</td>
<td>0</td>
</tr>
<tr>
<td>Investment support – sub-total</td>
<td>4,970,000</td>
<td>1,660,000</td>
<td>0</td>
</tr>
<tr>
<td>% of total public funds</td>
<td>75 %</td>
<td>25 %</td>
<td></td>
</tr>
</tbody>
</table>

| Year 2005 Institution Building support |  |
|---------------------------------------|  |
| Sub-project 1: Audit of Grant Scheme | 30,000 | 0 | 0 | 0 | 30,000 |
| IB support | 30,000 | 0 | 0 | 0 | 30,000 |
| Total project 2005 | 5,000,000 | 1,660,000 | 0 | 0 | 6,660,000 |

(*) contributions form National, Regional, Local, Municipal authorities, FIs loans to public entities, funds from public enterprises

(**) private funds, FIs loans to private entities

1. All investment sub-projects supported by PHARE must receive co-financing from national public funds. Minimum requirement for co-financing from national public funds is 25% of the combined PHARE and national contributions to the overall investment support.

2. Many Institution building projects will also have a degree of co-financing – this should be quantified and included wherever possible.

3. Expenditure related to equipment (regulatory infrastructure or ESC-related) and to Technical Assistance supporting investment (e.g. pre-feasibility study / supervision of works / technical specifications) should be considered as Investment support in the project fiche.
4. All co-financing must be provided on a joint basis. Parallel co-financing will, in a principle, not be accepted. Exceptions to this rule have to be agreed with the Commission in advance.

5. All co-financing should be clearly quantified, also the degree of certainty of such co financing (i.e. for National Public Funds: is it already earmarked in local or national budget, for FIs Loans, private funds: are they already approved/ under appraisal, etc.).

6. Where parallel co financing is accepted and justified per exception to the normal rule it should be provided in monetary form. If this is not possible there should be clear criteria set out for the valuation of any non-monetary contributions (that should be quantified in the table).

7. If twinning is involved, clearly state the expected budget of the twinning covenant.

8. The financial engineering of the project should be closely monitored against actual delivery during implementation and against the objectives that were set in the project fiche so that corrective actions may be taken where required.

6 IMPLEMENTATION ARRANGEMENTS

6.1 Implementing Agency

Programme Authorising Officer
Mrs Vladimira Ivandić
Assistant Minister
Ministry of Finance
Katanciceva 5
10000 Zagreb, Croatia

Senior Programme Officer
Mr Željko Tufekčić
Assistant Minister
Ministry of the Sea, Tourism, Transport and Development
Prisavlje 14
10000 Zagreb, Croatia

The role of the CFCU and the tasks it will delegate to the key Ministries is described in detail in Section 4: Institutional Framework.

6.2 Twinning
Not applicable.

6.3 Non-standard aspects
Not applicable.

6.4 Contracts
The project will be operated as a grant scheme in accordance with Section 6 of the PRAG. It is envisaged that between 10 and 12 grant contracts will be entered into.
The audit will be undertaken as a single contract following PRAG.

7 IMPLEMENTATION SCHEDULE

7.1 Start of tendering/call for proposals: within 6 months of the signature of the financing agreement

7.2 Start of project activity: within 9 months of the signature of the financing agreement

7.3 Project completion: within 36 months of the signature of the financing agreement

8 EQUAL OPPORTUNITY

Based on the fundamental principles of promoting equality and combating discrimination, participation in the project will be guaranteed on the basis of equal access regardless of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation. Specifically in relation to the issue of equality between men and women, Croatia’s population (2001 census) constitutes 51.87% women and 48.13% men, with those in active employment (based on Labour Force Survey statistics, conducted in accordance with ILO methodology, for the second half of 2002) divided 45.31% women and 54.69% men.

The selection criteria for the grant scheme will favour projects which demonstrate a positive impact on equal opportunity. The project will undertake gender screening of all project proposals for support under Phare 2005 to assess the extent to which women will profit from the employment growth induced by the PHARE ESC investment projects and in which direction the gender balance in the occupational structure will be improved. The evaluation committee established by the MSTTD to select project proposals for further elaboration and inclusion in the pipeline will have an appropriate gender balance and will review each project to ensure that its equal opportunity impact is positive.

9 ENVIRONMENT

All project applications under the business-related infrastructure grant scheme will need to submit an initial environmental screening. For successful applications and where the initial environment screening deems it necessary, a full environmental impact statement will need to be completed prior to the signature of the grant contract.

10 RATES OF RETURN

The rate of return cannot be assessed for an overall grant scheme, but only for the individual projects approved under the grant scheme. However, such analysis will be undertaken, as appropriate, within the context of operating the grant scheme and the subsequent Call for Proposals and award of grants.
Financial rate of return: N/A

11 INVESTMENT CRITERIA (APPLICABLE TO ALL INVESTMENTS)

11.1 Catalytic effect
The Government of the Republic of Croatia has no experience in the operation of “open call” grant schemes. Such grant schemes are essential to the management of IPA and the Structural Funds. The project will therefore help to catalyse extended use of “open call” grant schemes and thus Croatia’s accession to the EU.

The grants themselves will improve the ‘environment’ for businesses in the poorer Croatian regions and may stimulate inward investment into these regions.

11.2 Co-financing
The Government of the Republic of Croatia will ensure provision of the required €1,660,000 from county, municipal or national government resources or a mixture of the three. This is based on the minimum requirement of 75% co-financing from Phare and 25% from the Government of Croatia. The Government has determined that the minimum co-financing requirement will only be required in Areas of Special State Concern and that all other areas will be expected to provide co-financing of 35% from Croatian public resources. The exact co-financing may well therefore be higher depending on the actual location of approved grants.

11.3 Additionality
No “open call” grant schemes exist at present in Croatia so there is no prospect of displacement. In accordance, Phare grant does not displace other sources of funding.

11.4 Project readiness and size
“Guidelines for applicants” for the grant scheme have been prepared. A CARDS 2004 project will prepare a pipeline of eligible project applications for submission under the grant scheme to ensure its effective utilisation (see sections 3.1.2 and 3.5.). Start of that project is foreseen for 1 November 2005 and the period of the contract execution will be 15 months from this date. The grant scheme respects the minimum project size for investments.

11.5 Sustainability
Grant schemes are an essential element of the operation of PHARE ESC, IPA and SF. Individual applications will be screened during the assessment process to ensure both financial and environmental sustainability. Furthermore, each individual application shall demonstrate contribution to the goals of the Lisbon agenda.
11.6 Compliance with state aids provisions
The project is national regional aid and as such is compliant with the state aid regulations in accordance with Articles 92(3)(a) and 92(3)(c) of the EC Treaty.

12 CONDITIONALITY AND SEQUENCING
The pre-conditions for this project are that:
(a) The government designates which institutions will be Managing Authorities /Intermediary Bodies for IPA /SF operational programmes.
(b) Favourable assessment of the CFCU capacity to manage GS, i.e. the full and successful accreditation of the CFCU as the Implementing Agency
(c) The signing of cooperation agreements between the CFCU, MELE and MSTTD setting out their respective roles with respect to the management of the Phare ESC 2005 business-related infrastructure grant scheme.
(d) Availability of good and ready individual projects, i.e. successful and timely implementation of the CARDS 2004 project «Support to the Management of Economic and Social Cohesion Projects»

Key milestones will be:
• First open call – within 6 months of the date of signature of the Financing Agreement. The call for proposals will set quarterly deadlines for submissions over a period of 12 months (eighteen months from date of signature of the Financing Agreement). Proposals received by the CFCU after one deadline will automatically be carried over to the next until the final closing date.
• Contracting – will commence within 9 months of date of the signing of the Financing Agreement. Contracting will be completed within 21 months of the signature of the Financing Agreement. Early closure of the contracting window is considered essential to ensure implementation and disbursement is completed within the allowable disbursement period.
### ANNEX 1: LOGFRAME PLANNING MATRIX FOR BUSINESS-RELATED INFRASTRUCTURE GRANT SCHEME UNDER ESC 2005

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective usage of PHARE ESC, IPA and, subsequently, CF&amp;SF resources to reduce internal and external regional disparities.</td>
<td>EC concludes progress made with respect to Chapter 21 requirements relating to the management of Structural Instruments.</td>
<td>Regular Report</td>
</tr>
<tr>
<td><strong>Project purpose</strong></td>
<td><strong>Objectively verifiable indicators</strong></td>
<td><strong>Sources of Verification</strong></td>
</tr>
<tr>
<td>Programmes and planning structures that will implement PHARE ESC and IPA pre-accession and the Structural Funds after accession pilot tested through very selective focusing on a limited number of investment priorities.</td>
<td>Phare 2005 ESC Business-related Infrastructure Grant Scheme commits and disburses all allocated resources according to schedule and in accordance with EC procedures.</td>
<td>Assumptions</td>
</tr>
<tr>
<td><strong>Results</strong></td>
<td><strong>Objectively verifiable indicators</strong></td>
<td><strong>Sources of Verification</strong></td>
</tr>
<tr>
<td>Effective and transparent operation of the calls for proposals process for the business-related infrastructure grant scheme</td>
<td>Approximately 30 business-related infrastructure project applications received for consideration under the business-related infrastructure grant scheme. 10-12 business-related infrastructure project applications approved and implemented (focused on modernisation/extension of industrial zones, business incubators, reconstruction of technical infrastructure). Number of staff (CFCU and respective ministries) trained and involved in GS management.</td>
<td>MSTTD, MELE and the CFCU continue to have a role in the management of grant schemes under IPA and the SF/CF</td>
</tr>
<tr>
<td>Effective and transparent operation of the project evaluation, contracting and monitoring system for the business-related infrastructure grant scheme. Enhanced capacity to manage grant schemes and thus enhanced absorption capacity Improved business climate and opportunities</td>
<td>CFCU records Grant contracts, beneficiary reports, monitoring visits</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>The carrying out of the steps required under the PRAG to operate a local open call for proposals for the business-related infrastructure grant scheme (annual workplan, guidelines for applicants publication, local open call publication)</td>
<td>Investment finance €6,630,000 (Phare 2005 €4,970,000 and Government of Croatia €1,660,000) Audit €30,000</td>
<td>No delay in the provision of co-financing by the county/municipal/national authorities.</td>
</tr>
</tbody>
</table>
The carrying out of the steps required under the PRAG to evaluate, contract and monitor the business-related infrastructure grant scheme

<table>
<thead>
<tr>
<th>Pre-conditions</th>
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</thead>
<tbody>
<tr>
<td>(a) the government designates which institutions will be Managing Authorities /Intermediary Bodies for IPA /SF operational programmes.</td>
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<td>(b) Favourable assessment of the CFCU capacity to manage GS, i.e. the full and successful accreditation of CFCU as the Implementing Agency</td>
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<td>(c) The signing of cooperation agreements between the CFCU, MELE and MSTTD setting out their respective roles with respect to the management of the Phare ESC 2005 business-related infrastructure grant scheme</td>
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<tr>
<td>(d) Availability of good and ready individual projects, i.e. successful and timely implementation of CARDS 2004 project «Support to the Management of Economic and Social Cohesion Projects»</td>
</tr>
</tbody>
</table>
## 2 Detailed implementation chart

<table>
<thead>
<tr>
<th>RI Grant Scheme</th>
<th>Detailed Implementation Chart</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant Scheme</td>
<td></td>
<td>O</td>
<td>O</td>
<td>O</td>
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<tr>
<td>Open call</td>
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<td>C</td>
<td>C</td>
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<tr>
<td>Contracting</td>
<td></td>
<td>I</td>
<td>I</td>
<td>I</td>
</tr>
<tr>
<td>Beneficiary implementation</td>
<td></td>
<td>A</td>
<td>A</td>
<td>A</td>
</tr>
<tr>
<td>Audit</td>
<td></td>
<td>A</td>
<td>A</td>
<td>A</td>
</tr>
</tbody>
</table>
3 Contracting and disbursement schedule, by quarter, for full duration of project

<table>
<thead>
<tr>
<th>BRI Grant Scheme</th>
<th>Cumulative contracting schedule by quarters in EUR (provisional)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td></td>
<td>I</td>
</tr>
<tr>
<td>BRI Grant Scheme</td>
<td>1,242,500</td>
</tr>
<tr>
<td>Audit</td>
<td>30,000</td>
</tr>
<tr>
<td>TOTAL (EUR):</td>
<td>1,242,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BRI Grant Scheme</th>
<th>Cumulative disbursement schedule by quarters in EUR (provisional)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td></td>
<td>I</td>
</tr>
<tr>
<td>BRI Grant Scheme</td>
<td>994,000</td>
</tr>
<tr>
<td>Audit</td>
<td></td>
</tr>
<tr>
<td>TOTAL (EUR):</td>
<td>994,000</td>
</tr>
</tbody>
</table>
4 Reference list of feasibility/pre-feasibility studies

No feasibility/pre-feasibility studies were undertaken. It is essential that the Government of the Republic of Croatia gains experience in the operation of grant schemes as these must be used in the operation of IPA and the Structural Funds. The actual investment is considered secondary to the development of expertise in the operation of investment grant schemes.
5 Reference list of relevant laws and regulations

Law on ASSC – official gazette no. 26/03, 42/05

Law on Hilly and Mountainous areas – official gazette no. 12/02, 32/02, 117/03, 42/05

Law on Islands – official gazette no. 34/99, 32/02

Law on Crafts – official gazette no. 49/03

Law on Co-operatives – official gazette no. 36/95, 67/01, 12/02

Law on Small and Medium Entrepreneurship – official gazette no. 29/02

Act on Tourism activities – official gazette no. 8/96, 19/96, 76/98

Act on Tourism Associations and the promotion of Croatian Tourism – official gazette no. 30/94

Act on Tourist Taxes – official gazette no. 35/95, 42/95, 52/95, 64/00

Act on Membership Fees in Tourism Associations – official gazette no. 35/95, 52/95
6 Reference list of relevant strategic plans and studies

National Strategy for Regional Development (final stage of preparation)

Regional Operational Programmes at County level (NUTS III) – counties’ development programmes

Small and Medium Entrepreneurship stimulation in the period 2004-2008 – officially accepted in 2004

Operational Programme for Small and Medium Entrepreneurship stimulation in 2005 – officially accepted in April 2005