

EXECUTIVE SUMMARY

Ad Hoc Interim Evaluation Report: R/ZZ/SF/0813

Objectives and Scope of the Evaluation

The purpose of this ad hoc interim evaluation is to review the current Phare pre-accession assistance dedicated to supporting Croatia's preparation for European Union Structural Funds and to make recommendations for improvements of the current Phare programmes, as well as an input to the debate on future programming and implementation arrangements under the new Instrument for Pre-Accession in the Croatian context.

The scope of this Ad Hoc Evaluation focuses on 13 Phare 2005 and 2006 Economic and Social Cohesion programmes in Croatia, directly or indirectly assisting with the preparation for Structural Funds. The evaluation also takes account of selected Community Assistance for Reconstruction, Development and Stabilisation projects which are assessed as relevant to the context of this evaluation.

Key Evaluation Findings

Effective pre-accession programming requires rapid completion of national cohesion policy framework.

The Phare interventions under this evaluation are in general adequately designed and sufficiently reflect urgent needs and development gaps. However, the legislative framework for the process of European Union accession is under preparation and, therefore, it is not yet operational. Consequently Phare programming and programming of future pre-accession assistance in this area cannot yet be fully aligned with the official national strategy for the implementation of European Union cohesion policy.

Phare adequately contributes to Structural Funds preparation despite difficult implementation.

The start to interventions has for the most part been delayed. However, efficient implementation has, to a great extent, made up for this. Although quality and quantity of achieved outputs vary across the interventions, overall they are good.

Nonetheless, there is room for improvement. Improved inter-institutional cooperation and a clear allocation of decision-making responsibilities are still needed to improve the quality of current Phare and later Instrument for Pre-Accession/Structural Funds interventions. Whilst, overall, beneficiaries adequately contribute to the implementation process, there are some cases where a high programme complexity hampers effective and efficient implementation.

Since the relevant Phare programmes have only achieved results very recently, not many positive immediate impacts can be assessed at the moment. Some catalytic and leverage effects have been already achieved in the employment policy field, for instance via introducing a

system of indicators and benchmarks for the monitoring and evaluation of active labour market measures.

Variable prospects for sustainability but on the whole positive.

Due to the early stage of programme implementation, no final statements can be made in terms of sustainability of the results and outputs. However, analysis of the programme environment and framework conditions would indicate generally positive prospects for likely sustainability. Despite some current shortcomings, the perspectives for achieving institutional sustainability are largely considered to be good. Administrative sustainability is also building up notably through substantial institution building support being mobilised. However longer-term viability depends on effective public administration. In this respect, an important challenge is to retain qualified and skilled staff that are essential to the successful management not only of pre-accession assistance but also of European Union structural funds after accession.

Conclusions

Conclusion 1: Overall, good progress towards meeting the *acquis* requirements and effectively applying the single Instrument for Pre-Accession and Structural and Cohesion Funds.

The 'Action Plan for Meeting the European Union Cohesion Policy Requirements' represents important progress towards meeting chapter 22 of the *acquis*. The Phare support under review is making a clear contribution to fulfilling this requirement. Co-financing possibilities for European Union interventions at local level are improving as a result of changes in legislation. There has been also recent clarification of state aid regulation that will help to tackle the sectoral European Union requirements.

Conclusion 2: Strategic basis for European Regional Development Fund and Cohesion Fund is still incomplete.

A gap in the preparedness for European Union Cohesion Policy is the still missing Act on Regional Development and the National Strategy for Regional Development. Croatian stakeholders in regional policy need a clear indication of which regional policy is to be pursued. It is understood that the *Action Plan for Meeting the EU Cohesion Policy Requirements* sets out the role of NUTS II level in the first years after Croatia's accession to the EU, but this information has yet to be made known to stakeholders. The role of the NUTS III 'Regional Operational Programmes' is now clarified at national level. However, whilst information and training is being provided to counties regarding their role in relation to national regional policy and European Union Cohesion policy, the evaluation suggests that there is insufficient understanding at that level on the role of NUTS III within European Union Cohesion Policy.

Conclusion 3: Employment policy and European Social Fund need further institutional development.

The prevailing approach of Phare intervention is more to projects than to programmes. There is a need to develop a higher level of intervention understanding even in the pre-accession context in order to prepare for the future European Union intervention policies. Clear definition of inter-institutional cooperation and decision-making responsibilities is often

missing in this sector and coordination between institutions and agencies involved is still not fully effective. Also know-how and development of management experience at national level needs to improve. Improvement of Labour market statistics is also needed in line with the EUROSTAT requirements.

Conclusion 4: Too great a focus on less developed regions threatens to hamper effective Competitiveness support to Small and Medium-sized Enterprises.

The Phare interventions have put too much emphasis on less developed regions and did not recognise that the strong Croatian regions, such as Zagreb, are also still lagging behind in terms of the European Union competitiveness. Experience with supporting really powerful Small and Medium-sized Enterprises with potential national impact on competitiveness can thus not be acquired. In particular, the intervention on supporting export-oriented Small and Medium-sized Enterprises seems to neglect this relationship and the current regional and national Operational Programmes for Competitiveness require a more balanced strategic approach.

Conclusion 5: Insufficient absorption capacity at national, regional and local levels.

Whilst there is still a shortfall in terms of numbers of staff required to manage EU funds, a more important requirement is meeting staff needs in terms of developing expertise. Because of more immediate priorities, the main focus, in terms of institution and capacity building, is still on central level authorities. Although some improvements can be identified at that level, there are still concerns that, overall, project management needs further improvements in specific areas such as project development, project appraisal, documentation before submitting a proposal, impact assessment, monitoring and financial control. Regional Development Agencies have only recently been established and not all are yet operational, and this partly explains the lack of readiness for Structural Funds.

Notwithstanding current deficiencies, regional and local administrations are displaying a lot of enthusiasm and pro-active engagement. The role of national officials in encouraging and assisting local and regional bodies to develop and submit projects is key, in the longer term, to the success of post accession assistance. Whilst capacity building for such bodies may not, at present, have the priority that it should have at national level, the time will come when they will play an important role in the implementation of EU assisted projects. Croatia, therefore, should heed the experience in new member states, such as Estonia and Slovenia, and ensure that the process of developing the required capacity is not left until it is too late for such bodies to participate effectively.

Conclusion 6: Some horizontal issues need more attention to allow full effective use of support on offer.

Overall, regional policy interventions currently lack social cost-benefit assessments. These are a requirement of applications for assistance to 'Major Projects' under the Cohesion Fund. However, there has been no scope for developing 'Major Projects' under Phare and, therefore, there has been little opportunity to improve skills in this field. The potential of such projects to bring benefits not only for the targeted physical location but for the whole policy field in

general² needs to be incorporated into the strategic planning of both ongoing IPA and future Structural Funds assistance.

There also remains a need for policy guidance, transfer of know-how and stronger coordination of stakeholders, and the Croatian government should charge one body with this responsibility. One option for this role could be the Central State Office for Development Strategy and Coordination of European Union Funds in view of its central involvement.

Croatian evaluation capacity needed under cohesion policy requirements is not yet developed systematically.

Recommendations

In order to respond to these challenges, there are five key areas in which recommendations are made for action:

1. Actions to complete the strategic basis for European Regional Development Fund and Cohesion Fund, including

Recommendation 1: speeding up, by the Croatian government, of the process to complete and fully enact the Act on Regional Development and the National Strategy for Regional Development.

2. Actions to ensure further institutional development in Employment policy and European Social Fund, including

Recommendation 2: application by the Croatian government of a stronger promotion of programme, as opposed to project, approach;

Recommendation 3: a clear definition, instigated by the Central State Office for Development Strategy and Coordination of EU Funds, of inter-institutional relationship including responsibilities for decision-making, of all bodies involved in future European Social Fund operations; and

Recommendation 4: steps taken by the Croatian Employment Service for the further professionalisation of labour market statistics and research

3. Actions to ensure strategic decisions are in place concerning the future approach to promoting Small and Medium-sized Enterprises and competitiveness; including

Recommendation 5: actions by the Ministry of Regional Development, Forestry and Water Management to define a regional policy which take into consideration the advantages of a more balanced approach between needs at national level and the needs of 'lagging behind' regions; and

² Use of Major Projects is foreseen under IPA in component III and both in the Environmental OP and in the Transportation OP Major Projects will be co-financed. In the Regional Competitiveness OP it is understood that one project (R&D) will also fall into the category of Major Projects.

Recommendation 6: establishment, with the assistance of the Central State Office for Development Strategy and Coordination of EU Funds, of stronger and formal co-ordination between the Ministry of Economy, Labour and Entrepreneurship and the Ministry of Regional Development, Forestry and Water Management to agree in due time on strategic issues of cohesion policy and in order to co-ordinate pre-accession supporting the private sector development.

4. *Actions to support additional efforts for capacity building at national and also regional and local levels*, including

Recommendation 7: actions taken by the Central State Office for Development Strategy and Coordination of EU Funds to improve absorption capacity by intensifying capacity building at all levels for the programming, preparation and implementation of projects

5. *Actions to ensure full effective use of support by tackling horizontal preconditions*, including

Recommendation 8: the promotion by the Central State Office for Development Strategy and Coordination of EU Funds of the use of 'Major Projects' (in accordance with Article 39, Regulation 1083/2006) as a means of developing skills in cost-benefit analysis in the context of enhanced effectiveness of future Structural Fund interventions.

Recommendation 9: designation by the Croatian government of one body charged with responsibility for the provision of policy guidance and knowledge to and overall coordination of stakeholders

Recommendation 10: activities for developing local evaluation capacities for Structural Policy through the Central State Office for Development Strategy and Coordination of EU Funds and Central Finance and Contracting Agency launching a call for the Expression of Interest in order to establish a national register of prospective and qualified evaluation bodies or individuals.