

**Position of the Commission Services on the development of Partnership Agreement
and programmes in the Republic of CROATIA for the period 2014-2020**

Table of Contents

INTRODUCTION.....	2
1. MAIN CHALLENGES	3
2. PRIORITIES FOR FUNDING.....	8
2.1 Strengthening the competitiveness of the economy	9
2.2. Increasing labour market participation, ensure better education and skills and reduce poverty taking into account regional differences.....	10
2.3 Preserving and maintaining a healthy environment and protecting the natural resources and heritage, and adapting to climate change	12
2.4 Strengthening the administrative capacity, enhancing an efficient public administration and increasing the involvement of civil society and social partners.....	13
3. SUCCESS FACTORS FOR EFFECTIVE DELIVERY	14
4. PRIORITIES FOR EUROPEAN TERRITORIAL COOPERATION	15
ANNEX.....	17
A. MAXIMISING SUCCESS - ARRANGEMENTS FOR EFFECTIVE PROGRAMMING AND DELIVERY	17
B. ASSESSMENT OF FUNDING NEEDS IN RELATION TO THEMATIC OBJECTIVES	19
C. ADMINISTRATIVE ARRANGEMENTS	36

INTRODUCTION

Acknowledging the signature of the Accession Treaty between Croatia and the Member States of the European Union, the Commission services have prepared this Position Paper in anticipation of accession of the Republic of Croatia to the EU to enable timely programming of EU funds investments for the 2014-20 period.

The European Union faces the daunting challenge of emerging from the crisis and putting economies back on a sustainable growth path. The strategy for recovery entails restoring sound public finances, growth-enhancing structural reforms and targeted investments for growth and jobs. For the latter, the European Structural and Investment (ESI) funds¹ can make an important contribution to sustainable growth, employment and competitiveness and increase the convergence of less developed Member States and regions with the rest of the Union.

To ensure that the ESI funds deliver long-lasting economic and social impacts, the Commission has proposed a new approach to the use of the funds in its proposal for the **2014-2020 Multiannual Financial Framework**². Strong alignment with policy priorities of the Europe 2020 agenda, macroeconomic and ex-ante conditionality, thematic concentration and performance incentives are expected to result in more effective spending. It is an approach that underlines the need for strong prioritisation and results away from a culture of entitlement. The ESI funds will thus provide an important source of public investment and serve as a catalyst for growth and jobs by leveraging physical and human capital investment while they serve as an effective means to support the implementation of the **Country Specific Recommendations** issued in the context of the European Semester. The Commission will propose the first recommendations after accession.

ESI Funds should aim at jointly fostering **competitiveness, convergence and cooperation** by setting the right country-specific investment priorities. A general **refocus of spending** towards research and innovation, support to SMEs, ICT, quality education and training, inclusive labour markets fostering quality employment and social cohesion, delivering the highest productivity gains, mainstreaming of climate change objectives and shifting to a resource-efficient low carbon economy is necessary. In order to do so, planning and implementation of ESI funds have to break through artificial bureaucratic boundaries in the next programming period and develop a strong **integrated approach** for mobilizing synergies and achieving optimal impact both within countries and across borders. The Europe 2020 objectives must be mainstreamed across the different ESI Funds, each of them bringing their contribution to smart, sustainable and inclusive growth. Moreover, ESI Funds have a key role to play in supporting financial instruments that can **leverage private investment** and thus multiply the effects of public finance. In short, we need a carefully targeted and results oriented use of ESI funds that maximises their combined impact.

The purpose of this position paper is to set out **the framework for** dialogue between the Commission services and Croatia on **the preparation of the Partnership Agreement and Programmes** which will start early in 2013. The paper sets out the key country specific challenges and presents the Commission Services' preliminary views on the main

¹The EU funds covered by the Common Strategic Framework (CSF), i.e. the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF)

² COM (2011) 500 final, COM (2011) 398 final and COM (2012) 388 final.

funding priorities in Croatia for growth enhancing public expenditure. It calls for optimizing the use of ESI Funds by establishing a strong link to productivity and competitiveness enhancing reforms, leveraging private resources and boosting potential high growth sectors, while emphasizing the need to preserve solidarity within the Union and ensuring the sustainable use of natural resources for future generations. There is also a need to concentrate future EU spending on priority areas to maximise the results to be obtained, rather than spreading funding too thinly. EU funding should also be used to fund EU level priorities and to ensure that Croatia can draw full benefits from its emerging EU membership. Therefore the Commission proposes to group and limit EU funding to the key challenges outlined in this position paper. National public spending should not only be used to co-finance projects but also to finance additional investments which are complementary and linked to EU funded projects in particular at regional and local level.

The position paper takes account of the lessons learnt during the 2007-2013 IPA programming period, the accession negotiations commitments, as well as the policy dialogue in the framework of "Joint Assessment of Croatia's employment policy priorities" and the "Joint Inclusion Memorandum", the Commission's legislative proposals for 2014-2020. It should be noted however that preparing and implementing the ESI funds will require greater efforts from the Croatian political and administrative levels.

In a context of fiscal discipline, this position paper encourages Croatia and its regions to develop and implement medium-term strategies capable of facing the challenges ahead, notably globalisation, while helping preserve the European social model. Moreover, it provides for a flexible framework for Croatia and its regions to react and refocus European, national and local resources on creating growth and employment so that fiscal sustainability and growth-friendly policies go hand-in-hand, also dealing with structural and institutional problems in Croatia and its regions and across its national borders in its territorial and geographical context, including as per the EU Strategy for the Danube Region, and also in the Adriatic and Ionian context, in order to have maximum impact.

Finally it invites Croatia and its regions to exploit to the maximum potential synergies between the ESI Funds and with other sources of EU funding in a strategic and integrated approach. This includes developing cooperation perspectives with neighbouring countries and regions as widely as possible.

1. MAIN CHALLENGES

Croatia's economy has been in recession since 2008 which has lowered the level of GDP by more than 10%. The European Commission's most recent Economic Forecast projects GDP to decline by 1.9% in 2012. When the international economy picked up in 2010 and 2011, the Croatian economy was unable to stage an export-led recovery. Croatia continued to lose its market share due to a narrow export base and insufficient competitiveness. Foreign direct investments declined, indicating an unfavourable investment environment in Croatia. Declining imports have narrowed the current account deficit to around 1% of GDP. This, in turn, has stabilised gross external debt as a share of GDP, but at a very high level (105% in mid-2012) which remains a key vulnerability of the Croatian economy. In the context of declining economic activity domestic inflationary pressures have subsided in recent years. The number of employed persons has fallen by about 10% since 2008, pushing up the unemployment rate to close to 15% in 2012. The unemployment rate would have increased even more if the labour force had not been shrinking by about 1% annually.

The fiscal deficit of general government has risen steadily since the beginning of the recession to 5.1% of GDP in 2011. Gross consolidated debt has increased from 29.3% of GDP at the end of 2008 to 50.5% in mid-2012. The authorities are making efforts to contain the fiscal deficit by aiming for a reduction of public expenditures, but raising the efficiency of public expenditure remains a major challenge. Interest rates are relatively high to the detriment of investment activity, although the central bank conducts a relatively accommodative monetary policy while maintaining exchange rate stability.

Regional disparities in Croatia have multiple dimensions. The most obvious disparities still appear in war affected areas which remain largely underdeveloped and among the ones with the highest needs of investments. Large areas are still contaminated by explosive devices. Due to the specific shape of Croatia and its numerous islands, access to certain areas is difficult, costly and slow, causing isolation. Part of the Dubrovnik-Neretva County is disconnected by land from the rest of the country. Regional disparities have widened over years due to the concentration of the economic activity in Zagreb and in the capital city region. Migration trends to the fast-developing regional urban centres contribute to the growing urban/rural divide in other regions as well.

There are important challenges that need to be addressed by Croatia to contribute to the Europe 2020 targets³:

Europe 2020 headline targets	National target	Current Level
3% of the EU's GDP to be invested in R&D/innovation		0.73%
20% greenhouse gas emissions reduction compared to 1990 levels ⁴		
20% of energy from renewables		14.6%
20% increase in energy efficiency		
75% of the 20-64 year-olds to be employed		57%
Reducing early school leaving to less than 10%		4.1%
At least 40% of 30-34-year-olds completing tertiary or equivalent education		24.5%
Reducing the number of people in or at risk of poverty or exclusion by at least 20 million		

Croatia's most pressing challenges are related to **Under-development of knowledge based factors of growth and insufficient connection of the growth hubs; Low labour market participation, particularly of youth, inefficient education system and a difficult social situation; Protecting the environment, preserving the natural resources and heritage and adapting to climate change and Inefficient public governance on central and local level and weak involvement of civil society and social partners**, which are all interrelated.

Under-development of knowledge based factors of growth and insufficient infrastructure

Croatia is lagging behind in **knowledge based factors of growth** and in more general terms, in optimising the support for R&D and innovation and in strengthening the

³ The Table presents the latest Eurostat data for Croatia in comparison to EU 2020 targets. National targets will be provided by Croatia in the economic programme due in April 2013.

⁴ 30% if the conditions are right

knowledge triangle. The country has one of the lowest R&D expenditure compared to the EU (0.7% of GDP) with high portion coming from public sources (nearly 50%). The public-private co-operation in the R&D&I sector is hindered by administrative restrictions, lack of joint projects, lack of transnational linkages, underdeveloped academic entrepreneurship and low absorption capacities of the business sector. The efficiency of the R&D & innovation expenditure is a major weakness, as it is rarely transferred into commercially viable knowledge. Science and innovation policy is primarily focused on public science. Low-tech sectors dominate the economic structure. Significant disparities can be observed with regard to regional distribution of R&D expenditure, with a concentration of the R&D performance in the North-western Croatia.

Unfavourable business environment is discouraging the business development and competitiveness. Croatia loses market share due to a narrow export base and insufficient competitiveness. Croatia has developed a wide range of services for SMEs but these are still largely oriented towards low value added support. Although Croatia scores high in the region in the access to finance for SMEs, obtaining start-up capital including venture funds and private equity is still difficult. Cumbersome administrative environment represents further obstacles to SME growth. Support to the modernisation and restructuring of enterprises e.g. in shipbuilding and steel sectors, including the upgrade of the production process, is not sufficiently developed. The agricultural sector is characterised by low productivity; it provides for 15% of total employment but represents only 5.5% of gross value added of the country. The farm structure is mostly characterised by a high degree of fragmentation of ownership⁵, while connections between agricultural producers are very weak with few cooperatives and no producer groups in agriculture and forestry. The fisheries sector is also facing structural challenges and limited organisation of the production side. In the context of growing internal demand for fisheries products, (notably in the seaside during touristic period) and exports, opportunities exist to increase value added by improving production and marketing planning by producers organisations. At the same time coastal communities will face difficulties to find alternative sources of income.

The transport and ICT networks are unbalanced and hinder competitiveness. A focus has been given to the development of motorways during the past 15 years. All other modes of transport require quality improvements while road safety still represents a challenge. The railway network has long sections which are not electrified or which are in single track. European Rail Traffic Management System is not yet deployed along the main lines to ensure interoperability with neighbouring countries. The navigability of the Danube and Sava does not sufficiently meet international navigation standards. River Information Services are not developed. Multi-modal facilities are still at an early stage. The share of container transport is still low compared to other European ports. Transport links within cities' agglomerations do not enable sufficient mobility.

Companies are overall well connected to basic ICT infrastructures while the economy would benefit from an improved access to high speed (next generation access) broadband networks⁶. Households are still significantly below the EU average (49% compared to EU average of 68% in 2011). The targets set by the current Broadband Development Strategy 2012-2015 are not aligned with the targets of the Digital Agenda for Europe.

⁵ Half of Croatia's 195,000 agricultural holdings have less than 3 hectares of land. Only 4 per cent have more than 20 hectares. Often land holdings are scattered over several locations.

⁶ Reduce digital divide (DAE targets - 100% basic broadband coverage by 2013; 100% and NGA infrastructure coverage with speeds 30Mbps and above by 2020; 50% or more of European households have subscriptions above 100Mbps by 2020) 90%*, and 50%* and NA respectively (by 2015) 49%, and 15%* and NA respectively)

There is insufficient coverage, accessibility, and use of information and communication technologies (ICT) in rural areas in particular.

Low labour market participation, particularly of youth, inefficient education system and a difficult social situation

Since 2008 the labour market in Croatia has been deteriorating and regional disparities have increased. At 57% in 2011 the **employment rate is much below** the EU average of 68.6%. **Young people** are in a particularly unfavourable position on the labour market (youth unemployment increased to 36.1% in 2011), as are women, older workers and the long term unemployed. Women also face difficulties in entering the labour market due to insufficient child care services. There are significant differences at the regional level, with the smallest gender activity gap in in North-western Croatia and the largest in the least-developed Central and Eastern Croatia. Finally, national minorities, in particular Roma and Serbs, and persons with disabilities face severe labour market integration difficulties. Active labour market policy measures have limited coverage despite a recent increase in participation. Their contribution to the employability of the participants remains rather insufficient. Labour market institutions are facing the increasing number of unemployed and the persistence of undeclared work.

Labour market performance will not be improved without addressing the **mismatch of labour market supply and demand**. In the field of **education**, there are substantial systemic needs regarding both quality and access aspects. Roma children still suffer from particularly severe exclusion from the education system. The link to labour market needs is insufficient, and particularly regarding vocational education and training, the lack of adequate practical training provision significantly reduces the employability of persons with such education. The share of the population with a tertiary degree is still below the EU average (despite a positive trend in attainment level). Low participation in lifelong learning in Croatia remains a very demanding challenge (2.2% in 2011 and the EU average 8.2%), with a particularly low proportion of older people.

Further improvement is needed to combat **poverty and social exclusion**. In Croatia, there is limited access to appropriate and quality community-based services to promote active inclusion, again with significant regional differences. Croatia is among the EU countries with the highest at-risk-of-poverty rate. The material deprivation rate is also well above the EU average. Groups that are the most exposed to poverty are older people particularly women, children up to 18 years, single households, in particular single households with elderly members and unemployed men. With the financial crisis there is also a worsening trend in the risk of poverty among better educated, younger and economically active people. Poverty amongst the Roma is much higher than the rest of the population. Croatia has also relatively poor public health indicators with risk factors such as smoking, obesity and the overconsumption of alcohol representing an important disease burden. The health of vulnerable groups such as the elderly, children, people with disabilities and the Roma minority is the most badly affected. Croatia is facing limited availability of care, especially in rural areas, on islands, and in small towns, due to the structural lack of healthcare workers and other barriers to access such as expense, distance or waiting lists.

National minorities, in particular Roma and Serbs, tend to face general **discrimination**. There is a decline in the overall numbers of ethnic minorities in the Croatian civil service and their participation is not progressing towards the targets set in the national plans.⁷

⁷ The Ministry of Public Administration adopted a recruitment plan which sets a target for minority employment of 5.5% in the state administration and in local government by 2014.

Disparities in living standards among the regions remain a pertinent issue. Vulnerability to poverty is primarily associated with rural areas where the poverty rate levels are significantly higher than in urban areas. In fisheries-dependent communities, especially those located on islands, there is a need for economic diversification.

Challenges related to protecting the environment, preserving the natural heritage and adapting to climate change

Large investment projects are needed in order for Croatia to meet the agreed targets in the fields of waste and water management, where transitional agreements have been granted. The country does not yet meet the EU environmental standards in rehabilitation and closure of numerous non-compliant landfills and construction of new ones, remediation of hazardous industrial waste landfills and hazardous waste management.

Croatia is one of the richest European countries in terms of biodiversity and nature and it will be an important challenge in the coming years to protect and develop these invaluable resources as well as to ensure their sustainable utilisation. Croatia is under the commitment to ensure the designation, protection, restoration and management of Natura2000 sites and other high nature value sites, including the extensive management of important agricultural and forest habitats. The most serious threat to wild species in Croatia is degradation and loss of habitats, including as a result of agriculture causing habitat fragmentation. Large areas of high nature value grasslands and pastures are at risk of being abandoned or taken into intensive agricultural use. Rural Croatia has great potential for nature tourism but it needs developing. Water availability in Croatia is sufficient, but its spatial and annual distribution is unfavourable. The environmental changes caused by natural phenomena, but also by the impact of human activity, threaten water quality. Croatia should also prevent overfishing.

Renewable energy sources still do not have an appropriate share in the energy structure. The current share of renewable energy sources is 14.6% (against the target of 20% by 2020). Investments in renewable energy sources and energy efficiency are hindered by cumbersome and lengthy administrative procedures discouraging potential investors, individual households as well as the public sector investments. At the same time, Croatia is dependent on few energy sources, in particular on gas and oil import.

Croatia is on track in fulfilling its Kyoto commitments. Over the past decade, greenhouse gas (GHG) emissions had a slight increase towards 2007 and kept decreasing afterwards mostly due to a decreasing industrial output caused by the recession. Energy use (fuel combustion) is the main source of emissions in Croatia. Non-ETS (Emissions Trading System) sectors such as transport, agriculture, households and waste contribute to the emissions. Croatia is exceeding its existing ammonia (NH₃) 2010 emission ceiling in the Gothenburg Protocol by about 25%⁸.

Agriculture and forestry are at risk from negative impacts related to a hotter and drier climate, such as droughts and wild fires. In general Croatia's urban areas and countryside are not sufficiently resilient to climate change and disasters. Forests cover about 47% of the land in Croatia. Forest fires pose a major challenge. Further, preventive flood protection measures are not sufficiently developed. Finally, in view of constantly booming tourism special attention should be paid to preserving the unique sea and maritime eco-system of the Adriatic Sea.

⁸ According to preliminary data

Inefficient public governance on central and local level and weak involvement of civil society and social partners

The need for more efficient public administration in Croatia is widely recognised and has been the focus of reforms in recent years. While the State Administration Reform Strategy 2008-2011 has been finalised, measures foreseen have been limited in scope, covering state (central level) administration only and not addressing sufficiently local levels. Croatia recently introduced sectorial legislation addressing civil servants and a process of harmonisation of this sectorial legislation with the General Administrative Procedures Act is taking place. However, challenges of the public administration are currently not addressed in a strategic and comprehensive manner. The judiciary sector remains an area that requires substantial further improvements as regards effectiveness, efficiency and transparency.

The structure of the Croatian public administration remains complex. Public administration at all levels is still not sufficiently effective, transparent and accountable, and the risk of corruption is present. Decentralisation remains an issue and there is no clear strategy elaborated yet to speed up the process. A structural problem of relatively high turnover still exists in the public administration in Croatia and the capacity of civil service calls for substantial improvement. The current performance evaluation system is regarded as a formal obligation with no bearing on the career progression of civil servants. New salary system and career development strategies are required as to ensure merit-based promotion and reward mechanisms as well as to decrease employee turnover and to attract qualified personnel. Training and career development systems are not sufficiently up-to-date, which hampers the establishment of a modern and service-oriented and professional civil service. The State School for Public Administration lacks sufficient capacity to implement training programmes for civil servants, officials of local and regional self-government and public officials. The recruitment of its staff is not yet finalised.

Coordination between the key stakeholders at national, regional and local levels remains weak. Many local and regional administrations have not yet developed a comprehensive cooperation strategy with civil society. Civil society organisations in Croatia face multiple challenges due to: lack of staff and expert capacities, lack of information and of sustainable financial sources. Involvement of civil society organisations in the policy making process is still rather limited. Social partner organisations are also facing difficulties as regards staff capacity and the level of social dialogue in Croatia.

2. PRIORITIES FOR FUNDING

The ESI Funds will be one of the most important instruments to tackle the main development challenges for Croatia and to implement the Europe 2020 strategy. For rural development and fisheries, priorities for funding should also contribute to the Common Agricultural and Common Fisheries Policies. Targeted funding should harness growth in Croatia's blue economy. To this end the intervention from the ESI Funds needs to be concentrated on a limited number of priorities. Experience shows that thematic concentration allows for an increase in effectiveness of public interventions by reaching a critical mass with a real impact on the socio-economic situation of a country and its regions. Prioritisation is of particular importance in times of fiscal consolidation.

Four complementary and mutually reinforcing funding priorities are proposed hereunder in line with country-specific challenges⁹. They reflect the importance of funding needs and potential contribution to growth and jobs. There is no ranking in the presentation of the funding priorities.

These are the priorities the Commission would like to co-finance in Croatia for the next programming period 2014-20. Sufficient flexibility is built into the new programming architecture to respond to new challenges and unexpected events, which allow for reprogramming on justified grounds.

2.1 Strengthening the competitiveness of the economy

Strengthening Croatia's innovation profile through smart specialisation

A smart specialisation strategy should identify innovative and high-growth sectors in particular in industry/business that will be the priority investment sectors for the ESI funds. Supportive actions would include better coordination between different bodies responsible for innovation policy, the promotion of clusters, the stimulation for the private sector's participation in RDI, the support to joint university-industry projects and to the commercialisation of innovation. The sectors concerned are not restricted to "high-tech" but could also include "traditional" ones, such as the agriculture and forestry and creative industries. The research and innovation capacities in emerging and rapidly growing markets should be particularly addressed. The transnational cooperation (cooperation and transfer of experience, development of new markets...) should be fully exploited.

Supporting the modernisation and competitiveness of enterprises

ESI funds should be invested in entrepreneurship, access to finance for SMEs and further development of higher value-added business support services. Enterprises should be supported in the start-up stage and during their lifecycle aiming at an increased productivity and competitiveness, development of new products and processes, up-taking of ICT and achieving more efficiency in terms of energy and resource consumption involving innovative and greener production processes. Modernisation and restructuring of enterprises should be pursued through introducing of up-to date technologies, providing training, re-skilling and up-skilling, upgrading the management and organisation systems in the supply chain, as well as improving the market organisation to drive competitiveness and value-adding capabilities. Targeted business support could be developed in industrial areas under reconversion in view of creating conditions for new investment in new activities. Competitiveness should also be particularly addressed in the wider context of the EU Strategy for the Danube region where Croatia is co-coordinator of the priority area.

In rural areas, the local development should be fostered and economic diversification should be supported. There is a considerable potential to increase productivity through restructuring and modernisation of agricultural sector and measures to increase value added through processing and marketing of agricultural products and diversification into non-agricultural sectors. Fisheries and aquaculture sectors offer potential for the future development of the Croatian blue economy. The creation of new aquacultures farms and the modernisation of the existing ones should facilitate the increase of fisheries

⁹ The thematic objectives in the proposed regulations and their link to the funding areas are outlined in Annex I.

production, the products diversification and the increase of sanitary and environmental standards. Insufficiently consolidated sector organisation should obtain proper support to develop producer's groups.

The extension and upgrading of the transport and ICT infrastructure

Interventions should concentrate on the development of a balanced transport network, within the framework of a comprehensive strategic transport plan. Special attention should be placed on eliminating bottlenecks and completing missing transport links, especially to the neighbouring countries and important transport nodes. Priority should be given to the **railway sector** (completion of the TEN-T Core Railway Network¹⁰), the interoperability and connectivity with neighbouring countries (ERTMS along international lines). There is a need for a modal shift in the transport sector from road to rail and clean transport in order to contribute to the decrease of greenhouse gas emissions in the transport sector. In the road sector the emphasis should be placed on improving **road safety**. **Urban mobility systems** need to be developed in major cities, in particular in the Zagreb agglomeration. Accessibility within urban areas and their connectivity with the city agglomeration need to be developed based on an urban development plan, integrating all modes of transport. Sustainable and clean urban traffic solutions are to be given a priority. Intelligent transport systems have to be deployed or upgraded for all modes of transport.

The access to, and use of high quality **ICT networks and services** need to be promoted in particular in remote and isolated island/rural areas while observing the rules of competition policy.

2.2. Increasing labour market participation, ensure better education and skills and reduce poverty taking into account regional differences

Significantly enhance the labour market participation of the most vulnerable groups, particularly women, older workers, and the long term unemployed

Specific groups, namely young people, women, older people, the long term unemployed, national minorities (particularly Roma and Serbs) need more support to integrate into the labour market. Sufficient resources from the ESI Funds should be allocated for **promoting and increasing the employability** of these groups, for providing targeted and tailored training, and ensuring the acquisition of competences and skills in line with labour market demand. Adapting workplaces and facilitating longer working lives and active and healthy ageing would increase the participation of older workers in the labour market. Due priority should be given to Roma people and national minorities. ESI Funds should be allocated to measures to support better labour market integration of women. Active labour market policy measures should be better targeted and tailored for specific needs of groups. To improve the outcome of active labour market policy measures, ESI Funds could also be used to support regular evaluations of the measures. Regional differences should be taken into account when investing in increasing labour market participation. ESI Funds should be ensured for modernisation and strengthening of labour market institutions with a view to improving the quality of services provided.

¹⁰ The TEN-T network for Croatia following the Guidelines in force (Decision No 661/2010/EU) has been defined. The revision of those Guidelines is currently in legislative procedure and the proposal of the Commission indicatively includes the Comprehensive TEN-T network of Croatia. Following the accession of Croatia the Core TEN-T network will have to be defined.

Increase the employment of young people

ESI Fund investment should concentrate specifically on the **sustainable integration of young people into the labour market**, aimed at increasing the **employment of young people**. Investments in more individualised active labour market measures, including in increased access to quality apprenticeships and internships, possibly in the framework of a "youth guarantee scheme" should be ensured. Specific focus is needed for young people not in education and employment. Promoting self-employment and entrepreneurship, and ensuring vocational education and training aligned with labour market needs is necessary. ESI Funds should support activities consisting of the provision of career guidance services and job matching in partnership with local stakeholders are also needed.

Improve skills level of the population, address the challenge of matching labour market skills demand and supply, improve vocational education and training outcomes and enhance participation in the education system

ESI Funds should invest in **improving the quality, efficiency and openness of the education system, including the tertiary and equivalent education in order to increase participation and attainment levels**. ESI funds should support the development and implementation of strategic education reform measures, in particular with regard to increasing teaching standards, the quality of teaching methods, and modernising curricula. Substantial investments to support the access and participation in education of the various national minorities, and in particular the Roma, are also needed. ESI Funds should further support the upgrading of higher education programmes, promoting partnerships between higher education institutions with all relevant stakeholders and improving accessibility of higher education need to be improved. Investments in vocational education and training should include measures to provide practical training, including apprenticeship schemes and incentives for employers to provide more training. In order to significantly increase the **participation in the lifelong learning** for all groups, and in particular for older persons, adequate programmes should be designed and implemented with the ESI funds support.

Improve social inclusion of the most vulnerable groups, including elderly, children, persons with disabilities and Roma

ESI Funds should increase investment in **active inclusion** to reduce the number of people at risk of poverty. Persons with disabilities including those with mental disorders should also be supported. This requires multi-faceted policy approaches. Firstly, integrated employability measures, including individual support and counselling tailored to the needs of people at risk of poverty should be introduced. Secondly, sufficient support, including through the availability and accessibility of high quality early childhood education and care services, should be provided so that parents can integrate better into the labour market, and to give their children a better start in education (especially with regard to the Roma community). Since Central and East Croatia have the highest concentration of poor and vulnerable groups, and since the bulk of poorer people live in rural areas, investments should be particularly focused in these disadvantaged regions.

Reduce discrimination

In addition to the active inclusion measures there is an overall need in Croatia to reduce widespread discrimination against certain groups. ESI Funds should allocate sufficient resources to **combat discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation**. Appropriate measures should be further enhanced to address those who may still be subject to threats or acts of discrimination. Additional incentives should be introduced to further increase the participation of ethnic

minorities in the civil service at the national, regional and local level. As regards access to the labour market, start-up business counselling and entrepreneurship activities targeting unemployed national minorities should be continued. To fight against discrimination, the implementation with ESI support of awareness rising campaigns and intercultural activities should be introduced at national, regional and local levels.

Ensure high quality, accessible and decentralised social and health services and invest in basic services for the rural population

Access to high quality community-based social support and healthcare is limited. There are significant regional differences in access between urban and rural areas. Therefore investments should focus on expanding and diversifying such services and making them accessible to all. Further support is needed to establish a "one stop shop" for social services and for inter-connecting health administrations at different levels, and to further develop electronic services (such as e-health) for citizens. The transition from the institutions to community-based services, particularly for children, the elderly, homeless people such as people with disabilities and those in need of mental care and other vulnerable groups should be ensured. Investments in basic services should be used proactively to address poverty and promote economic and social development in rural areas in line with the specific needs of the areas concerned. A particular focus is needed on general economic and social development in order to address the many-sided challenges facing these areas.

2.3 Preserving and maintaining a healthy environment and protecting the natural resources and heritage, and adapting to climate change

Substantial investment from ESI funds should be made to improve the efficiency of the waste management sector and ensure compliance with the environment standards set by EU *acquis*. Likewise, improving the efficiency of the water management sector and compliance with the environmental standards and the *acquis* should be supported by ESI funds. Integrated Water Management policy is to be prepared.

Protection of biodiversity, soil and water (including via the promotion of sustainable farming and forestry systems) and measures to promote ecosystem services including NATURA 2000 sites and green infrastructures should also be supported by ESI funds. An important starting element will be the preparation of studies and inventories to select Natura 2000 sites, management planning, capacity building and awareness-raising. The investment from ESI funds should as well be used for enhancing the protection, valorisation and management of the natural resources and heritage. When possible, the tourist potential and other business potential of the natural heritage (including cultural heritage) should be considered, to contribute to the economic sustainability of preservation of such heritage. In order to avoid negative consequences of intensive agriculture on biodiversity and nature, it is necessary to ensure: proper land management of grasslands and pastures, particularly (semi)natural ones, as well as water management, including protection of rivers. Efforts will be needed to reduce nutrient runoff into water courses which flow into marine or fresh waters at risk of eutrophication.

The reform of the Common Fisheries Policy should bring about sustainable fishing for maritime and fisheries sectors and foster the economic development of fishing communities. Investment need to untie the potential of the sea and coast in order to develop the blue economy and promote economic growth and sustainable jobs. To reconcile sustainable development of aquaculture with touristic activities, the ESI funds should support maritime spatial planning and integrated coastal zone management.

Croatia needs to devote adequate ESI investment to support a low-carbon economy, to stimulate the use of renewable energy in order to reduce GHG emissions, including off-

shore and on-shore wind energy as well as solar and biomass energy, looking especially at the potential of innovative technologies. Diversification of energy sources will help to reduce Croatia's dependency in particular on gas and oil import, as will building of interconnections with EU markets.

Croatia needs to enhance the climate change adaptation and improve the prevention of damages caused by adverse weather conditions, and continue strengthening its prevention, preparedness, and response to disasters. Special attention should be paid to flood, drought and water management, and particularly to fire prevention and restoration measures in forests. The irrigation systems for agriculture could be developed.

These priorities should also be addressed in the wider context of the cross-border and transnational cooperation and the EU Strategy for the Danube region.

2.4 Strengthening the administrative capacity, enhancing an efficient public administration and increasing the involvement of civil society and social partners

Strengthening the capacity of the public administration, promoting good governance as well as strengthening the capacity of civil society and social partners remain core concerns for Croatia. The capacity of the specialised administration both at national, regional and local level should be ensured to implement the reforms and measures to address the various policy challenges (in particular the administrations directly contributing to the implementation of the Europe 2020 strategy), and at the same time, the risk to ESI funds implementation and absorption due to inadequate staff resources should be avoided. The present suboptimal absorption levels in IPA Funds in Croatia are due to a large extent to inadequate administrative capacity.

This calls for concentrating ESI investments on the institutional capacity-building thematic objective.

Develop an effective and efficient public administration

Addressing both central administration and local level administration, sufficient ESI Funds should be devoted to setting up and implementing the legal framework underpinning an efficient, reliable and service-oriented public service. The full development and implementation of a new salary and career development system should be a priority for future funding so as to ensure merit-based promotion and reward mechanisms as well as to decrease employee turnover and to attract qualified personnel. Civil servants' professionalism should further be improved through modernising training and career development. Adequate capacities for training delivery, for example by strengthening support to the National School of Administration and ensuring training centres at the regional and local levels should be developed through ESI funds support. Measures aiming at simplification, streamlining and transparency of the administration procedures should be supported.

An overall change of management style should be introduced with a view to modernising the administration and strengthening its capacity for evidence-based policy-making and effective service delivery. Quantified impact assessment and other evidence-based approaches such as systemic evaluations are essential for designing and implementing the reforms. The ESI Funds should support the development of good governance in Croatia also through action on prevention and fight against corruption.

As regards the effectiveness of the judicial system, adequate resources should be dedicated to addressing weaknesses in administrative capacity, the functioning of relevant institutions (inter alia Judicial Council) and implementing reforms. The funding should focus on the improvement of the efficiency and quality of justice procedures,

including written procedures, small claims, insolvency procedures, and enforcement of decisions. It should promote the alternative dispute resolution and support training measures, provision of expertise and international exchange of information.

Strengthen the capacity of social partners and civil society organisations to be involved in policy-making and policy-delivery

Given the relative weakness of the NGO sector and the lack of organised capacities of social partner organisations in Croatia, ESI Funds should allocate sufficient resources to improve the capacity of stakeholders, social partners and NGOS, and to help them become actively involved in policy processes at all levels. ESI funds should support further improvement of the social dialogue process by ensuring specialised training for social partners to enhance their organisational capacities and by raising the awareness of the importance of social dialogue in Croatia.

3. SUCCESS FACTORS FOR EFFECTIVE DELIVERY

Together with financial consolidation **structural reforms** play a key role in enhancing the overall efficiency thereby the growth potential of the Croatian economy. They are also a **key condition** for the successful implementation of the ESI funds which can only have optimal impact, if an appropriate policy, legal and administrative framework is in place.

Human resources are an essential element of successfully designed and delivered national and regional policies and programs, including those financed from ESI funds. External training, at-work training and efficient mentoring by senior staff are necessary for enhancing the human resources capacity and should receive sufficient allocation from ESI funds. This includes training provision on areas such as budget programming, monitoring and evaluation. Cooperation with some other Member States might bring interesting practices to learn from.

The new Common Provisions Regulation will set out **ex-ante conditionalities** which are **preconditions relating to the effective and efficient use of EU funds** and which should be fulfilled by the time a programme is approved. The Commission will formally examine the consistency and adequacy of the information provided by Croatia in the framework of its assessment of the Partnership Agreement and programmes.

Where ex-ante conditionalities are not fulfilled by the time of submitting the Partnership Agreement to the Commission, Croatia will need to lay down a series of actions to be taken at national and regional level and a timetable for implementing them. All ex-ante conditionalities need to be fulfilled by the deadline agreed and at the latest within two years of the adoption of the Partnership Agreement by 31 December 2016. The detailed actions relating to the fulfilment of the conditionalities will be set out in the relevant operational programmes.

Based on current experience, the Commission Services have identified a number of **ex-ante conditionalities critical for successful implementation of the above funding priorities**. The Croatian authorities need to take actions to fulfil the pre-conditions for successful spending in each of these areas:

- The existence of a strategy for reinforcing the Member States' administrative efficiency including public administration reform.
- develop a national or regional research and innovation strategy for smart specialisation;
- develop a comprehensive national transport plan;
- design a national digital strategy and operational national broadband plan

- The existence of a national and/or regional policy framework for lifelong learning in line with Union level policy guidelines;
- Active and labour market policies are designed and delivered in coherence with the Employment guidelines and the Broad Guidelines for the economic policies of the Member States and of the Union regarding enabling conditions for job creation;
- Labour market institutions are modernised and strengthened in accordance with the Employment guidelines;
- ensure the effective implementation of EU environmental “acquis” in the sectors of waste management (Directive 2008/98/EC) and water management (Directive 2000/60/EC) as well as horizontal provisions concerning environment impact assessment and strategic environment impact assessment (Directives 85/337/EEC; 2001/42/EC);
- transposition into national law of Renewable Energy Directive (2009/28/EC);
- in fisheries, set up administrative capacity to comply with data collection obligations for fisheries management (having in mind the future shift from direct to shared management) and to implement the Union control, inspection and enforcement system.
- Develop a multiannual strategic plan for aquaculture;
- the existence of a mechanism which insures effective implementation and application of EU State Aid law
- The existence of appropriate statistical systems and result indicators
- Ensure that the appropriate tendering capacity, templates and procedures are in place.

4. PRIORITIES FOR EUROPEAN TERRITORIAL COOPERATION

European Territorial Cooperation programmes should follow a strategic and ambitious approach, based on the major challenges of the border regions and programme areas, taking into account the experiences from previous programming periods, links with national policies and other Community-funded programmes, and an increased sense of partnership. The use of the European Groupings for Territorial Cooperation could be considered when planning and implementing cooperation approaches.

In the **cross border** co-operation programmes, Croatia should draw up with each of its neighbouring countries approaches addressing specific needs, including the involvement of private partners. Actions should concentrate on removing the main bottlenecks in transport improving accessibility, in particular in the various maritime borders, on removing the existing barriers to labour mobility, on increasing the support to the research and development, favouring exchanges of know-how and joint innovative projects focussing among other on to the health sector. Promoting climate change adaptation and risk prevention and management should also be tackled at **transnational** level. The level of competitiveness of SMEs remains insufficient; there is a strong need to promote SME’s internationalisation.

As regards the **Adriatic** and **Ionian** maritime approaches, European territorial co-operation should aim at improving coherence, coordination and alignment of policies and instruments, including country-specific ones, having an impact on the maritime economy. The objectives and orientations agreed under the Adriatic and Ionian Sea basin strategy¹¹

¹¹ COM/2012/713

should in particular be taken into account: Maximizing the potential of the blue economy; Healthier marine environment; A safer and more secure maritime space; Sustainable and responsible fishing activities.

Within the **EU Strategy for the Danube Region**, Croatia should promote greater coherence between the Strategy and programming of ESI interventions and transfer of good practice in relation to research and innovation, energy efficiency and risk prevention and management. Croatia should ensure strong participation in the competitiveness area, as well as devoting sufficient resources and attention to the role of Priority Area Coordinators and Steering Groups overall.

ANNEX

The annex contains the arrangements for effective programming and delivery, assessment of funding needs in relation to thematic objectives and assessment of specific aspects of administrative capacities.

A. MAXIMISING SUCCESS - ARRANGEMENTS FOR EFFECTIVE PROGRAMMING AND DELIVERY

Experience from previous programming periods indicates several factors affecting effectiveness of investment, in particular the need for strategic orientation and concentration, the need to avoid fragmentation of investments, projects insufficiently embedded in national systems, weak response to the actual needs, and low European value added. A general shift towards more coherent and innovative approach is necessary in order to demonstrate clearly the impact on attaining the Europe 2020 objectives. For future investments in areas listed below the Commission expects specific justification regarding their usefulness for attaining the Europe 2020 objectives and respect of the following considerations:

- Due to poor impact of such types of investments of pre-accession funds, the funding of **business zones** should not be financed from ERDF unless an obvious contribution to economic growth in line with specialisation strategies can be proven
- Investment in **local roads** should only be supported when contributing to the development of deprived rural or urban areas, or where they address a specific need in the agriculture or forestry sectors, provide necessary links to the motorway and expressway network, or fill gaps in cross-border links

With regard to the effective implementation and absorption of ESI funds, challenges of the inefficient public governance on central and local level and weak involvement of civil society and social partners should be addressed in due time.

Support needs to be granted in accordance with EU state aid rules. Financing should address real market failures and be limited to the minimum necessary, so that funds are used efficiently, overcompensation is avoided and distortions of competition are limited. Adequate resources should be dedicated to developing good quality statistical indicators essential for monitoring the implementation of public policies targets and Europe 2020 targets.

The proposed 2014-2020 legislation for the ESI funds offers additional flexibility to set up programmes in each Member State to best match their institutional set-up. Cooperation at all levels is key to achieving quality of spending.

Annex I of the Commission's amended proposal for the Common Provision Regulation¹² includes elements of the Common Strategic Framework and sets out different options for integrated approaches to programming, to achieve coordination and synergies during implementation, which Member States are encouraged to explore.

For rural development, the option to draw up thematic sub-programmes within a rural development programme provides the opportunity to devote closer attention to particular needs.

¹² COM (2012) 496 final of 11.9.12.

The most suitable architecture will have to be developed in partnership with stakeholders in Croatia and in negotiations with the Commission. Therefore the Croatian authorities are invited to set out the action taken to involve the partners in the preparation of the Partnership Agreement. All the relevant stakeholders at national, regional and local level should be included when programming and implementing the instruments to ensure thematic concentration, avoid thematic overlaps and strengthen synergies while improving co-ordination and the strategic nature of the programme.

In setting up the programmes, synergy should be sought not only between the five ESI funds but also with other EU instruments such as Erasmus for All, Horizon 2020 and Programme for Social Change and Innovation, the LIFE programme, Creative Europe Programme and Connecting Europe Facility.

Integrated Territorial Investments (ITI) in Cohesion Policy allow the implementation of parts of programmes in a cross-cutting manner and can provide flexibility below the programme level to implement integrated actions. Where this mechanism is selected, Croatia should define for each ITI an appropriate governance structure and in particular designate a management body. Allocations should be defined in the programmes for the ITI.

The Partnership Agreement should set out the contribution to the integrated approach for territorial development; including both macro regional and sea-basin approaches as well as – where appropriate – a planned integrated approach to sustainable urban development.

Community-led Local Development (CLLD) offers an integrated bottom-up approach in response to complex territorial and local challenges through the involvement of local communities. Croatia is invited to explain its approach as regards CLLD across the ESI Funds indicating the main challenges, objectives and priorities, the type of territories, the role of local action groups and of different ESI Funds and coordination mechanisms. Croatia should also indicate the preparatory support for local actors.

Financial instruments

Financial instruments could play an important role in the delivery of EU policy objectives by providing more flexible and sustainable forms of financing and attracting private sector investors with a significant multiplier effect on public resources and improving access to financing for ESI beneficiaries. They contribute to making financing of public policies more effective and sustainable, thus helping Member States to face their long-term challenges and increasing the long term impact of the policy.

With the support of the 2014-2020 ESI funds Member States are encouraged to use financial instruments more widely in sectors where they are particularly suitable and where an ex-ante assessment has established evidence of market failures or sub-optimal investment situations. In addition to the extensive use of these instruments to support investments in SMEs, they should also be more widely used for investments in projects which have a demonstrated capacity to pay back the whole or part of the resources invested, including for promoting integrated urban development operations and for promoting energy efficiency. In Croatia, it is recommended that financial instruments are also used in areas of agriculture for supporting farm modernisation and tourism.

B. ASSESSMENT OF FUNDING NEEDS IN RELATION TO THEMATIC OBJECTIVES

The following sections present the Commission Services' view on priorities for ESI Funds for Croatia. They have been developed on the basis of the Commission Services in depth country analysis and selected from the 11 thematic objectives, which stem from the Commission proposal for the Common Provision Regulation¹³ for ESI Funds adopted by the Commission on 6 October 2011. These 11 thematic objectives translate the Europe 2020 strategy into operational objectives to be supported by the ESI Funds.

The 11 thematic objectives are common for cohesion, rural development and the maritime and fisheries policies; they ensure that interventions under these policies are aligned towards the achievement of joint objectives, those of Europe 2020. They provide a menu of possible funding objectives for the whole of the EU. According to each Member State's specific situation a more focussed selection is then made in agreement with the national authorities. The challenges and funding areas for Croatia correspond to the following thematic objectives:

Funding priorities	Related thematic objectives
Strengthen the competitiveness of the economy	<p>Strengthening research; technological development and innovation</p> <p>Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector and the fisheries and aquaculture sector</p> <p>Promoting sustainable transport and removing bottlenecks in key network infrastructures</p> <p>Enhancing access to, and use and quality of ICT</p>
Increase labour market participation, ensure better education and skills and reduce poverty taking into account regional differences	<p>Promoting employment and supporting labour mobility</p> <p>Promoting social inclusion and combating poverty</p> <p>Investing in education, skills and life-long learning</p>
Preserving and maintaining a healthy environment and protecting the natural resources and heritage, and adapting to climate change	<p>Protecting the environment and promoting resource efficiency</p> <p>Supporting the shift towards a low-carbon economy in all sectors</p> <p>Promoting climate change adaptation, risk prevention and management</p>
Strengthening the administrative capacity, enhancing an efficient public administration and increasing the involvement of civil society and social partners	Enhancing institutional capacity and an efficient public administration

¹³ COM(2011)615 final/2; http://ec.europa.eu/regional_policy/what/future/proposals_2014_2020_en.cfm#1

FUNDING PRIORITY: Strengthen the competitiveness of the economy

The objectives of the funding priority **Strengthening the competitiveness of the economy** will be achieved primarily by thematic objectives Strengthening research; technological development and innovation, Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector and the fisheries and aquaculture sector and Promoting sustainable transport and removing bottlenecks in key network infrastructures and also Enhancing access to, and use and quality of ICT.

Thematic objective: Strengthening research; technological development and innovation

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the ESI funds:

1. Develop RD&I excellence and promote centres of competence, in particular those of European interest

- strengthen connections between the entrepreneurial, institutional, academic and research communities; design and implement collectively a smart specialisation strategy (national and/or regional levels) which includes the identification, promotion and investment in a set of high-growth research and innovation sectors in particular in industry/business
- Promote qualified research workforce, in particular in knowledge-intensive services high-technology sectors
- stimulate the demand-pull from the public sector to encourage industry and academia to invest in new R&I for solutions fitting public service needs
- promote networking & clusters, joint research activity between private companies as well as between the private and public sector and foster the university-industry cooperation in a set excellence and high-growth sectors (see above), including transnationally;
- stimulate adoption and diffusion of new technologies and products, including through public procurement

2. Promote business R&I investment, support applied research and technological transfer to help companies develop more innovative products/ processes/ marketing/ services, and diversify the national/regional economy through high-growth activities

- develop/reinforce technological platforms and facilities, including technology centres/offices, sciences parks, with a clear focus on enhancing applied research in excellence and high-growth sectors;
- invest in the commercial exploitation of new ideas and research results and the creation of more knowledge-intensive businesses through targeted and high-level services tailored at the needs of SMEs at their various stages of development and along the innovation value chain, in particular in key enabling technologies (development of new product, pilot solutions and processes, advanced manufacturing capabilities);
- develop adequate, attractive and sustainable financial instruments for R&D companies, in particular risk and seed capital
- promote knowledge transfer in the agricultural and forestry sectors , including support for advisory services and structures for cooperation among farmers and other actors concerning the introduction of new technologies and innovative practices in agriculture and forestry.

Assuring performance of investments by ESI Funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following **general considerations** would improve governance and delivery:

- ***Strengthen the research system:*** (1) avoid fragmentation of budgetary and physical resources (including identifying centres of excellence); (2) emphasize integration to the international scientific community; (3) properly manage human resources, including promoting qualified research workforce and career development based on academic results (4) ensure a results-based management of programmes through programmatic agreements and external evaluations (as opposed to per headcount) ; (5) encourage and ease patenting.
- ***Adopt and implement a research & innovation strategy (ex-ante conditionality), with a clear prioritization and orientation to results,*** to develop a long-term development vision and ease the design of large scale programmes that would involve private business cooperation and stimulate their investments in R&D. This strategy should include (1) an assessment whether the current institutional framework for R&D incentivizes economic agents (researchers, research organization and the business sector); (2) the strategy should include a) a mapping and appraisal of the role and efficiency of existing "infrastructure" for research commercialization and business development and identify clearly the still needed ones, in view of ensuring their sustainability and the optimal allocation of funds. A market demand and supply for the associated services, and the assurance that necessary conditions for the sustainability of these infrastructures and equipment are in place should be prerequisites for any funding decision of the refurbished/new equipments and/or infrastructures concerned.
- ***Improve policy-making, implementation, monitoring, evaluation, and governance of the national research and innovation system.*** The existing national and regional R&D and innovation infrastructures and capacities may be upgraded and completed on the basis of national roadmaps and linked to EU priorities (**ESFRI**): (1) ensure better coordination between different bodies responsible for innovation policy; (2) review the institutional framework of national innovation system; ensure high-level oversight of the system to promote coherence; possibly consolidate all technology-based federal programme in one responsible and experiences agency (3) ensure full participation of relevant stakeholders in policy making (4) achieve a high degree of transparency and accountability of policies, including the adoption of monitoring and evaluation mechanisms; (5) integrate to the extent possible, actions identified by the Innovation Union flagship.
- ***Cooperate actively in R&D and innovation initiatives at macro regional level (incl. Western Balkans, Adriatic, Danube regions),*** which provides a critical mass for ensuring the necessary resources and market. This concerns in particular the design and implementation of the Regional Research and Development Strategy for Innovation in the Western Balkans, as well as the Danube and Adriatic strategy and cooperation (**Danube Research Area**). The initiatives may relate to (1) the development of cross-border regional clusters in sectors of competitive advantage based on knowledge and innovation; (2) the establishment of competitive regional centres of excellence in the fields of strategic interest for the region; (3) promoting the development of regional research infrastructures; (4) facilitate the training, mobility and cooperation of scientists within the region.

- **Further develop the capacity and competence** of its farm advisory services to ensure sufficient coverage of all aspects required under the Common Agricultural Policy, in particular issues linked to cross-compliance and sustainable management and climate action in agriculture and forestry.
- The thematic objective should be implemented in line with the priorities identified in the ERA- European Research Area Communication adopted by the Commission on 17 July 2012 and in synergy with Horizon 2020 and other EU instruments.
- Investments in research and innovation should take into account EU wide strategies such as the **Strategic Energy Technology (SET) Plan**¹⁴ roadmaps in the field of energy, where a coordination effort with other Member States in pooling resources should be made in order to increase the level of excellence and to avoid duplication.

Actions under this thematic objective may contribute, if relevant, to related interventions identified under thematic objective aiming at enhancing the competitiveness of SMEs, and investing in education¹⁵.

Thematic objective: Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector and the fisheries and aquaculture sector

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the ESI funds:

1. Promoting entrepreneurship

- the development of an entrepreneurship educators' network, which would generate greater awareness of the importance of the entrepreneurship agenda while build intelligence on enterprise skills and share good practice
- support to lifelong entrepreneurial learning strategy with a particular focus to women and young people.

2. Enhancing the competitiveness of SMEs by providing high-quality business support

- facilitate the economic exploitation of new ideas, and fostering the creation of new firms and start-ups;
- develop high-quality business services, in particular in the areas of business transfer, access to new markets, business strategy and monitoring, improved resource efficiency, innovation management capacity, and take-up of more innovative products/ processes/ marketing/ services,
- facilitate the development of SMEs in emerging and specific areas, such as new forms of tourism, culture, creative industries, eco-innovations and eco-efficiency, including coordination with public procurement to speed up the market take-up.
- Promote eco-innovation among SMEs, in particular through: supporting development of clusters in green technologies, including marine and maritime

¹⁴ http://ec.europa.eu/energy/technology/set_plan/set_plan_en.htm

¹⁵ Thematic objectives 3 and 9 according to the draft Regulation.

sectors; addressing the key hurdles to the deployment of eco-innovations and non-technological innovations;

- Harness the economic potential of the seas and coasts in areas with growth potential such as tourism and biotechnology, in line with the Blue Growth initiative. Knowledge, data collection and sharing should be extended accordingly.
- develop new business models, including new value chains and marketing organisation, in particular to facilitate internationalisation (e.g. through providing training and practical guidance on procedures and enabling access to financial instruments), and exports across borders, in the Internal Market and beyond
- develop the markets across borders
- create appropriate conditions for new investments and productive activities in former industrial sites, including with the development of targeted business support.

3. Facilitating SME's access to finance

- provision of start-up capital, guarantees, loans and mezzanine and seed capital through financial instruments and support for the development of business plans. The support may concern the private equity and venture capital funds in particular. Targeted market analyses proving the need of the SMEs as well as the analysis of the absorption capacity of financial intermediaries are prerequisites to the intervention of Structural Funds. Particular effort should be dedicated to new and science-based companies.
- Promote general development and economic diversification via support for small enterprises and local development in rural areas.

4. Modernisation of the agricultural, fisheries and aquaculture sector

- Support for restructuring and modernisation of agricultural holdings in order to increase their competitiveness and productivity as well as for investments in processing, marketing and development of agricultural products, promoting participation in quality schemes (e.g. designation as organic producer) in order to increase value added in the sector.
- Promote the development and market integration of small farms which have a potential for improving productivity and expanding or diversifying their production.
- Promote the establishment of producer organisations and other forms of cooperation between farmers as well as support for farm risk management, local markets and short supply chains in rural areas to create better development opportunities for small farmers.
- Provide special support for farmers establishing themselves for the first time in order to facilitate restructuring and generational renewal in the agricultural sector.
- increase the productivity of fisheries and aquaculture sectors; , provide support for business development, business skills and entrepreneurship in the fisheries and aquaculture in order to drive competitiveness, improve the overall performance and profitability of operators, foster innovation and value adding.

Assuring performance of investments by ESI Funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition, the following **general considerations** would improve governance and delivery:

1. The effective removal of obstacles of business environment and to the growth of SMEs remains an essential conditions for the success of the interventions supported by the Cohesion policy. Further efforts are need regarding the costs and time involved in company registration and notification procedures, the streamlining of bankruptcy procedures, the regulatory impact assessments and the establishment of permanent consultation fora. The corporate governance in state-owned enterprises should be improved to reduce interference in commercial decisions

2. With regard to the agricultural sector:

- Target beneficiaries not yet generating adequate levels of revenue and avoid deadweight effects. In the processing sector investments should in particular target innovation, productivity and internationalization. Consider channelling support through financial instruments, such as loan guarantee funds or credit funds.

- Further promote the consolidation of land holdings in the agricultural sector so as to reduce fragmentation of ownership and create the basis for more efficient land management in the sector.

Actions under this thematic objective may contribute, if relevant, to related interventions identified under thematic objectives aiming at Strengthening research; technological development and innovation; employment and social inclusion¹⁶.

Thematic objective: Promoting sustainable transport and removing bottlenecks in key network infrastructures

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the ESI funds:

1. Developing comprehensive, high quality and interoperable railway system

- Modernise existing railways corridors and develop new network elements if necessary, including the deployment of ERTMS systems and ensuring interoperability.
- Modernisation of the rolling stock linked to the modernisation of the corridors.

2. Supporting a multimodal Single European Transport Area by investing in the Trans-European Transport Network (TEN-T) network

- Developing well-functioning intermodal transport system by investing in construction of multi-modal and inter-operable corridors and nodes (including connecting inland waterway port, maritime ports and airports with other modes, especially railways) as well as logistic centres, including intelligent transport systems, especially along the TEN-T core corridors.
- Facilitating the shift of road freight transport to other transport modes, notably rail, through intermodal platforms, and the use of intelligent transport systems.
- Removing of bottlenecks in inland waterways Danube and Sava, while minimising substantial modifications to riverbeds, and supporting investments to render fleets more environmentally friendly as well as investment in River Information Services.

¹⁶ Thematic objectives 1, 8 and 9 according to the draft Regulation.

3. Enhancing regional mobility through connecting secondary and tertiary nodes to TEN-T infrastructure

- Improving regional accessibility by improving road safety.
- Improving local accessibility as part of integrated local development initiatives (CDLL or ITI).

4. Developing environment-friendly transport systems and promoting sustainable urban mobility;

- Developing intelligent, sustainable and low-carbon urban transport systems to improve mobility within cities. Improving connections with the city agglomerations based on an urban development plan, integrating all modes of transport. Coordinate and harmonize different transport modes and service providers.
- Implementing measures to increase public awareness on advantages of public and non-motorised modes of transport (e.g. training, education, eco-driving, corporate mobility scheme development).

Assuring performance of investments by ESI Funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition, the following **general considerations** would improve governance and delivery:

- Improve factual basis for strategic planning of transport infrastructure by using an appropriate traffic model, which considers real and projected demand with an efficient and effective integration of different modes of transport.
- Introduce a sound system for evaluation and prioritisation of projects and consider seeking support from JASPERS.
- Ensure financial sustainability of investments through the preparation and implementation of an appropriate maintenance strategy (applying the "polluter pays" and "user pays" principles). Revenues from pricing and charging systems and not EU funds should be used for financing maintenance costs.
- Reform the inefficient tariff system in the railway sector to ensure adequate resources for maintenance; increase the competitiveness of railway transport.

Actions under this thematic objective may contribute, if relevant, to interventions identified under thematic objectives aimed at investing in low-carbon economy.¹⁷

Thematic objective: Enhancing access to, and use and quality of ICT
--

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the ESI funds:

- Creation, improvement, and expansion of basic and high-speed (next generation access) broadband infrastructure, in particular in underserved regions where such access cannot adequately provided by the market;
- Promote the development of ICT applications and services in support of the sustainability and competitiveness of targeted areas. This could include the rural areas (for example e-content relevant for the development of rural tourism) and island areas.

¹⁷ Thematic objective 4 according to the draft Regulation.

- Enhance the digital competence and use of ICT by farmers and other small rural businesses, for example through training measures.
- Development of ICT and e-government applications (including e-health services), to respond to economic and societal challenges as well as enhancing innovation, the modernisation of public administration and access to the services by citizens, and enterprises.

Assuring performance of investments by ESI funds under this thematic objective requires meeting the relevant ex-ante conditionalities in advance of 2014. In addition, the following **general considerations** would improve governance and delivery:

- Establish a digital growth plan with SWOT analysis, as well as an operational National Broadband Plan designed to advance basic broadband as well as NGA coverage and take-up;
- Improve the management and technical capacities of institutions in charge of promoting and implementing ICT policy, and enhance their coordination;
- Allocate the necessary national budget for maintenance and operation of the ICT infrastructure

Actions under this thematic objective may contribute, if relevant, to related interventions identified under thematic objective aiming at an efficient public administration¹⁸.

¹⁸ Thematic objectives 11 according to the draft Regulation.

FUNDING PRIORITY: Increase labour market participation, increase education and skills and reduce poverty by taking into account regional differences

The objectives of the funding priority will be achieved primarily by thematic objective Promoting employment and supporting labour mobility, as well as thematic objectives Promoting social inclusion and combating poverty and Investing in education, skills and life-long learning.

Thematic objective: Promoting employment and supporting labour mobility

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the ESI funds:

1. **Access to employment for job-seekers and inactive people, including local employment initiatives and support for labour mobility:**
 - increase employment of specific groups: young people, women, older workers, persons with disabilities and the long term unemployed, including Roma and other national minorities;
 - modernise and ensure the administration capacity of labour market institutions
 - implement active labour market policy measures, such as targeted and tailored training for the most disadvantaged groups on the labour market;
 - adaptation of work places and labour market practices as to facilitate longer and healthier working lives and promote employability and provide employment and training measures supporting active and healthy ageing;
 - promote further development of supporting good quality, sustainable services such as child care services and extra-curricular activities in view of increasing the employment rate of women. Promote innovative ways of work organisation (flexible working time, part time work, teleworking etc.);
 - promote partnerships between national minorities' associations and other non-governmental organisations and labour market actors dealing with employment of vulnerable groups; support start-up counselling and entrepreneurship activities for the national minorities;
 - promote local and regional partnership for employment to better target the needs of the local and regional labour market.

2. **Sustainable integration of young people not in education, employment, or training (NEET) into the labour market:**
 - tailor measures of active labour market policy measures to the specific needs of young people
 - further implementation of "youth guarantees" by offering further education, (re)training and activation measures to every young person, in particular for young unemployed people NEET and medium and high skilled young NEET people to be ensured;
 - provide traineeship and apprenticeships schemes and practical vocational training;
 - improve partnerships between vocational education and training (VET) secondary schools and economic/social/labour actors at the local and national level;
 - provide targeted career guidance services for young people;

3. Promoting social inclusion, poverty reduction and economic development of rural, coastal and fisheries areas

- facilitate diversification, creation of small enterprises and job creation in rural areas
- promote economic diversification and develop employment opportunities in the fisheries and coastal areas

Assuring the performance of investments through the ESI Funds under this thematic objective requires meeting the ex-ante conditionalities. In addition, the following **general considerations** would improve governance and delivery:

- Programmes that are results-oriented, with defined target groups and proper management and sufficient administrative capacity.
- A strategic approach should be ensured.

Actions under this thematic objective may contribute, if relevant, to related interventions identified under thematic objectives aimed at competitiveness of SMEs and agricultural, fisheries and aquaculture sectors; social inclusion and combating poverty and investing in education, skills and lifelong learning¹⁹.

Thematic objective: Promoting social inclusion and combating poverty

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the ESI funds:

1. Active inclusion

- reduce the number of people at risk of poverty and exclusion through strengthening measures to help people at risk, including to return to employment or to receive further training; promote digital literacy; targeting the long term unemployed and other most vulnerable and marginalised/disadvantaged groups, in particular children, elderly, women, Roma and persons with disabilities;
- provide integrated employability measures such as individualised support and counselling tailored to the need of specific groups; further develop social entrepreneurship;

2. Combating discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation

- Introduce actions targeting people at risk of discrimination, notably national minorities;
- raise awareness and promote closer cooperation among different institutions to promote intercultural activities and to fight discrimination, particularly at the workplaces;
- ensure active partnership with NGOs;

3. Enhancing access to affordable, sustainable and high-quality services, including health care and social services of general interest

- enhance access to affordable, sustainable high-quality health and social services including services for school care, out of school care, child care and long term care services and care of dependant persons such as elderly;

¹⁹ Thematic objectives 3, 9 and 10 according to the draft Regulation.

- reduce inequalities in access to health care and health information faced especially by vulnerable groups;
- address preventable lifestyle-related risk factors and chronic diseases;
- support the transition from institutional care to community-based care for children, elderly, and other vulnerable groups; ensure further training and career development opportunities of staff working in care services;
- promote linkage of social and health services

4. Promoting social inclusion, poverty reduction and economic development of rural areas

- fostering local development in rural, coastal and fisheries areas

Assuring the performance of investments through the ESI Funds under this thematic objective requires meeting the ex-ante conditionalities. In addition, the following **general considerations** would improve governance and delivery:

- A strategic approach should be ensured.
- The cost-effectiveness and adequacy of social and unemployment benefits, whilst minimizing disincentives to work and traps effects, to be improved;
- ESI Funds should respond to particular needs and conditions of vulnerable persons to counteract any kind of discrimination on the labour market.

Actions under this thematic objective may contribute, if relevant, to related interventions identified under thematic objectives aimed at ICT; competitiveness of SMEs and agricultural, fisheries and aquaculture sectors; employment and labour mobility and investing in education, skills and lifelong learning²⁰.

Thematic objective: Investing in education, skills and lifelong learning

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the ESI funds:

- 1. Improving the quality, efficiency and openness of tertiary and equivalent education with a view to increasing participation and attainment levels**
 - review higher education programmes to make them more relevant for labour market needs;
 - promote partnerships/networks between social partners, enterprises, education and training institutions/providers in order to improve the transfer of information on labour market needs;
 - improve accessibility to education in different regions and for the groups of people most at risk, in particular Roma.
- 2. Enhancing access to lifelong learning, upgrading the skills and competences of the workforce and increasing the labour market relevance of education and training systems**
 - deliver reform measures with a view to improving the quality and relevance of the education system at all levels and increase access (in particular of ethnic minorities)

²⁰ Thematic objectives 2, 3, 8 and 10 according to the draft Regulation.

- increase participation in lifelong learning, in particular for older workers, the low skilled and the long term unemployed;
- promote the attractiveness of vocational education and training, including campaigns and skills competitions, and support young people in compulsory education to get acquainted with vocational trades and career possibilities;
- adapt vocational education and training (VET) systems to labour market demands, by developing work-based learning in VET, including apprenticeship schemes, and encouraging companies to take on more trainees;
- Support the development of skills and competences needed on the labour market
- Promote the recognition of competences acquired through non-formal and informal education.

3. Promoting knowledge transfer and innovation in the agriculture, forestry, maritime and fisheries sectors

- Support maritime education, science and research and the qualification and skills relevant to Croatia's blue economy
- Fostering life-long learning and vocational training in the agricultural and forestry sectors.

Assuring the performance of investments under the ESI Funds under this thematic objective requires meeting the ex-ante conditionalities. In addition, the following **general considerations** would improve governance and delivery:

- Programmes that are results-oriented, with defined target groups and proper management and sufficient administrative capacity.
- A strategic approach should be ensured.

Actions under this thematic objective may contribute, if relevant, to related interventions identified under thematic objectives aimed at research, technological development and innovation; ICT; competitiveness of SMEs and agricultural, fisheries and aquaculture sectors; low carbon economy; protecting the environment and promoting resource efficiency; employment and labour mobility, and inclusion and combating poverty²¹.

²¹ Thematic objectives 1, 2, 3, 4, 6, 8 and 9 according to the draft Regulation.

FUNDING PRIORITY: Preserving and maintaining a healthy environment and protecting the natural resources and heritage, and adapting to climate change

The objectives of the funding priority will be achieved primarily by thematic objective on Protecting the environment and promoting resource efficiency, Supporting the shift towards a low-carbon economy in all sectors and Promoting climate change adaptation and risk prevention.

Thematic objective: Protecting the environment and promoting resource efficiency

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the ESI funds:

1. Addressing the significant needs for investment in the waste sector to meet the requirements of the environmental acquis:

- Solid waste: Invest in measures contributing to the compliance to the Landfill Directive. As a transition period was granted in the Accession Treaty until end of 2018 this area should be one of the top priorities; (2) New or updated Waste Management Plans for both municipal and dangerous waste under the 2008 Waste Framework Directive have to be drawn up to implement the waste hierarchy foreseeing the appropriate infrastructure projects and actions; (3) In addition, Waste Prevention Programmes should be drawn up by 2013 and foresee all the necessary prevention actions, that are also eligible for EU co-financing.

2. Addressing the significant needs for improvement in the water sector to meet the requirements of the environmental *acquis*:

- As transition periods were granted in the field of urban wastewater treatment in the Accession Treaty this area needs to be treated as a priority. The final implementation date is foreseen for 2023 with intermediate targets in 2018 and 2020. Invest in assessing the water quality throughout Croatia as well as in measures facilitating the reach of full compliance with the urban wastewater treatment directive
- Transition period was granted in the Accession Treaty until end of 2018 to comply with the Drinking water directive thus this sector needs to be considered as a priority sector.
- Croatia needs to prepare to apply an integrated water management policy in order to ensure sufficient quantities of water of appropriate quality for current and future needs. Investments should be promoted to increase the efficiency in water use by agriculture.

3. Protecting biodiversity, soil and water and promoting ecosystem services including NATURA 2000 and green infrastructures:

- Enhance the protection, valorisation and management of the natural resources and natural and cultural heritage, while considering its tourist potential and other business potential when possible
- Remediation of high-risk sites contaminated by land mines (including brownfields) that pose a barrier to investments and economic development
- Reduce the impact of agriculture on the environment by promoting environmentally friendly farming systems, such as organic or integrated farming,

reducing inputs of fertiliser and pesticides, and maintaining natural buffers and wildlife corridors in intensively farmed regions

- Ensure due respect for the environment and nature by providing relevant training and advisory services for farmers
- Introduce measures to reduce nutrient run-off into water courses which flow into marine or fresh waters at risk of eutrophication.
- Reduce ammonia emissions from agriculture via support for improved animal housing systems, manure storage, and fertiliser application
- Invest in the preparation of studies and inventories to select Natura 2000 sites, management planning, stakeholder consultation, capacity building of the authorities responsible for nature protection as well as awareness raising among different stakeholders (investors, farmers, fishermen etc.) and wider public
- Invest in restoration and preservation of habitats, including the implementation of measures related to Natura2000 sites and other high nature value areas (including marine protected areas under MSFD). Support farmers and foresters experiencing disadvantages due to restrictions in Natura2000 areas
- Support the extensive management of high nature value grasslands and pastures
- Support the sustainable management and use of forests
- support the transition to environmentally sustainable fisheries (take measures to achieve Maximum Sustainable Yield and support discard ban, collect data for resource conservation purposes, ensure proper control of the implementation of CFP rules) as well as eco-innovation (innovation reducing impact on environment) and aquaculture with high level of environmental protection
- Support marine litter initiatives and measures against invasive species
- Support the implementation of the Marine Strategy Framework Directive (MSFD), in close cooperation with bordering countries
- Evaluate and identify any overcapacity in its fishing fleets in order to phase it out
- Invest in restoration of coastal and marine zones' natural, socio-economic and cultural resources, better management of urban sprawl, defence/ protection/ mitigation from climate change (e.g. fighting coastal flooding and erosion)
- Support the use of integrated maritime policy tools for sustainable growth and competitiveness²² as well as the sustainable exploration and exploitation of seabed resources

Assuring performance of investments by ESI Funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition, the following **general considerations** would improve governance and delivery:

- Investments in unsustainable transport and hydropower energy infrastructure pose a threat to many river ecosystems which have kept their natural or near-natural character, while the reshaping of the major Croatian water courses especially the Danube might easily lead to irremediable ecological catastrophe. Croatia should therefore ensure that all investments in this sector are subject to Environment

²² Such as marine knowledge, Maritime Spatial Planning and Integrated Coastal Zone Management, and integrated maritime surveillance.

Impact Assessment and Nature Impact Assessment and otherwise are in line with EU nature legislation.

- Data availability on water quality, setting up of the relevant monitoring system, preparation to the fast designation of the Nitrate Vulnerable Zones as well as the related Action Programmes is to be ensured
- Develop adequate training measures, advisory services and measures to promote cooperation between relevant actors in order to promote sustainable practices and management of habitats in agriculture and forestry

Actions under this thematic objective should be coordinated with interventions under thematic objectives related to competitiveness of SMEs, agriculture, fisheries and aquaculture; Low carbon economy; Climate change adaptation, risk prevention and management, and Sustainable transport²³.

Thematic objective: Supporting the shift towards a low-carbon economy in all sectors

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the ESI funds:

- promoting the production and distribution of renewable energy sources;
- promoting energy efficiency and the use of renewable energy and technologies reducing GHG emissions in SMEs;
- supporting energy efficiency and renewable energy use in public infrastructures and in the housing sector;
- Support investments in the on-farm production and use of renewable energy as well as the promotion of renewable energy more broadly in rural areas. The contribution of forestry to bio-energy production should also be promoted. Enhance the carbon retention capacity of soils and forests and reduce greenhouse gas emissions from farm operations.

Assuring performance of investments by ESI Funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition, the following **general considerations** would improve governance and delivery:

- Environmental sustainability should be taken into consideration when promoting the production and use of biomass for energy purposes to avoid harmful intensification of forestry management, land take for bio-fuel and biomass, short rotation coppice and monoculture.
- Attention should be paid to simplifying the administrative procedures and ensuring easy access to information in order to facilitate investments in renewable energy, including grid access where necessary

Actions under this thematic objective should be coordinated with interventions under thematic objective aimed at protecting the environment²⁴.

²³ Thematic objectives 3, 4, 5 and 7 according to the draft Regulation.

²⁴ Thematic objectives 6 according to the draft Regulation.

Thematic objective: Promoting climate change adaptation, risk prevention and management
--

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the ESI funds:

1. Supporting dedicated investments for adaptation to climate change

- Support the preparation and implementation of the national strategy for adaptation to climate change and accompanying action plans
- Support awareness-raising and capacity-building activities, emergency prevention and preparedness measures to cope with potential climate disasters including through the creation of early warning systems for floods etc.

2. Promoting investments to address specific risks

- Improve drought and water management, for example via support for the establishment of on-farm water storage zones and forest protection belts against soil erosion.
- The establishment, modernisation or extension of irrigation systems for agriculture can be supported
- Support fire prevention and restoration measures in forests
- Support the conservation of genetic resources through preservation of local crop varieties and livestock breeds in order to enhance the adaptive potential of the agriculture and forestry and maintaining genetic diversity.

Assuring performance of investments by ESI Funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition, the following **general considerations** would improve governance and delivery:

- develop a strategic framework to prioritise measures for the adaptation to climate change and risk prevention and management
- develop and implement a national risk assessment plan, covering all natural and man-made risks, followed up by an assessment of the capabilities of the country to cope with the major risks that have been identified and a prioritisation of further investments.
- European support for irrigation purposes should be subject to strict EIA (Environmental Impact Assessment) and be in full conformity with the Water Framework Directive and taking into account the water stress in view of the heavy intensification of the agricultural production

Actions under this thematic objective should be coordinated with interventions under thematic objectives aimed at competitiveness of agriculture sector and protecting the environment²⁵.

²⁵ Thematic objectives 3 and 6 according to the draft Regulation.

FUNDING PRIORITY: Enhancing institutional capacity and an efficient public administration

The objectives of the funding priority will be achieved primarily by thematic objective Enhancing institutional capacity and an efficient public administration as well as thematic objectives Enhancing access to, and use and quality of ICT.

Thematic objective: Enhancing institutional capacity and ensuring an efficient public administration

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the ESI funds:

1. Investment in institutional capacity and in the efficiency of public administrations and public services with a view to reforms, better regulation and good governance

- implement reforms to ensure better legislation, synergies between policies and effective management of public policies, integrity and accountability in public administration
- enhance the capacity of the civil service for policy and service delivery, provide training and ensure on-the-job training for staff;
- implement reform measures in the career development system across the public administration with a view to motivate staff and ensure stability;
- enhance judicial capacity and improve the effectiveness and quality of the judicial system.

2. Capacity-building for stakeholders delivering employment, education, health and social policies, and sectorial and territorial pacts to mobilise for reform at national, regional and local level

- enhance the capacity of stakeholders, such as social partners and non-governmental organisations, to help them deliver more effectively their contribution in employment, education, health and social policies;
- target investments in skills and capacity of staff in public services on all levels of administration taking into account regional disparities and needs;
- establish partnerships among different stakeholders and institutions for the delivery of efficient public services.

Actions under this thematic objective may contribute, if relevant, to related interventions identified under all thematic objectives.

C. ADMINISTRATIVE ARRANGEMENTS

General assessment of administrative capacities

The Croatian Government is currently undergoing preparations for the cohesion policy 2014-2020 with the Ministry of Regional Development and EU funds acting as the coordinating authority. The former Central Office for Development Strategy and Coordination of EU Funds became part of the Ministry of Regional Development and EU funds.

In case of setting up one single Managing Authority, it is recommended that the Managing Authority is fully empowered to ensure strong coordination of and guidance to the Intermediate Bodies (IBs) to ensure concentration and synergies while improving coordination and the strategic nature of the programmes and their effective implementation. Ownership of policy sectors should be strongly embedded in the relevant line ministries, in parallel with capacity building for policy design and delivery.

Particular attention should be paid to address any existing weaknesses in the Croatian administration to ensure a proper level of implementation of the operational programmes supported through ESI Funding. The risk of insufficient capacity will be higher under the Structural Funds than in IPA, given the shortage and high turnover of staff, the need to adapt to new management procedures under the shared management system, including new procurement rules, a broader thematic scope of projects and expected heavier workload linked to the increase of funds. An appropriate administrative capacity for an efficient implementation of the programmes is to be ensured at regional and local level next to the national level.

The IPA experience has demonstrated a number of weaknesses in the administrative and technical capacities within the administration. The coordination between the institutions and within bodies of the same operating structures is weak for some programmes. Further efforts are necessary for an effective implementation of the plans to increase administrative capacity for future cohesion policy implementation, for better strategic approach in the development of projects and for a more mature project pipeline. Some horizontal issues linked to EU *acquis* are not systematically anticipated at the project design stage. Croatia should look at the examples of EU Member States and take note of lessons learned in the administrative capacity domain.

The public procurement legislation in force since January 2012 provides for increased transparency, including publication of information on the actual execution of contracts. The effective implementation of this legislation is key, at national and especially at local level. Risk of corruption, particularly at local level needs to be addressed. Furthermore, improvements concerning the system of remedies are required²⁶.

In the field of transport policy further efforts are required, in particular to strengthen the administrative capacity of the railway safety agency and to establish an independent joint accident investigation body. Administrative capacity needs to be strengthened in the fields of industrial pollution control and risk management, nature protection and chemicals. The quality of environmental impact assessment for projects needs to be significantly improved.

²⁶ The Main Findings of the Comprehensive Monitoring Report on Croatia's state of preparedness for EU membership, 2012

Project delivery

To ensure smooth delivery of projects it is recommended to:

- Expand the project pipeline initiatives providing tailored assistance for project beneficiaries as regards the project preparation and management. Scope of services offered should be broadened (trainings, counselling services, project development).
- Develop the systems of support for project promoters in areas suffering from weak beneficiaries' capacities (in all sectors). Improve coordination and planning of investment in order to avoid redundancies and promote efficiency. Economic and social rationale (use of cost-benefit analyses), cost-effectiveness (procurement, cost estimation, variant analysis) and physical implementation of projects in general should be improved.
- To ensure that programmes support measures that are results oriented, with defined target groups and proper management which requires administrative capacity. Efficient coordination and communication in preparation of the programmes is crucial among different institutions, in particular Managing Authority and Intermediate Bodies.
- long term planning of the appropriate project preparation phase of is a necessary prerequisite for effective project delivery
- Utilise cooperation framework for planning, exchange of good practice, and effective delivery such as in the Danube and Adriatic/Ionian regions.

Administrative burden

Croatia should reduce the administrative burden for beneficiaries while ensuring an efficient implementation of the regulation. Actions for the ESI Funds to that end should include:

- Streamlining of project selection procedures and enhancing transparency and objectivity of the selection process and selection criteria, so that beneficiaries could assess in advance whether their projects could succeed in the appraisal procedure.
- Designing the reporting process so that it focuses on gathering the most relevant data for monitoring (data from beneficiaries should be collected with frequency assuring effective management of implementation);
- Timely preparation and dissemination of implementation and procedural guidelines before the start of the programmes;
- Use of a system of simplified costs.

Partnership

Active participation of relevant partners at each stage of the programming cycle improves the quality of implementation. To this end the following should be considered:

- The role of the civil society and social partners to act as a partner and to team up with government should be strengthened in Croatia. It is of great importance that all relevant stakeholders are actively involved in the preparation, implementation and monitoring and evaluation of the projects on national and regional, local level.

- Partnerships with bodies specialised in non-discrimination to be integrated in the policy planning, including equality authorities and civil society.
- Further develop and make better use (including effective dissemination of developed knowledge) of the existing networks mobilising citizens, business, NGOs and other partners for initiatives essential for the smooth implementation of operational programmes. The performance and needs of the networks should be regularly assessed.

Monitoring and evaluation

The management and control systems for 2014-2020 should build on the positive achievements in the 2007-2013 period. Croatia is encouraged to reflect on how sound financial management could be enhanced by better coordination of funds and programmes and by cutting administrative costs and burden for the beneficiaries - and - for cohesion policy, by the use of e-Cohesion possibilities.

The key principle of sound financial management remains the basis for the development of management and control systems in the next programming period.

Croatia should have an appropriate system to record and monitor state aid expenditure and should ensure coordination by a body which is independent vis-à-vis granting authorities, has appropriate dedicated resources (budget, qualified staff), is consulted on the design of state aid measures and its opinions are taken into account

The physical implementation rate of IPA programmes to date is still limited due to insufficient capacity in the design, appraisal and tendering of projects while the monitoring information system has been partially set-up.

The evaluation culture should be strengthened in the future programming period. Evaluations should be taken into consideration already when programming and designing instruments. Evaluations should inform programming in a timely manner.

Adequate resources should be dedicated to developing good quality statistical indicators essential for monitoring the implementation of public policies targets and Europe 2020 targets.

In the field of rural development, Croatia should ensure that the verifiability and controllability of the measures proposed are confirmed in advance by the services responsible for implementation and controls.

In the field of environment the access to information regarding the register and management plans of protected areas shall be publicly available in order to avoid watering down of the nature protection acquis. Likewise, actions to develop skills regarding assessment of plans and programmes with regard to their impacts on environment (e.g. transport plans, local land use plans etc.) and the integrated planning of projects whereby the environmental aspects are taken into account already at initial stages of the planning process and not at the end as a "damage control" tool, should also be considered for support. Update of the register of agricultural land, grasslands and any other parcel identification system is crucial to controllable public investments, since i.e. Natura 2000 financing cannot be allocated without these tools.