PHARE 2006 PROJECT FICHE

1 BASIC INFORMATION

1.1 CRIS Number: HR2006/018-113/8/1
1.2 Title: Support for Increasing the Competitiveness and Exports of Croatian SMEs
1.3 Sector: 32110
1.4 Location: Croatia
1.5 Duration: 36 months

2 OBJECTIVES

2.1 Overall Objective(s)
To meet the objectives defined within the European Charter for Small Enterprises with respect to getting more out of the Single Market, as well as preparation for and effective usage of Economic and Social Cohesion, IPA and, subsequently, Structural Funds resources.

2.2 Project purpose
To increase the competitiveness, productivity and volume of exports of Croatian SMEs. To pilot test programmes, procedures and planning structures for ESC, IPA pre-accession and Structural Funds through selective focus on a limited number of investment priorities.

2.3 European Partnership (EP) and NPIEU priority
The European Partnership with Croatia (Ability to Assume the Obligations of Membership, Sectoral Policies: SMEs, 2004, p.14) stresses the need to continue implementing the EU Charter for Small Enterprises, where it is stressed that: “Small businesses should have every chance to enter new markets and compete on fair terms.” Furthermore, the updated European Partnership\(^1\) states the short-term priorities relating to SME development are to continue the implementation of the European Charter for Small Enterprises.

Under Phare 2005, the Ministry of Economy, Labour and Entrepreneurship (MELE) has already developed a Technical Assistance project that will address many of the priorities of the Charter. Under Phare 2006, MELE will focus on getting more out of the Single Market strengthening the technological capacity of small enterprises, fostering technology co-operation among different sized companies and fostering the involvement of SMEs in inter-firm co-operation, at local, national, European and international levels.

Moreover, the SME Chapter of the Opinion on Croatia’s Application for Membership of the European Union concludes that (2004, p.92): „EU SME policy aims to improve the formulation and co-ordination of enterprise policy across the internal market with a view to supporting the development of SMEs. In doing so, it seeks to improve the overall business environment in which SMEs operate. SME policy consists largely of consultation forums and Community programmes, as well as of communications, recommendations and exchanges of best practices.“

\(^1\)COM (2005) 556, November 2005
The National Programme for the Integration of the Republic of Croatia into the EU (2005, sec. 3.16) states: the Ministry of Economy, Labour and Entrepreneurship is implementing programmes which aim at increasing SMEs' capacities to resist the pressure exerted by the competition and which is the consequence of free trade and integration with EU market. Such programmes encourage development and innovation (by improving quality systems, enhancing innovation, introducing new technologies, etc.), export, development of business infrastructure (with emphasis on creating business zones) and tourism.

Therefore, in the coming years, consistent with Lisbon agenda, small business development is going to be directed towards increasing the competitiveness and dynamics of the Croatian economy based on knowledge, mutual cooperation and encouragement of all interest groups.

2.4 Contribution to National Development Plan (and/or Structural Funds Development Plan/SDP)

The Croatian National Development Plan (NDP) is currently being prepared by the Government Office for Strategy. The draft NDP provides a strategic framework within which national priorities are being elaborated. The process, of necessity, involves inter-institutional consultations between the Office for Strategy, which is leading the process, the line ministries, the regions and economic and social partners. It is expected to be completed by the end of 2006. The increased institutional capacity within MELE to develop SMEs will directly support the future implementation of productive investments and business related-priorities in the final NDP.

Strategic Coherence Framework (SCF) should be reference document before future National Strategic Reference Framework (NSRF) under Structural Funds will be drafted. Such document should clearly be in line with the relevant national priorities as well as with Community objectives, as described in the future multi-annual indicative planning documents for IPA (MIPDs). NDP will hopefully be finalised at the end of this year 2006, the structure and inputs for the SCF should be drawn from any existing national or sectoral strategic document, such as ISPA sectoral strategies, any relevant Terms of reference; Regular reports on accession etc.

In the mean time, MELE has produced an Operational Plan for SME Promotion (2004-2008), which pays attention to key elements of the EU Charter for Small Enterprises. Its goals include the following:
- Strengthening the export oriented SMEs.
- Upgrading competitiveness through R&D, education, new technologies.
- Developing a culture of entrepreneurship.
- Increasing the number of SMEs.
- Removing the existing administrative barriers.
- Lowering taxes, etc.

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

In order to get more out of the Single Market, it is necessary to remove barriers that prevent Croatian SMEs from exporting more, increase employment and raise competitiveness. In preparing the types of support measures for export-oriented SMEs, as well as other necessary activities, several workshops were held during October 2005 (1 with business associations and donors, and 3 with entrepreneurs in Zagreb, Osijek and Rijeka) involving all key stakeholders and some export oriented SMEs (more than 60 SMEs).

Stakeholders involved in project preparation included:

- Ministry of Economy, Labour and Entrepreneurship (MELE).
- Ministry of Foreign Affairs and European Integration (MFAEI).
- Croatian Agency for Small Business (HAMAG).
- Agency for Promoting Export and Foreign Investment (TIPA).
- Croatian Bank for Reconstruction and Development (HBOR).
- Business Associations (Chamber of Commerce, Chamber of Crafts).
- NGOs (Croatian Employers’ Association, Croatian Exporters’ Association).
- Over 60 Croatian firms interested in exporting to EU.

Other institutions and donors involved:

- Ivo Pilar Institute of Social Sciences.
- USAID (Poduzetna Hrvatska).
- UNDP.
- World Bank.
- GTZ.

The findings of the meetings and workshops have been built into the design of this SME pilot grant scheme.

3.1.2 Justification

Croatia received EU candidate status in June 2004. In October 3rd 2005 Croatia started negotiation for accession to the EU involving “screening” of the first 6 chapters of the Acquis. Since 2005 Croatia has been participating in the pre-accession instruments (PHARE, ISPA and SAPARD).

EU policy prioritises the development of the SME sector. By signing the European Charter for Small Enterprises (the Charter) at the Thessaloniki summit in June 2003, Croatia joined the EU member countries, Candidate and Western Balkan countries in recognising the importance of the SME sector and agreed to work towards implementing a very demanding reform agenda. The Charter effectively amounts to a best practice SME policy framework whose implementation can be regularly assessed (annual progress reports have already been prepared in 2003, 2004 and 2005) by the Government of Croatia as well as the EU.

The key relevant operational lines of the Charter in this SME pilot grant scheme are:

1. Getting more out of the Single Market: Croatia’s main concern is to ensure that its enterprises remain competitive within the Single Market. Recent studies such as “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) have analysed the SME export sector. They highlight a number of key issues, such as the fact that:

- Croatian SMEs want stronger relations/connections with foreign partners, develop new, competitive products, develop quality products to international standards and certification, etc.
- Croatian products have lost significant market share in the EU, the destinations of Croatian exports is shifting and exports to the EU have remained stagnant in absolute terms.
- Few Croatian products emerge as “champions” in the export markets of the European Union and relative prices of Croatian products in the important EU markets continue to be above average.
- Croatian export products are actually becoming less sophisticated over time as measured by factors such as raw materials and labour versus advanced factors such as technology, skills and scale advantages.
- There is an urgent need to encourage the “export mentality” among SMEs.

2. Strengthen the technological capacity of small enterprises: the SME pilot grant scheme will foster technological cooperation and partnership among different company sizes and involve SMEs in inter-firm cooperation at local, national, EU and international levels.

3. Develop top class small business support: the SME pilot grant scheme will encourage SMEs to apply best practices, benchmark and adopt successful business models that equip them to flourish in the Single Market.

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 2004 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.
There is a need 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 2006, but these should be kept small and simple until both the Government and beneficiaries have experience of the process, which implies that:

- ESC 2006 should be designed in a manner that is likely to reduce the number of applications to an easily manageable number. This approach was confirmed through workshops with key stakeholders.
- Technical management (design of the open calls, development of selection criteria, etc.) should be handled by those institutions most likely to be managing a comparable measure post-accession. The institutional structure has been developed with this approach in mind.
- Financial and contractual management should rest with the CFCU.

Other than Malta and Cyprus, the new 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 and 2006, but will have access to the IPA in 2007 and the SF/CF upon its accession to the EU. Croatia is thus likely to be disadvantaged by lack of experience unless the pilot testing of the systems and structures for grant scheme management commences immediately.

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 Sector Rationale

Not applicable.

3.3 Results

Following results will be achieved by the end of the grant scheme:

- Effective and transparent operation of the calls for proposals process for the export-oriented SME Pilot Grant Scheme.

- Effective and transparent operation of the project evaluation, contracting and monitoring system for the SME Pilot Grant Scheme.

The logframe presented in Annex 1 below, sets out the indicators of achievement, which are quantified, verifiable and time-bound.

3.4 Activities (including Means)

The focus of the project is the implementation of a Pilot Grant Scheme for export-oriented SMEs. Guidelines for Applicants for SME Pilot Grant Scheme - Support to SMEs to Enhance Competitiveness/Export will be developed in order to ensure effective and transparent operation of the Calls for Proposals. The scheme will operate through a local open Call for Proposals in accordance with Section 6 of the Practical Guide.
The overall terms and conditions of the SME Pilot Grant Scheme - Support for increasing the competitiveness and exports of Croatian SMEs are as follows:

- Overall allocation: € 2,700,000 (PHARE €2,000,000 and co-financing €700,000)
- Maximum individual grant size: € 100,000
- Minimum individual grant size: € 50,000
- It is foreseen that SMEs participating in the grant scheme will co-finance a minimum of 25% of the cost of the project (15% in the case of firms located in Areas of Special State Concern)
- Focus on improvement of competitiveness and export-oriented SMEs.

Range of eligible areas for support:
- Consultancy essential for enhancing competitiveness and export (e.g. standards, accreditation, certification, etc.);
- Product testing necessary for obtaining relevant standards for export production;
- Benchmarking necessary for enhancing competitiveness and exports;
- Marketing and advertising strategies for increasing awareness of Croatian products;
- Promotion and placement of products (e.g. brochures, campaigns, presentations, etc.);
- Branding, design, packaging, etc. of products;
- Training for technical staff to enhance competitiveness and exports;
- Information, market-research, e-commerce (e.g. web sites);
- Matchmaking / B-to-B activities;
- Participation in international fairs and events.

Eligibility of beneficiaries:
- Be a registered SME according to the Croatian definition (as defined in Article 2 and 3 in the SME Encouragement Act – micro enterprises with less than 10 employees are not eligible);
- Be a export-oriented SME (at least 25% of the turnover);
- Be fully privately owned;
- Be located / headquartered in Croatia;
- Be able to demonstrate a profit in the fiscal year preceding the date of grant application;
- Be directly responsible for the preparation and management of the action, not acting as an intermediary.
- Be a SME active in the following sectors:

<table>
<thead>
<tr>
<th>Sections/ subssections</th>
<th>Economic activities according to NACE rev. 1.1 classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>DA</td>
<td>Manufacture of food products, beverages and tobacco (except 15.91 - 15.96 – manufacture of alcoholic beverages and 16 - tobacco products)</td>
</tr>
<tr>
<td>DD</td>
<td>Manufacture of wood and wood products (except 20.1 - Sawmilling and planning of wood; impregnation of wood; 20.2 - Manufacture of veneer sheets; manufacture of plywood, laminboard, particle board, fibre board and other panels and boards)</td>
</tr>
<tr>
<td>DH</td>
<td>Manufacture of rubber and plastic products</td>
</tr>
<tr>
<td>DJ</td>
<td>Manufacture of basic metals and fabricated metal products (except 27 – basic metals)</td>
</tr>
<tr>
<td>DM</td>
<td>Manufacture of transport equipment (except 35.11 - building and repairing of ships; 35.2 – manufacture of railway and tramway locomotives rolling stock and</td>
</tr>
</tbody>
</table>
Economic activities according to NACE Rev. 1.1 classification; Sections/ Subsections are:

- **DA** - Production of food products and beverages such as: Production, processing and preserving of meat and meat products, Processing and preserving of fish and fish products, Processing and preserving of fruit and vegetables, Manufacture of vegetable and animal oils and fats, Manufacture of dairy products, Manufacture of grain mill products, starches and starch products, Manufacture of prepared animal feeds, Manufacture of other food products, Manufacture of beverages (except manufacture of alcoholic beverages)

- **DD** - Manufacture of wood and wood products such as: Manufacture of builders' carpentry and joinery, Manufacture of wooden containers, Manufacture of other products of wood; manufacture of articles of cork, straw and plaiting materials (except 20.1 Sawmilling and planing of wood; impregnation of wood, 20.2 Manufacture of veneer sheets; manufacture of plywood, laminboard, particle board, fibre board and other panels and boards)

- **DH** - Manufacture of rubber and plastic products such as: Manufacture of rubber products, Manufacture of plastic products

- **DJ** - Manufacture of basic metals and fabricated metal products such as: Manufacture of structural metal products, Manufacture of tanks, reservoirs and containers of metal; manufacture of central heating radiators and boilers, Manufacture of steam generators, except central heating hot water boilers, Forging, pressing, stamping and roll forming of metal; powder metallurgy, Treatment and coating of metals; general mechanical engineering, Manufacture of cutlery, tools and general hardware, Manufacture of other fabricated metal products, (except 27 – basic metals)

- **DM** - Manufacture of transport equipment such as: Building and repairing of pleasure and sporting boats, Manufacture of motor vehicles, trailers and semi-trailers, Manufacture of other transport equipment (except 35.11 - building and repairing of ships; 35.2 – manufacture of railway and tramway locomotives rolling stock and 35.3 – manufacture of aircraft and spacecraft)

- **DN** - Manufacturing n.e.c. such as: Manufacture of furniture, Manufacture of jewellery and related articles, Manufacture of musical instruments, Manufacture of sports goods, Manufacture of games and toys, Miscellaneous manufacturing n.e.c., Recycling

- **K** - 72 Computer and related activities (except 72.5 Maintenance and repair of office, accounting and computing machinery and 72.6 Other computer related activities)

**Note:** NACE is derived from the French "**Nomencature statistique des Activités économiques dans la Communauté Européenne**" (Statistical classification of economic activities in the European Community) (CONSLEG: 1990R3037 — 20/11/2003)

The scheme will be open to beneficiaries nationally, but weighting and co-financing will ensure precedence for applicants from the Areas of Special State Concern (ASSC).
3.5 Linked Activities

PHARE 2005 project:

- **PHARE 2005** Business-Related Infrastructure Grant Scheme is being prepared which will be managed jointly by the Ministry of Sea, Transport, Tourism and Development and MELE. It is expected that the project will lead to the implementation of 8-10 projects supporting public goods, rather than private goods investment. The minimum individual grant size will be €500,000 and the maximum will be €1,000,000.

- **PHARE 2005** SME Institutional Strengthening and Policy Alignment project will be managed jointly by the MELE and HAMAG. The project focuses on preparing the MELE and HAMAG to prepare for accession by ensuring that they are able to implement the SME Chapter of the Acquis Communautaire and the EU Charter for Small Enterprises. The value of the project is €2,500,000 for technical assistance.

- **PHARE 2005** Capacity Building and Project Preparation Facility (CaBaPPF) is being prepared and managed by MFAEI. It is foreseen that TA for Support to Ministry of Economy, Labour and Entrepreneurship in the Implementation of the SME Pilot Grant Scheme will be financed through this project as a framework contract. Under the FC ToR specific objective is the successful implementation of the PHARE 2006 (EUR 3.5 million) SME Pilot Grant Scheme «Support to Increasing the Competitiveness and Export of SMEs», and the enhanced programming and grant management capacity of the beneficiaries.

Requested services to be provided are: preparatory activities, awareness raising, training and support to potential applicants, assessors for evaluation (up to 4), support to contracting (esp. budget clearing), coaching of grant managers, workshops post evaluation, monitoring of grant scheme implementation (individual grants).

It is expected that FC will result in fully prepared Grant Scheme with focus on implementation and delivered documents, training and procedures (Final Guidelines for Applicants and supporting material finalised to best practice standards, PIU staff fully trained and prepared for grant scheme management, PIU procedures in place for effective management of grant schemes (not just for SME Pilot Grant Scheme, but also for future grant scheme projects) and all procedures fully documented to ensure effective implementation and transparency.

Three main CARDS projects focus on related issues:

- **CARDS 2002** Development of the Business and Investment Climate in Croatia: this project has two components. The first seeks to reduce administrative and regulatory barriers, such as simplifying administrative processes and legislation, including the development of a ‘one-stop shop’ system to promote investments. The second component supports for a second year the activities to a European Info Correspondence Centre located in Zagreb.

- **CARDS 2003** Strategic Plan for the Long Term Development of Existing Free Zones in Croatia is aimed to improve the legal and institutional framework affecting private sector development, ensuring that the existing Free Zones evolve and develop in a manner that is consistent with European legislation and best practice in the field.

- **CARDS 2004** Improving information to the Croatian business community: component one of this project aims to identify, analyse and communicate regulatory/legislative changes to businesses, thus improving information provision and dialogue with the business community. The second component extends funding for the EICC Zagreb for a third and fourth year of operation.
Other relevant activities being undertaken by other the Croatian government, donors and or international financial institutions (IFIs) include the following:

- The Enhancing Small and Medium Enterprise Performance Project (Poduzetna Hrvatska) is a private sector development project funded by USAID. Poduzetna Hrvatska’s objective 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.

- The Economic Development and Employment Promotion in Croatia project (Deutsche Gesellschaft für Technische Zusammenarbeit - GTZ) supports export-oriented companies in the meat processing and wine sector by helping to improve the conditions for export ("enabling environment") and by working with relevant supporting institutions in this field.

- Croatian Bank for Reconstruction and development (HBOR) is implementing a range of activities supporting export aiming for enhancement of a system that enables Croatian exporters’ involvement in international markets. For the encouragement of export, HBOR has developed several schemes and programmes that cover preparation for export and export insurance and guarantees.

### 3.6 Lessons learned

A number of studies have been undertaken on SME development in Croatia, such as OECD-EBRD (2003), the EC (2004) and OECD-EBRD-DG Enterprise (2005), as well as recent studies such as the Export Potential of Croatian SMEs (Institute Ivo Pilar, 2005), The Competitiveness of Croatian Exports to the EU (IMO, 2005) and 55 Policy Recommendations for Raising Croatia’s Competitiveness (National Competitiveness Council, 2004) have highlighted a number of issues which need to be tackled. The lessons that have been taken into account in the design of this project include the following (EC, 2004):

- Assistance is needed to enhance the export potential and competitiveness of Croatian SMEs to prepare them for EU accession and operation in the internal market.

- There is a need to raise awareness of importance of exports, create a greater export mentality, as well as to introduce mechanisms for regular and effective dialogue between Government and the exporting business community, especially small enterprises.

Most of the new EU-10 faced significant problems in managing “open call” grant schemes, even though (unlike Croatia) most operated some form of open call national grant schemes. While no experience exists for Croatia regarding grants, it is reasonable to assume that Croatia will need to expend significant effort to operate grant schemes efficiently. Therefore, the SME Pilot Grant Scheme represents a key project in MELE’s preparation for accession.
4. INSTITUTIONAL FRAMEWORK

The Contracting Authority for the grant scheme will be the CFCU. Being accredited the CFCU proved the capacity necessary for managing grant schemes. This capacity will be further expanded through TAs to the CFCU, through continuous cooperation with the EC Delegation, and finally through its management experience. The CFCU will be responsible for all tendering, contracting and grant disbursement in relation to the SME Pilot Grant Scheme - Support for Increasing the Competitiveness and Exports of Croatian SMEs.

The CFCU will 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 SME Pilot Grant Scheme Coordination Committee under its chairmanship with representation from MELE and HAMAG. 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 technical management of the project will be undertaken within MELE. MELE will receive a substantial technical assistance for managing SME Grant Scheme through Framework Contract within PHARE 2005 Capacity Building and Project Preparation Facility. Also, MELE will learn through a CARDS 2004 PPF project and a corresponding grant scheme under PHARE 2005 for Business Related Infrastructure. MELE will also receive related TA within PHARE 2005 Project SME Institutional Strengthening and Policy Alignment, which include providing support in SME training, capacity building and networking. MELE shall be responsible for the technical development and management of the SME Pilot Grant Scheme with respect to the establishment of conditions of the grant scheme to ensure the reduction of regional disparities. MELE shall also be responsible to:

- Promote awareness of the SME Pilot Grant Scheme among potential stakeholders and stimulate grant applications.
- 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 an Annual Work Programme for the SME Pilot Grant Scheme.
- Appoint member(s) of the evaluation committee on the request of the CFCU.
A Project Steering Committee will be created consisting of representatives from MELE, HAMAG, business associations such as the Croatian Exporters’ Association, academic institutions and other relevant stakeholders. The Project Steering Committee will operate under the chairmanship of the MELE and will meet on a quarterly basis to review project progress. The CFCU and EC Delegations will be invited to participate in the Project Steering Committee as observers. Among others, there will be representatives from Ministry of Foreign Affairs and European integration in the Project Steering Committee.

5. **Detailed Budget**

<table>
<thead>
<tr>
<th></th>
<th>Phare/Pre-Accession Instrument support</th>
<th>Co-financing</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>€</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year 2006 - Investment support jointly co funded</td>
<td>National Public Funds (*)</td>
<td>Other Sources (**)</td>
<td>Total Co-financing of Project</td>
</tr>
<tr>
<td>Grant Scheme</td>
<td>2,000,000</td>
<td>700,000</td>
<td>0</td>
</tr>
<tr>
<td>Investment support – sub-total</td>
<td>2,000,000</td>
<td>700,000</td>
<td>0</td>
</tr>
<tr>
<td>% of total public funds</td>
<td>75 %</td>
<td>25 %</td>
<td></td>
</tr>
</tbody>
</table>

| Total project 2006 | 2,000,000 | 700,000 | 0 | 0 | 2,700,000 |

(*) 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

The Central Financing and Contracting Unit (CFCU) at the Ministry of Finance is responsible for the tendering, contracting and disbursement of all the project’s components in line with DIS principles and the PRAG.

Programme Authorising Officer
Mrs Vladimira Ivandić
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Senior Programme Officer
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6.2. Twinning
Not applicable.

6.3. Non-standard aspects
The Practical Guide to contract procedures financed from the General Budget of the European Communities in the context of external actions (the PRAG) will be strictly followed.

6.4. Contracts
This project will be operated as a grant scheme (€2,700,000) in accordance with Section 6 of the PRAG. It is envisaged that at least 27 grant contracts will be entered into.
7. **IMPLEMENTATION SCHEDULE**

The Project will be contracted via the CFCU.

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 12 months of the signature of the financing agreement

7.3. Project completion: within 24 months of the signature of the financing agreement (+9 months)

8. **EQUAL OPPORTUNITY**

The selection criteria for the grant scheme will favour projects which demonstrate a positive impact on 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.

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 2006 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.

9. **ENVIRONMENT**

All project applications under the 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 signature of the grant contract.

10. **RATES OF RETURN**

All business projects supported under the schemes will be analysed under due diligence from the point of view of their sustainability and longer term business planning; only projects clearly demonstrating market competitive rates of return will receive support. The assessment of rate of return will be undertaken by the staff of MELE who are experienced in such assessments.

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 catalyse extended use of “open call” grant schemes and thus Croatia’s accession to the EU. The grants will enhance the business environment in Croatia and may stimulate inward investment, including into the poorer regions of the country.
11.2. Co-financing
The Government of the Republic of Croatia will ensure the provision of the required minimum of €700,000 of the participation from other resources, such as state budget, applicant SMEs, banks, or mixture of them. This is based on the minimum requirements of 75% co-financing from Phare and 25% from the Government of Croatia. The Areas of Special State Concern will be required to co-finance 15% of the projects, with the balance coming from Government sources. The exact co-financing may well, therefore, depend on the actual location of approved grants.

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

11.4. Project readiness and size
“Guidelines for Applicants” for the SME pilot grant scheme are being prepared. The grant scheme respects the minimum and maximum project size for investments.

11.5. Sustainability
Grant schemes are an essential element of the operation of 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
Support to private companies must comply with the state aids provisions of the Stabilisation and Association Agreement. Inter alia, to comply with the state aids “de minimis” rule, the combined grant, to each recipient, from Phare and from public funds, over three years, must not exceed € 100,000.

12. CONDITIONALITY AND SEQUENCING
The preconditions for this project are that:

a) Capacity of HAMAG and MELE to implement activities is enhanced according to PHARE ESC 2005 – SME Institutional Strengthening and Policy Alignment.

b) Favourable assessment of the CFCU capacity to manage Grant Schemes.

c) Availability of good and ready individual projects and SMEs’ capacity to absorb grants.

Key milestones will be:

- Open call – within 6 months of the date of signature of the Financing Agreement. The call for proposals will set deadline for submissions over a period of 4 months (10 months from date of signature of the Financing Agreement). Proposals received by the CFCU after the deadline will not be accepted.

- Contracting – will commence within 12 months of date of the signing of the Financing Agreement. Contracting will be completed within 15 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.
Annexes to the Project Fiche:
Annex 1 – Logframe
Annex 2 – Detailed Implementation Chart
Annex 3 – Contracting and Disbursement Schedule
Annex 5 – Reference List of Legislation
Annex 6 - Reference List of Documents
### Support for increasing the competitiveness and exports of Croatian SMEs

<table>
<thead>
<tr>
<th>Programme name and number</th>
<th>Contracting period expires</th>
<th>Execution of contracts period expires</th>
</tr>
</thead>
</table>

**Total budget € 2.700.000**

**Phare budget € 2.000.000**

#### Overall objective
Meet the objectives defined within the European Charter for Small Enterprises with respect to getting more out of the Single Market, including effective usage of ESC, IPA and, subsequently, Structural Funds resources.

#### Project purpose
To increase the competitiveness, productivity and volume of exports of Croatian SMEs. To pilot test programmes, procedures and planning structures for ESC, IPA pre-accession and Structural Funds through selective focus on a limited number of investment priorities.

#### Results
Effective and transparent operation of the calls for proposals process for the export-oriented SMEs Pilot Grant Scheme. Effective and transparent operation of the project evaluation, contracting and monitoring system for the SME Pilot Grant Scheme.

### Objectively verifiable indicators

<table>
<thead>
<tr>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU Charter Annual Report</td>
<td>SMEs interested in taking part in grant schemes</td>
</tr>
<tr>
<td>Regular Report</td>
<td>MELE and HAMAG develop the capacity to support SMEs</td>
</tr>
<tr>
<td>Programme audit</td>
<td>MELE PIU and CFCU collaborate effectively</td>
</tr>
<tr>
<td>Annual Report of the State Statistics Bureau</td>
<td></td>
</tr>
<tr>
<td>EU Charter Annual Report</td>
<td></td>
</tr>
<tr>
<td>Project Progress reports</td>
<td></td>
</tr>
<tr>
<td>Croatian GEM Report</td>
<td></td>
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<tr>
<td>EC Country Progress Report</td>
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</tbody>
</table>

**Objective verifiable indicators**

- Croatia is considered to have made progress in fulfilling the European Charter for Small Enterprises in respect of these areas
- Phare 2006 ESC Grant Scheme commits and disburses all allocated resources according to schedule and in accordance with EC procedures
- SMEs share of total exports increased by 2% by 2010
- Minimum of 27 grants issued to support exporting SMEs
- Minimum of 27 companies receiving support / training / consultancy / exhibiting at foreign fairs
- Export / SME stakeholders cooperate in implementing the project
- Participating SMEs and business associations willing to use opportunities
- SMEs have management skills to use training, information, consultancy, etc.
<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Assumptions</th>
<th>Preconditions:</th>
</tr>
</thead>
</table>
| The carrying out of the steps required under the PRAG to operate a local  | Grants of €50,000 - €100,000 (EUR 2.7 million) | • Sufficient number of SMEs applying for grant scheme  
• Capacity of SMEs to follow EC grant making procedures, application forms and monitoring  
• Ability of SMEs to co-finance 25% of the project costs | Framework contract for management of Grant Scheme starts in time for the open call for proposals  
Capacity of HAMAG and MELE to implement activities  
Accreditation of CFCU by EC SMEs’ capacity to absorb grants  
Signing of cooperation agreements between CFCU, MELE and MSTTD setting out roles with respect to the management of this Phare ESC 2006 SME pilot grant scheme |
| open call for proposals for the export oriented SME Pilot Grant Scheme.    |                                               |                                                                                                                 |                                                                                                                                                                                                             |
| (guidelines for applicants publication, local open call publication)      |                                               |                                                                                                                 |                                                                                                                                                                                                             |
| The carrying out of the steps required under the PRAG to evaluate, contract|                                               |                                                                                                                 |                                                                                                                                                                                                             |
| and monitor the SME Pilot Grant Scheme.                                   |                                               |                                                                                                                 |                                                                                                                                                                                                             |
## Annex 2 – Detailed implementation chart

<table>
<thead>
<tr>
<th>Grant Scheme</th>
<th>Detailed Implementation Chart</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td><strong>Support for Increasing the</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Competitiveness and Exports</strong></td>
<td></td>
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<tr>
<td><strong>of Croatian SMEs</strong></td>
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<tr>
<td><strong>Open call</strong></td>
<td>O O O O</td>
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<tr>
<td><strong>Evaluation</strong></td>
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<tr>
<td><strong>Contracting</strong></td>
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<td><strong>Beneficiary implementation</strong></td>
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<tr>
<td><strong>Audit</strong></td>
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</table>
Annex 3 - Contracting and Disbursement Schedule

<table>
<thead>
<tr>
<th>SME Pilot Grant Scheme</th>
<th>Cumulative contracting schedule by quarters in EUR (provisional)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
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<tr>
<td>Grant Scheme</td>
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</tr>
<tr>
<td></td>
<td>1.000.000</td>
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<tr>
<td>TOTAL €</td>
<td>1.000.000</td>
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</table>

<table>
<thead>
<tr>
<th>SME Pilot 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>Grant Scheme</td>
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</tr>
<tr>
<td></td>
<td>500.000</td>
</tr>
<tr>
<td>TOTAL €</td>
<td>500.000</td>
</tr>
</tbody>
</table>
Annex 4 – List of Feasibility Studies, Financial Appraisals, EIAs, etc

Not applicable.
Annex 5 – Reference List of Legislation

4 main laws affect the activities of the SME Directorate, namely:

- Cooperatives Act (1995)
- Investment Promotion Act (2000)

These laws will not impact on the operation of the proposed project.

Legislation can be obtained from the MELE.
Annex 6 - Reference List of Documents


Institute of International Relations - IMO (2005) - The Competitiveness of Croatian Exports to the EU.


These materials can be obtained from the MELE.