



Republic of Croatia
Ministry of Regional Development and EU Funds

OPERATIONAL PROGRAMME
REGIONAL COMPETITIVENESS

2007-2013

Draft working document
OCTOBER 2012

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List of Acronyms

<i>ARD</i>	<i>Agency for Regional Development</i>
<i>BICRO</i>	<i>Business-Innovation Agency</i>
<i>BRI</i>	<i>Business Related Infrastructure</i>
<i>BSI</i>	<i>Business Support Institutions</i>
<i>CARDS</i>	<i>Community Assistance for Reconstruction, Development and Stability</i>
<i>CBS</i>	<i>Central Bureau of Statistics</i>
<i>CDA</i>	<i>County Development Agency</i>
<i>CEDB</i>	<i>Council of Europe Development Bank</i>
<i>CNB</i>	<i>Croatian National Bank</i>
<i>CSG</i>	<i>Community Strategic Guidelines</i>
<i>CPI</i>	<i>Consumer Price Index</i>
<i>DIS</i>	<i>Decentralised Implementation System</i>
<i>EBRD</i>	<i>European Bank for Reconstruction and Development</i>
<i>EC</i>	<i>European Commission</i>
<i>EIB</i>	<i>European Investment Bank</i>
<i>EPO</i>	<i>European Patent Office</i>
<i>ERA</i>	<i>European Research Area</i>
<i>ERDF</i>	<i>European Regional Development Fund</i>
<i>ERP</i>	<i>Economic Recovery Programme</i>
<i>ESF</i>	<i>European Social Fund</i>
<i>ESDP</i>	<i>Education Sector Development Project</i>
<i>EU</i>	<i>European Union</i>
<i>FDI</i>	<i>Foreign Direct Investment</i>
<i>FINA</i>	<i>Croatian Finance Agency</i>
<i>HAMAG INVEST</i>	<i>Croatian Agency for Small and Medium Enterprises</i>
<i>HIT</i>	<i>Croatian Institute of Technology</i>
<i>HRDOP</i>	<i>Human Resources Development Operational Programme</i>
<i>HRST</i>	<i>Human Resources in Science and Technology</i>
<i>GDP</i>	<i>Gross Domestic Product</i>
<i>GCI</i>	<i>Global Competitiveness Index</i>
<i>GVA</i>	<i>Gross Value Added</i>
<i>IB</i>	<i>Intermediate Bodies</i>
<i>ICT</i>	<i>Information and Communication Technologies</i>
<i>IFI</i>	<i>International Funding Instruments</i>
<i>IRCRO</i>	<i>R&D program targeting small and medium size business</i>
<i>ILO</i>	<i>International Labour Organization</i>
<i>IPA</i>	<i>Instrument for Pre-Accession Assistance</i>
<i>IPA RCOP</i>	<i>IPA IIIc Regional Competitiveness Operational Programme 2007-30th June 2013</i>
<i>IT</i>	<i>Information Technology</i>

<i>IUS</i>	<i>Innovation Union Scoreboard</i>
<i>KT</i>	<i>Knowledge transfer</i>
<i>LLL</i>	<i>Lifelong learning</i>
<i>MA</i>	<i>Managing Authority</i>
<i>ME</i>	<i>Ministry of Economy</i>
<i>MEC</i>	<i>Ministry of Entrepreneurship and Crafts</i>
<i>MIS</i>	<i>Management Information System</i>
<i>MHSW</i>	<i>Ministry of Health and Social Welfare</i>
<i>MPA</i>	<i>Major project application</i>
<i>MRDEUF</i>	<i>Ministry of Regional Development and EU Funds</i>
<i>MT</i>	<i>Ministry of Tourism</i>
<i>MSES</i>	<i>Ministry of Science, Education and Sport</i>
<i>NGO</i>	<i>Non-Government Organisation</i>
<i>NSRF</i>	<i>National Strategic Reference Framework</i>
<i>NUTS</i>	<i>Nomenclature of Territorial Units for Statistics</i>
<i>OP</i>	<i>Operational Programme</i>
<i>R&D</i>	<i>Research and Development</i>
<i>RCOP</i>	<i>ERDF Regional Competitiveness Operational Programme</i>
<i>SIPO</i>	<i>State Intellectual Property Office</i>
<i>SRDRC</i>	<i>Strategy of Regional Development of Republic of Croatia</i>
<i>TOP</i>	<i>Transport Operational Programme</i>
<i>TTO</i>	<i>Technology Transfer Office</i>

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INTRODUCTION

The Operational Programme Regional Competitiveness (RCOP) represents a programme document prepared for the use of EU funds and specifically pertaining to the European Fund for Regional Development (ERDF) envisaged for the implementation of EU Cohesion policy allocated to Croatia for the financial perspective 2007-2013 under the Convergence Objective. The RCOP builds on previous investments and capacity building initiatives related to regional competitiveness and funded through earlier EU programmes, including the Instrument for Pre-Accession Assistance (IPA) and aims to improve the activities necessary for developing an economic environment that will facilitate the convergence of Croatia and its regions towards the EU levels.

The RCOP is based on the EU Council Regulation No 1083/2006, which includes the general provisions on the use of the ERDF resources. Furthermore, the activities planned within this OP are in conformity with the EU Council Regulation No 1080/2006, which provides the specific tasks, scope and eligibility rules for assistance provided under the ERDF.

The RCOP further follows the aims and priorities of the National Strategic Reference Framework (NSRF) of the Republic of Croatia as a basic reference instrument for the programming of EU funds in the area of cohesion and regional policies. It sets forth the strategy for the enhancement of competitiveness of the Croatian regions for the period until the end of 2013 and elaborates on the NSRF's specific priority: **“Increasing competitiveness of the Croatian economy”**.

The key orientation of the RCOP is to achieve the following overall objective: **„To achieve higher competitiveness and a balanced regional development by making better usage of regional territorial capital”**.

Taking into consideration the challenges of operating in the European single market and the opportunities that have been identified for Croatian enterprises, the RCOP for 2007-2013 is structured as follows:

Priority axis 1: Development and Upgrading of the Regional Infrastructure and Enhancement of the Attractiveness of Regions

Priority axis 2: Enhancing the Competitiveness of the Croatian economy

Priority Axis 3: Technical Assistance

The strategy is to increase Croatia's competitiveness through the creation of a favourable business climate, involving support for SME, research and development, business and tourism-related infrastructure, networking and clustering, while respecting the principle of balanced regional development.

The RCOP was designed by the Ministry of Regional Development and EU Funds (MRDEUF) by applying the key principles of EU cohesion policy and following the requirements of Articles 10-11 of the General Regulation concerning the programming and partnership process. Led by the principle of partnership, MRDEUF paid great attention to the establishment of a spectrum of networks in order to form a close cooperation between the partners - the State and the EC on the one hand and other authorities and bodies on the other (competent regional, local and other public bodies, economic and social partners as well as other appropriate authorities which represent the civil society, environmental

partners and non-governmental organisations and bodies responsible for the promotion of gender equality and other relevant issues).

The starting point for the preparation of the RCOP 2007-2013 is an analysis of the current situation regarding Croatia's competitiveness, with special emphasis on the sector of the small and medium-sized enterprises (SME), resources for the area of research and development (R&D), tourism and issues characterising regional development. The document also includes a SWOT analysis and strategy for the relevant programming period; it contains a description of the RCOP priority axes, measures and operations and proposed interventions, as well as financial tables required by the EC regulations and information on the implementation provisions.

Particular programming features of the NSRF and the RCOP are expected to support the implementation of the strategies set by the Croatian government and to contribute to addressing the weaknesses in specific economic sectors for which EU funds support will be provided. Furthermore, the RCOP strategy strongly builds upon lessons and benefits of the IPA IIIc Regional Competitiveness Operational Programme (IPA RCOP), through which approximately EUR 96.8 million was allocated for the period 2007 - 30 June 2013.

SECTION 1: ANALYSIS

1.1 Baseline and SWOT analysis

During the last decade, at a slow but steady pace, the Croatian economy has increased productivity and attained a higher level of investment in comparison to earlier decades. However, the overall competitiveness of the Croatian economy has declined. In the period 2009 - 2011 Croatia, as a small and open economy, was seriously affected by the global crisis and is now exposed to the challenges of restructuring. The consequences of the global crisis are still present and the recovery is still uncertain. The structural vulnerability of the economy demands acceleration of the past several years' efforts to increase overall competitiveness. In this sense, the RCOP presents one of the important contributions to these efforts.

1.1.1 The state of the Croatian economy

The Global Competitiveness Report (GCR) 2011 - 2012¹ analyses competitiveness of 142 countries/economies by ranking them according to their position in three different stages of development, depending on a combination of macroeconomic and microeconomic indicators and institutional factors². Croatia is located in a group of countries in the transition stage from an "efficiency driven economy" to an "innovation driven economy", together with its potentially comparable competitors of the Central and Eastern Europe: Estonia, Hungary, Latvia, Lithuania, Poland and Slovakia. With the Global Competitiveness Index (GCI) of 4.1, Croatia is ranked in the 76th place (out of 142), which is almost the same rank as in the previous year; 77th place (out of 139) in 2010, 72nd place (out of 133) in 2009, 61st place (out of 130) in 2008 and 57th place (out of 131) in 2007. The current rank of Romania is also 77 (same GCI index), the rank of Bulgaria is 74, Slovakia 69, Latvia 64, Slovenia 57, Hungary 48, Lithuania 44, Poland 41, the Czech Republic 38 and Estonia 33.

The most evident decrease of competitiveness was registered under the *labour market efficiency pillar* and *goods market efficiency pillar*. Other pillars, such as the *financial market development pillar*, *business sophistication pillar* and *institutions pillar*, were assessed as suboptimal. The Croatian economy will thus need to focus especially on increasing **business sophistication and innovation in order for it to remain competitive**. However, there are some competitive advantages which are located mostly under the *infrastructure pillar*, *health and primary education pillar* and *technological readiness pillar*. All these pillars cover the first and second stage of the development focus, and should be further improved.

The Croatian economy is in a transition to the third development stage. Boosting Croatian competitiveness in this context includes focus on further improvement in innovation, financial markets, institutions, labour market efficiency and commodity markets pillars. In other words, the following deficiencies impede the competitive progress of the country:

- inadequate institutional capacity,
- low capacity for innovation in the both public and private sector,

¹ Released in November 2011 by the World Economic Forum

² Competitiveness is measured by means of the Global Competitiveness Index (on a scale of 1-7), which measures different aspects grouped into 12 pillars of competitiveness: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation.

- low government procurement of advanced technology,
- lack of cooperation between higher education institutions and industry in the R&D sector and overall technology transfer,
- rigidity of employment and professional management,
- brain drain,
- insufficient amounts and inadequate structure of foreign investment.

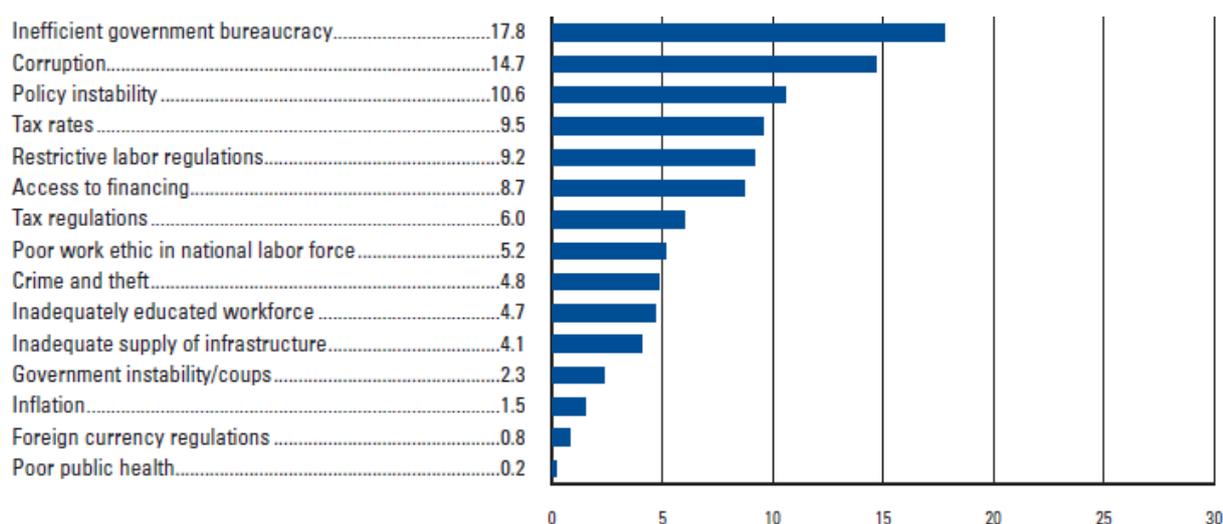
Business conditions in Croatia in the recent years have been characterised by a considerable improvement in public finance, a stable monetary system and relatively low inflation. Price stability is largely achieved thanks to a stable exchange rate against the euro, which is the main anchor of inflation expectations. The banking sector has also proved to be stable, since no commercial bank was in need of assistance from the state or the Croatian National Bank (CNB) as a negative effect caused by the global crisis.

After three years of slowdown induced by the CNB relevant measures, multiplied by the crisis impact, in 2010 bank credit placements showed mild signs of intensification. The most important annual increase (10.4%) was recorded by the corporate loans with the share of 39.7% of total bank credit placements. The loans to general government units were considerably decreased (-16%) to 9.6% of total bank credit placements, after being the main source of credit growth in the course of 2009. The share of bank credit placements to households in 2010 shows a mild annual increase (4%) as it amounts to 46.2%.

On the other hand, high public expenditure, tax burden and the large amount and constant policy of sectoral state aid, inhibit the efforts of business people in Croatia. Difficult access to capital (especially for riskier investments), poor business ethics and corruption, inflexibility of the labour market, and the limited role of women in the economy discourage the improvement of the business climate in Croatia³.

The GCR report also overviews the most problematic factors for doing business in Croatia according to the survey (Figure 1).

Figure 1: The most problematic factors for doing business in Croatia ⁴



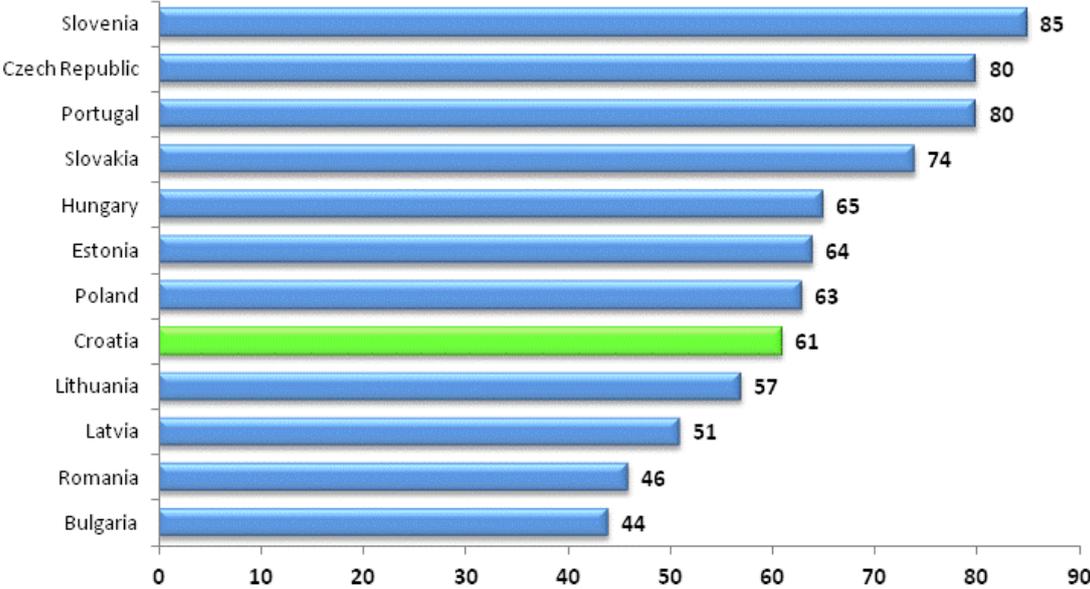
Source: World Economic Forum, the Global Competitiveness Report 2011-2012

³ Annual Competitiveness Report, Croatia, National Competitiveness Council, 2008

⁴ Percentage of responses; from a list of 15 factors, respondents were asked to select the five most problematic ones for doing business in their country and to rank them on a scale from 1 (most problematic) to 5 (least problematic). The bars in the figures show the responses weighted according to their rankings.

Croatian Gross Domestic Product (GDP) *per capita* in purchasing power standards (PPS) rose from 10,000 in 2001 to 14,600⁵ in 2010 (15,800 in 2008). Compared to the average GDP *per capita* in PPS of EU27, Croatia reached 61% in 2010⁶. Until the crisis, Croatia’s GDP was constantly gaining pace when compared to the EU and has risen by 10 percentage points over the last decade (51% of the EU27 average in 2001). However, Croatia’s comparable Central and Eastern European competitors have come closer to the EU27 average GDP *per capita* in PPS; Slovenia reached 85%, the Czech Republic 80% and Slovakia 74% of the EU27 average GDP *per capita* in PPS (2010). (Annex 2, Table 7)

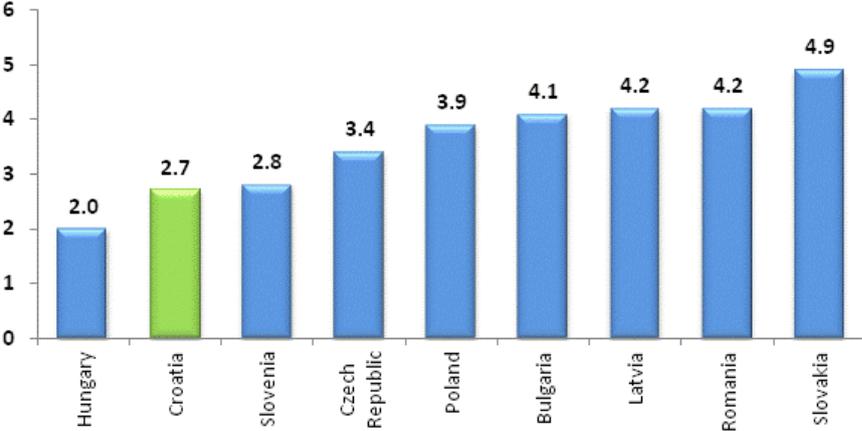
Figure 2: GDP *per capita* in Purchasing Power Standards (PPS) in 2010 (EU27 = 100),



Source: EUROSTAT

Croatia is considered to be a small and open economy and just like other similar Central and Eastern European economies, in the period 2001-2010 it recorded a relatively stable growth path with the average annual real GDP growth rate of 2.7%. Nevertheless, that was the smallest average rate amongst the mentioned group of countries, with the exception of Hungary (2%) (Figure 3).

Figure 3: Real GDP growth rates, annual average 2000-2010



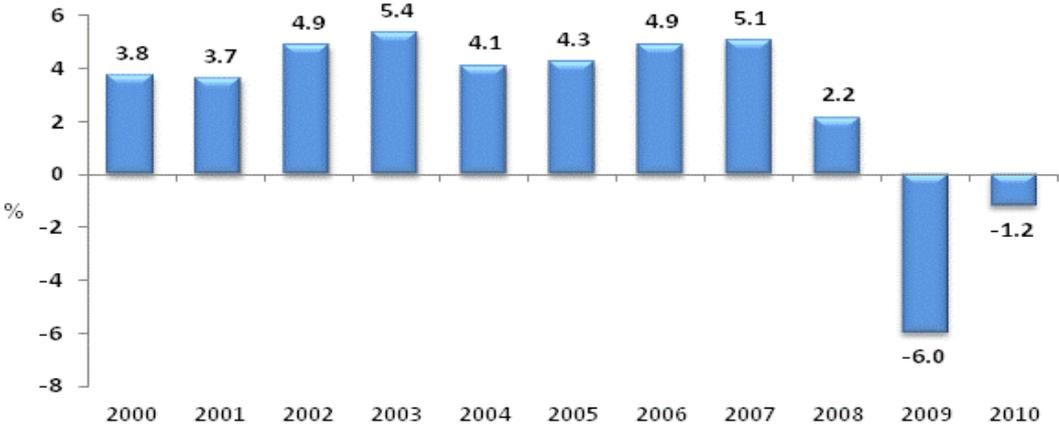
Source: Eurostat, CBS, national statistical offices

⁵ EUROSTAT
⁶ EUROSTAT

The global crisis has made significant impacts on GDP trends in Central and Eastern European countries including Croatia. The negative trend began in Q2 2008 when the real GDP stopped growing, leading to a recession, with an annual real growth of GDP of -6.9% in Q2 2009, reversing a decade long growth trend. In comparison with the other EU members, the crisis period in Croatia, after a rather late beginning, has further extended. The GDP contraction was affected mostly by the reduction in personal consumption and investments. In general, after a fall of 6.0% in real terms in 2009 GDP decreased by 1.2% in 2010 (Figure 4). The recent macroeconomic indicators show a sluggish recovery of 0.8% in second and 0.6% in third quarter of 2011, but with the further stagnation of industrial production and retail trade. Croatian GDP growth has been driven mostly by an increase in the domestic demand, in particular in terms of growing investments and personal consumption. The high level of indebtedness of households and companies and their need to deleverage are weighing on domestic demand. Consumer and investor confidence has taken a severe hit during the recession and will take some time to recover.

Analysing the GDP breakdown by expenditure side categories, all the components except for exports of goods and services recorded year on year declines in 2010, which can partially be interpreted as a result of drop of imports rather than the increase of exports of goods, due to the crisis. As a consequence of a decline of 11.1% in the first quarter and a growth of 1.1% in the second quarter of 2011, exports of goods and services recorded a year on year decrease of 4.3% in the first half of 2011. The contribution of net exports was positive, amounting to 0.8 percentage points, resulting from a negative contribution of exports of goods and services (-1.4 percentage points) and a positive contribution of imports of goods and services (2.2 percentage points). The difficulties of the export sector in realisation of stronger expansion in foreign markets present a serious threat to the economy in the long run. The reasons can be found in the lack of competitiveness of the export sector, its inability to innovate and the fact that inflow of greenfield foreign direct investments has been relatively low.

Figure 4: Growth rate of Croatian GDP volume - percentage change on previous year (%)



Source: CBS

The negative growth rate increases the external vulnerability of a small open economy like Croatia's, thus negatively affecting the macroeconomic stability. Combined with existing structural vulnerabilities, it substantiates the desire of the government to accelerate the overdue reform process.

Gross Value Added (GVA) structure by sectors shows that Croatian economy is changing in the direction of the average structure of developed countries. Data reveals that in 2010 the primary sector contributed approximately with 5.5% to the GVA (6.5 % in 2001), the

secondary sector (including construction) 25.7% (28.4% in 2001), while the tertiary sector contributed with 68.8% (vs. 65.2% in 2001)⁷ (see Annex 2, Table 2).

Within the secondary, industry sector, manufacturing is predominant in terms of employment, number of enterprises, income from sold products and gross value added. However, due to the fact that manufacturing employs almost 90% of workers employed in the sector, labour productivity per worker is relatively small. In addition, the decline in investment in processing and manufacturing industry has harmed the prospects for faster technological change, a more diversified production structure and higher export⁸. In general, the gross value added in basic prices has increased considerably, from HRK 191 billion (EUR 25.5 billion) in 2003 to HRK 286 billion in 2010 (EUR 39 billion⁹).

The Gross Fixed Capital Formation presents a very important component of the growth. The investment rate in Croatia continues to be relatively high - above the level of the majority of comparable countries. The gross fixed capital formation has increased substantially since 2003, from EUR 7.6 billion to EUR 13.2 billion in 2008 (Annex 2, Table 5). In 2009 investments shrunk to EUR 11.4 billion and in 2010 again to EUR 9.9 billion, with further negative forecast for 2012, but still covering 21.6% of the GDP in 2010, which was higher than the EU27 average (18.6%). More than a third of investments relate to construction (highways, apartments and commercial centres) and real estate transactions. Due to a low level of aggregate demand, investment activity in 2010 further decreased; the gross fixed capital formation decreased by 11.3% compared to 2009, which affected the negative real GDP the most. The main reason for the reluctance of larger capital investments was the low efficiency of existing production capacities and still high uncertainty in economy in general, as the consequences of the still present crisis.

A potential source for enhancing the competitiveness of Croatian regions is **Foreign Direct Investment (FDI)**, which is an important factor in terms of job creation, improvements in management and technological advancement, and the main source of foreign financing. Overall inflow of FDI in Croatia from 1993 until 2010 reached EUR 25 billion or EUR 5,534 per capita¹⁰, which was higher than FDI in Romania, Lithuania, Poland, Latvia, Slovenia, Bulgaria and Slovakia, but lower than Hungary (EUR 5,679 million), the Czech Republic (EUR 7,203 million) and Estonia (EUR 10,353 million). The negative crisis effect in Croatia was felt for the first time in 2009 when FDI decreased annually by 43.6%, followed by excessive -88.2% in 2010, amounting to only EUR 0.3 billion. The decline was mostly a result of excess repayments of debt to foreign owners, while equity investments remained subdued. Similar trends continued in the first half of 2011, with inflows of EUR 0.5 billion, which were partly used for debt repayments. The indicator for FDI intensity for Croatia is higher than the average figures of the EU-27 (Annex 2, Table 6). In the case of Croatia, investors were largely driven by strategic investments during the process of privatisation, not by labour costs. Contrary to the new member states, FDI inflows in Croatia mainly represent brown field investments. More than one third of the overall amount of FDI inflows (1993-Q3 2011) was accomplished in the sector of financial intermediation (except insurance and pension funds), followed by 15% in manufacture (petroleum, chemical and other products), 10.4% in wholesale trade and commission trade, 6.8% in post and telecommunication and 6.1% in real estate activities. That underlines the need for improvements in the business and investment climate or generally the need for structural reforms, which will increase the competitiveness of the overall economy.

⁷ Progress Report 2011

⁸ EC Progress Report 2011

⁹ Throughout this paper, the value of HRK is given on the basis of the average yearly EUR exchange rate according to CNB for the relevant years.

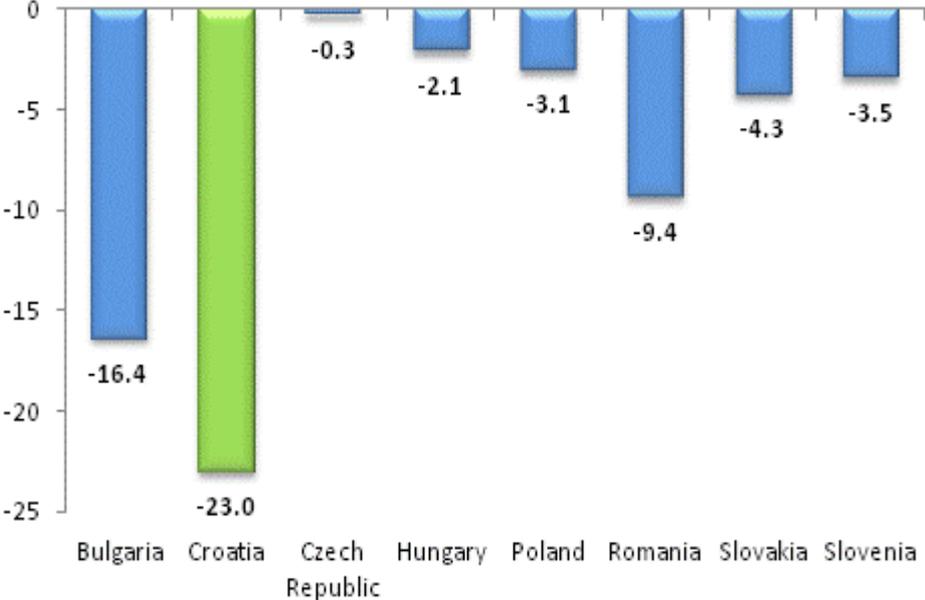
¹⁰ Croatian National Bank

When it comes to **Trade**, the EU is Croatia’s largest trading partner. Its share in total Croatian exports remained at around 61.1% and imports at 60.2% in 2010. Italy remained the biggest importer of Croatian goods (18.7% of total exports of goods), followed by Bosnia and Herzegovina (11.6%), Germany (10.4%) and Slovenia (7.8%). On the other hand, in 2010 Croatia imported mostly from Italy (15.2%), followed by Germany (12.5%), Russia (9.0%) and China (7.2%).

Croatian exports of goods and services have not achieved an increased market share in the EU market for 10 years, while the deficit in the current account of balance of payments reached an unsustainable 8.8% of GDP in 2008. The export of goods is growing faster than the export of services. However, the deficit decreased in 2009 amounting to -5.5% of GDP and then again in 2010 amounting to only -1.1% of GDP. While the main reason for contraction of deficit in 2009 was severe decrease of the imports of goods, in 2010 the main reason was the significant recovery of the exports. The increase of exports of 18.1% of GDP in 2010 (whilst stagnation of imports was -0.3% of GDP) was mainly the result of bigger exports of ships.

In general, there was an increase in the exports of goods during the last decade; from EUR 5 billion in 2000 to EUR 8.9 billion in 2010 (EUR 9.6 billion in 2008) while the imports from the EU27 has remained relatively stable. However, compared with other countries, in the period 2001-2010 Croatia has the most negative trade balance as % of GDP (Figure 5).

Figure 5: Trade balance as % of GDP, 2001-2010 average



Source: Eurostat

In spite of certain acceleration in exports and growth during the last several years before the onset of the global crisis, the difficulties of the export sector in realising stronger expansion in foreign markets have still been present. While the export of goods increased from 18.6% of GDP in 2003 to 20.7% in 2008, the share of the export of tourist services in GDP fell from 18.6 % to 16.2% of GDP¹¹. The share of export of goods and services has stagnated at 50% of GDP, while the majority of new EU members have achieved dynamic growth in the share of total exports in GDP in recent years to a level between 70 % (Slovenia) and almost 90% (Slovakia). The reasons for the decline of the export of services

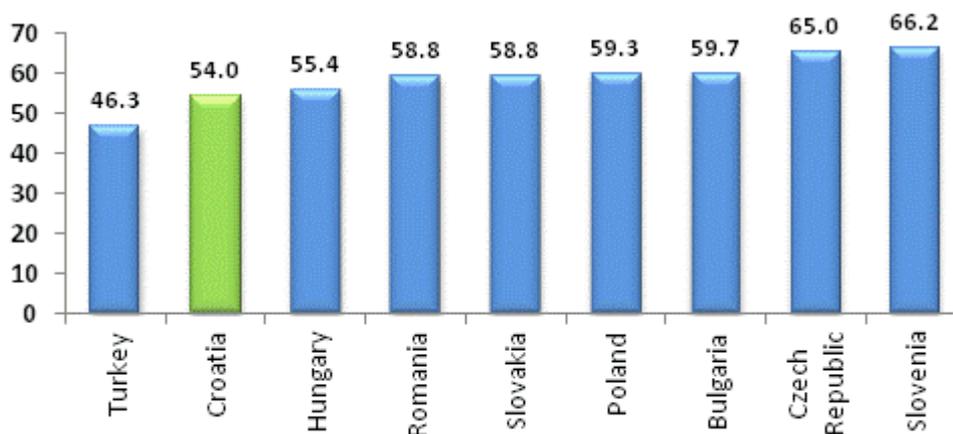
¹¹ EUROSTAT

are probably related to the lack of competitiveness of the export sector and its ability to innovate, but also to the fact that the inflow of green field foreign direct investments has been very low and has not supported the export sector as much as necessary.

In recent years, the **Employment Rate** (age group 15-64) in Croatia has been steadily increasing from 53.4% in 2002 to 57.8% in 2008, but with crisis causing a decline to 54% in 2010. Moreover, the Croatian employment rates are lagging significantly behind the EU27 average rate, which equalled 64.1% in 2010¹². Lisbon indicator-target for 2010 is set to 70%, while Europe 2020 strategy sets the target to 75% (age group 20-64). Employment rate in Croatia of age group 20-64 was 58.7% in 2010 (62.9% in 2008).

Out of the total volume of persons in employment, there are 78.8% occupied as employees, 19.1% as self-employed and 2.1% as assisting and unpaid family members. The largest share of those employed, are involved in the services sector (55.7%); while there are 31.6% in non-agricultural activities and 12.7% in agriculture¹³.

Figure 6: Employment rate (age group 15-64) in 2010



Source: EUROSTAT

Due to a relatively strong and stable economic growth until the global crisis, the labour market recorded positive trends and the number of employed persons increased while the unemployment rate had been constantly decreasing since 2003. Favourable labour market developments continued into 2008. The unemployment rate in 2008 measured by ILO comparable rate amounted to 8.4% and it reached its lowest level since 1998. Since then however, under the influence of the global economic crisis, the unemployment rate has been increasing, amounting to 9.1% in 2009, and 11.8% in 2010.

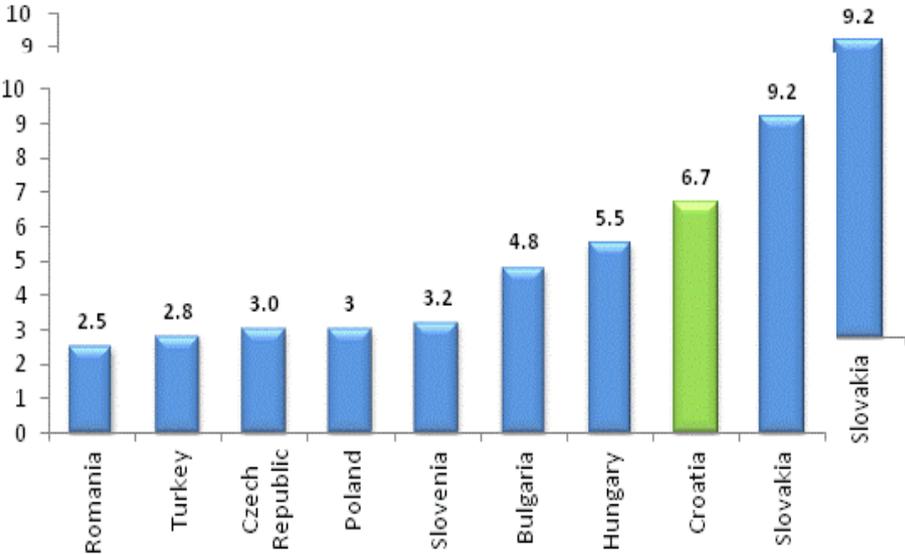
Apart from currently high and growing cyclical **unemployment**, the Croatian labour market is also characterized by several long-term structural problems. The overall employment rate is still relatively low, reflecting insufficient activity, despite positive developments in the last several years. The rate remains relatively high amongst the young between the age of 15-24 (32.7% in 2010) and women (12.2% in 2010) as well, partly due to obstacles in their access to employment. The fluctuations of the unemployment rate of younger population have been very large - from 31.2% in 1998 to 40.1% in 2001 to finally 32.7% in 2010. There is also a high rate of long-term unemployment in Croatia.

¹² EUROSTAT

¹³ National Programme for the Accession of Republic of Croatia into the EU-2008; data according to the latest information of the Central Bureau of Statistics

In 2010, the share of the long-term unemployed (12 months and more) in the total active population amounted to 6.7% compared to 3.9% in the EU27 (Figure 7), reflecting a lack of employability. The share was larger for females (7.4%) than for males (6.1%). Therefore, a combination of various measures will be needed to increase activity, the employability of the unemployed, and their access to employment.

Figure 7: Long-term unemployment rate in 2010

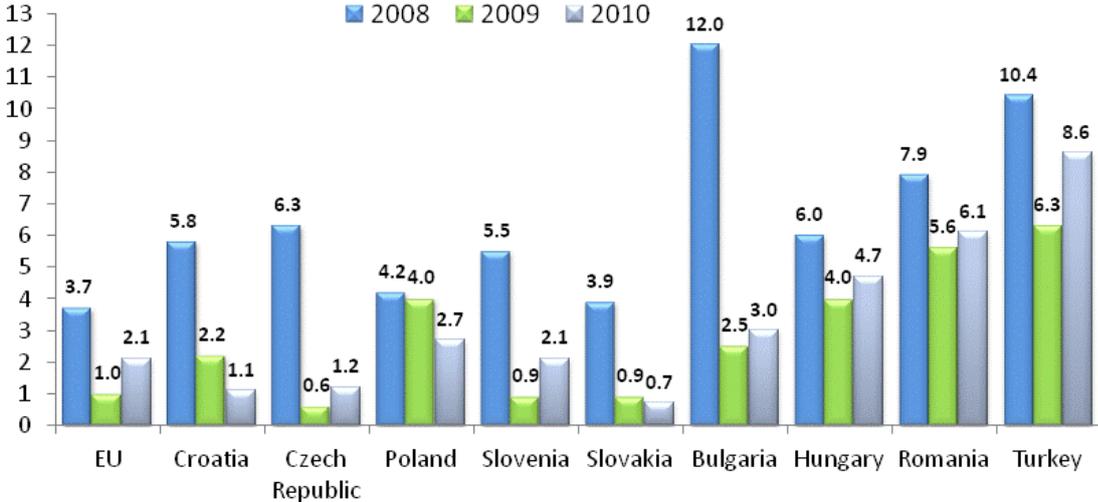


Source: Eurostat

Due to continuing side effects of global economic crisis, it is unlikely to expect moderately high growth in the short term period. Although inflation pressures are expected to remain low, the weak labour market conditions continue to exert downward pressure on incomes and spending. Significant employment growth is expected in 2013, when economic activity strengthens, leading to fall of unemployment rate as well.

Inflation in Croatia, measured by the Consumer Price Index (CPI) has been relatively low; in the period 1997-2010, the annual average CPI amounted to 3.3%. Although the CPI inflation rose in 2008 to 5.8%, in 2009 it fell back to 2.2% and 1.1% in 2010, which is one of the lowest rate among selected countries (Figure 8). In 2011, a small increase was recorded due to pressures from the external environment. This basically refers to the rising food commodity prices that had been present in the global market since 2010, but which affected domestic producer and consumer prices with some delay. Inflationary trends were mitigated by domestic factors, primarily low personal consumption and a drop in unit labour costs. Low inflation is underpinned by the monetary policy determined by the CNB and supported by the stable HRK/EUR exchange rate through the managed float regime.

Figure 8: Inflation in Croatia and selected countries in 2008, 2009 and 2010, CPI



Source: EUROSTAT

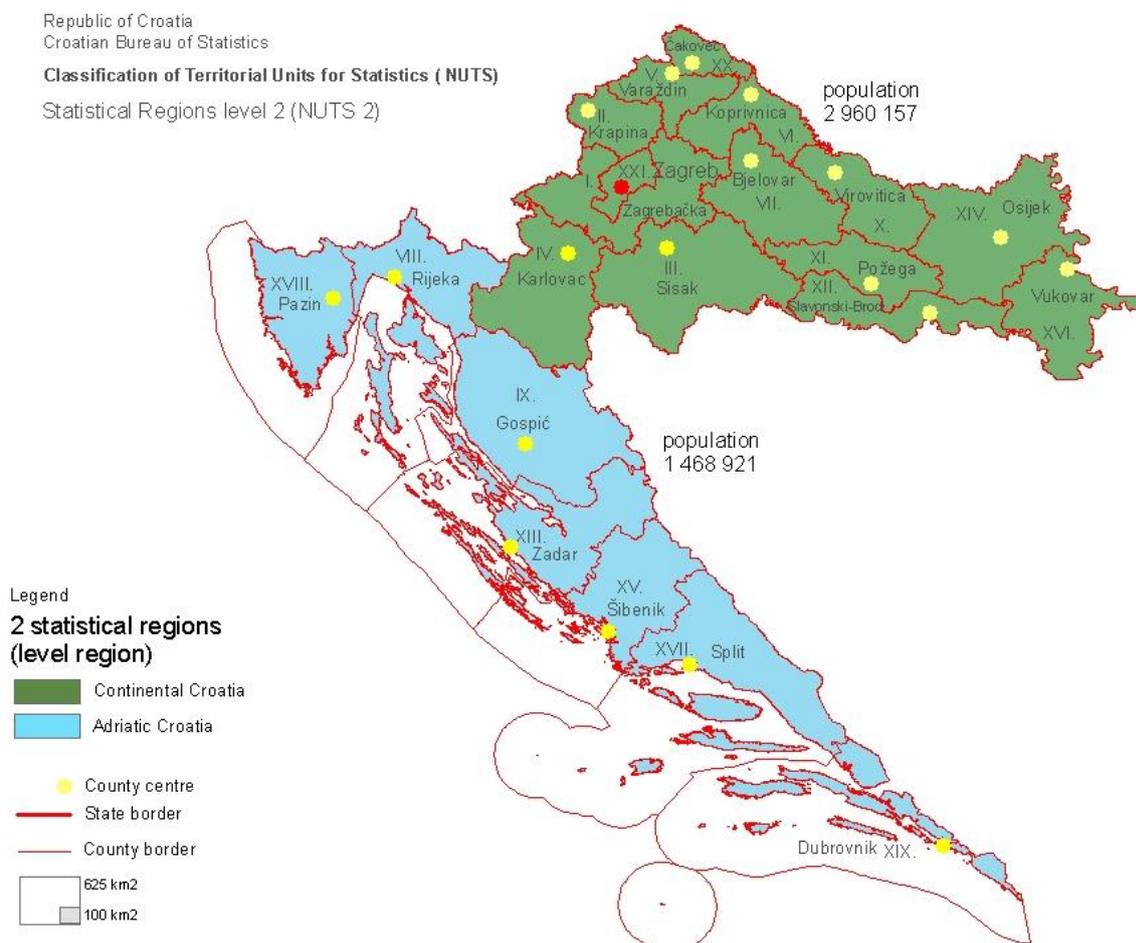
1.1.2 Regional development and competitiveness of Croatian regions

Croatia is divided into two NUTS 2 regions: Adriatic Croatia and Continental Croatia¹⁴.

Figure 9: Croatian NUTS 2 Regions as of 2012

Continental Croatia (14 counties): City of Zagreb, County of Zagreb, County of Krapina-Zagorje, County of Varaždin, County of Koprivnica-Križevci, County of Međimurje, County of Bjelovar-Bilogora, County of Virovitica-Podravina, County of Požega-Slavonia, County of Brod-Posavina, County of Osijek-Baranja, County of Vukovar-Sirmium, County of Karlovac, County of Sisak-Moslavina.

Adriatic Croatia (7 counties): County of Primorje-Gorski kotar, County of Lika-Senj, County of Zadar, County of Šibenik-Knin, County of Split-Dalmatia, County of Istria, County of Dubrovnik-Neretva.



Source: CBS

These regions constitute statistical units only, unlike the counties, the NUTS 3 levels, which are administrative, self-governing units (there are 21 counties in Croatia, including the City of Zagreb).

Although these statistical regions are currently primarily important for the programming and allocation of available EU funds intended for regional development, and there are only

¹⁴ National Classification of Territorial Units for Statistics (OG 96/2012).

a few structures that exist related to them (e.g. Regional Partnership Councils; the coordination of County Development Agencies-CDA on the level of statistical region), they still play a significant role regarding the work of regional actors in planning that takes into consideration the regional specificities. The regional development in Croatia is organized through a set of laws and other legislative acts, with the most important among them being the Act on Regional Development of Republic of Croatia¹⁵ and Strategy of Regional Development of Republic of Croatia (SRDRC)¹⁶.

Regional and local disparities

In Croatia, a proactive regional policy based on convergence, competitiveness and cooperation is very important because there are considerable and long-term internal development gaps. Croatian counties are not developed in a balanced way, which was caused by the factors such as their location, geography, historical events, road and/or water connections to other regions or countries, local conditions, natural resources and different traditions.

This development imbalance can be observed at two levels:

- In relation to the average European level,
- Interregional dimension - disparities between NUTS 2 regions, on the county (NUTS 3) and local level

In relation to the average European level, Croatian GDP per capita¹⁷ for 2010 was EUR 10,394 which was significantly lower than that of the EU-27 with average EUR 25,100. According to the GDP per capita in PPS (compared to the EU-27=100), Continental Croatia has a higher figure of 64.1% than Adriatic Croatia with 62.1%, while the whole country has 61%¹⁸ of the same index (Annex 2, table 18)

Interregional dimension - comparison of NUTS 2 regions is presented in the figure below.

Table 1: General Comparison between NUTS 2 Regions

Indicator	Continental Croatia	Adriatic Croatia	Croatia
Territory in km ²	31,889	24,705	56,594
Population (2011) ¹⁹	2,877,284	1,413,328	4,290,612
GDP per capita PPS in EUR (2009) ³	14,900	14,100	14,600
Unemployment rate (2011)	17.35%	16.39%	17.04 %

Source: CBS, Croatian Employment Service, EUROSTAT

Although disparities may not be considerable at the NUTS 2 level, significant differences can be noticed at the individual county (NUTS 3) level.

The GDP per capita had a homogenous value in both NUTS 2 regions in 2009. In Continental Croatia it was 1.9% higher than the Croatian average, while in Adriatic Croatia it was 3.2%

¹⁵ OG 153/2009

¹⁶ At the time of the adoption of the NSRD the Republic of Croatia was divided into three NUTS II regions.

¹⁷ EUROSTAT, 2009.

¹⁸ EUROSTAT, 2012.

¹⁹ Census of Population, Households and Dwellings 2011, First Results by Settlements

bellow the national average. On the county and local level discrepancy has been much higher. The two most extreme examples are the City of Zagreb and the County of Brod-Posavina. The GDP per capita for the City of Zagreb is 76.1% higher than the Croatian average. On the other hand, the GDP per capita of the County of Brod-Posavina is slightly above half the Croatian average (55.4%)²⁰. A comparison between these two counties shows that the GDP generated per capita is 3 times larger in the area of the capital city than in County of Brod-Posavina (see Annex 2, table 20).

The three most developed counties in terms of GDP per capita are the City of Zagreb, the County of Istria and the County of Primorje-Gorski Kotar, which are the only ones that have reached a GDP per capita level above the Croatian average. The least developed counties are Brod-Posavina, Vukovar-Sirmium (59.1%), Požega-Slavonia (61.6%) and Virovitica-Podravina (63.3%), where the GDP per capita levels are less than 65% of the national average. Three out of four of the above mentioned counties are situated in the eastern part of Continental Croatia.

In comparison to the previous period, situation has not changed significantly - the highest GDP per capita in 2001 was recorded in the City of Zagreb (76.4% higher than average) and the lowest in the Vukovar-Sirmium (58%) and Brod-Posavina county (61%)²¹. In 2006 the difference between the most developed City of Zagreb and the less developed County of Brod-Posavina has even increased further, whereby the GDP per capita in the City of Zagreb reached 84.4% above national level and Brod-Posavina decreased to only 53.2%²².

The most developed regions generate their added value mainly in the business services and industry sectors, while the added value of the less developed ones comes mainly from agriculture followed by industry. Although there are no significant differences in existing public services, evident discrepancies exist in the productive performance of the regions²³.

The analysis of the economic structures shows that the most **prevailing business sectors** in the western part of Continental Croatia are **financial intermediation** and **real estate** (mainly due to the impact of the City of Zagreb), followed by the manufacturing industry, trade, construction, agriculture and forestry. The eastern part of Continental Croatia is the economically most homogenous territory and shows a narrow economic base oriented towards a single dominant activity, **agriculture and forestry**. Adriatic Croatia shows considerable heterogeneity, and is mostly specialized in **tourism**, followed by **construction and transport**²⁴.

Regarding **investments**, which are certainly one of the most important sources of growth, some differences between regions have been recorded. In 2009, of the total investment in the Republic of Croatia, 63% was achieved in the Continental Croatia.²⁵ However, if the gross fixed capital formation in new fixed assets is considered per capita, values are more or less equal, with slight advantage given to Adriatic Croatia. Analysis on the NUTS 3 level shows that around 50% of all investments in Croatia refers to three counties - City of Zagreb (with 32.9% of total investments), Primorje-Gorski Kotar (9.9%) and Split-Dalmatia (7.9%). On the other hand, the lowest investments refer to Požega-Slavonia and Virovitica-Podravina (each counts with around 0.6% of total investments in the Republic of Croatia). This fact can easily lead to the assumption that an increase in regional discrepancies is inevitable since the larger investments are realized in the most developed regions.

²⁰ CBS (First release, no. 12.1.2., 14th March 2012)

²¹ CBS (First release, no. 12.1.2., 28th February 2006)

²² CBS (First release, no. 12.1.2., 24 February 2009)

²³ FINA, "Analysis of the financial results of entrepreneurs by counties", 2008.

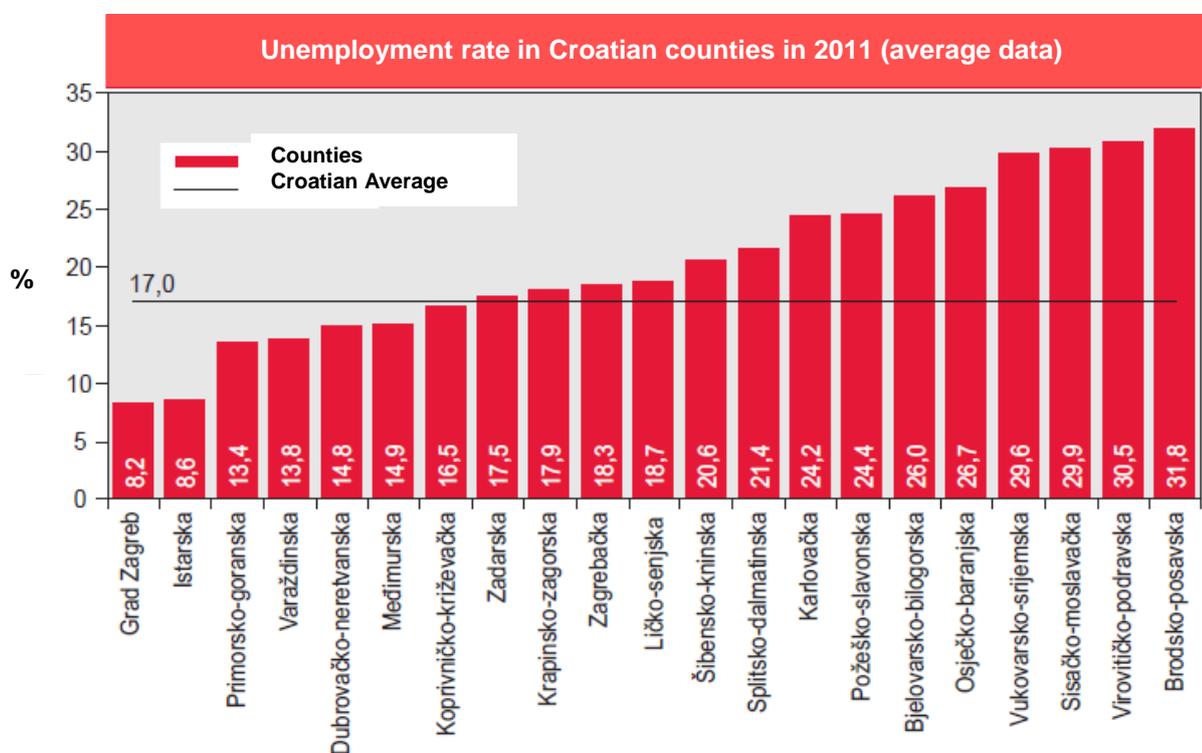
²⁴ National Strategy for Regional Development 2011-2013

²⁵ CBS, Statistical Yearbook 2011

In almost all counties, an increase in **exports** has been noted in the recent years (County of Brod-Posavina has been the only one with decrease of export in period 2009-2010). Continental Croatia exports makes 72% of the total Croatia export. Although 35% of all export refers to City of Zagreb, it is worth noting that Istria, Split-Dalmatia and Primorje-Gorski Kotar counties, all situated within Adriatic Croatia, were placed in the top five as well. The lowest position on the list was taken by Lika-Senj (only 0.07% of total Croatian export), Dubrovnik-Neretva and Požega-Slavonia counties²⁶.

Regarding the **unemployment rate**, there are no significant disparities between the NUTS 2 regions. Continental Croatia had a higher unemployment rate in 2011 (17.35 % compared to the national average, which was 17.0%), while the unemployment rate of Adriatic Croatia was lower than the average and amounted 16.39%. However, analysis on the NUTS 3 level again presented important differences between counties (Figure 9). While the lowest unemployment rate of 8.2% has been recorded in the City of Zagreb and followed by Istria (8.6%), unemployment reached the highest level in Brod-Posavina (31.8%), Virovitica-Podravina (30.5%), Sisak-Moslavina (29.9%) and Vukovar-Sirmium (29.6%)²⁷ counties.

Figure 10: Unemployment rate in Croatian counties in 2011



Source: Croatian Employment Service

There are regional disparities not only in economic aspects (in terms of GDP, unemployment, economic structure, business infrastructure, number of companies, etc.) but also in terms of basic infrastructure, concerning for exp. transport and environmental protection, as well as social and educational infrastructure, which are all very significant when it comes to overall development of regions.

In line with the Act on Regional Development of the Republic of Croatia and subordinate acts and considering the factors leading to regional differences, the Development Index for all Croatian counties and local self-government units (towns and municipalities) was

²⁶ CBS Statistical Yearbook 2011

²⁷ Croatian Employment Service - Yearbook 2011

calculated in 2010. The index included data on unemployment rate, income per capita, own source revenues per capita in county/local units, changes in population growth and level of education. Based on this calculation, a total of 11 Croatian counties were identified as significantly lagging behind, with the Development Index below 75% of national average. Beside those counties, five more have the Development Index below Croatian average (Table 2).

Table 2: Croatian counties (NUTS 3 level) according to Development Index

Group I (below 75% of average)	Group II (75-100% of average)	Group III (100-125% of average)	Group IV (above 125% of average)
Bjelovar-Bilogora, Slavonski Brod - Posavina, Karlovac, Koprivnica - Križevci, Lika-Senj, Osijek-Baranja, Požega-Slavonia, Sisak-Moslavina, Šibenik-Knin, Virovitica-Podravina, Vukovar-Sirmium.	Krapina-Zagorje, Međimurje, Split-Dalmatia, Varazdin Zadar.	Dubrovnik-Neretva, Zagreb county.	City of Zagreb, Istria, Primorje-Gorski kotar.

In Croatia, there are 127 towns and 429 municipalities. The towns constitute growth poles, developed through a continuous process of urbanisation. This has led to the fact that approximately two thirds of the population live in the urban areas, and just one third lives in the rural areas.

Urbanization is constantly strengthened by the process of **internal migration**. This process is durable and generates differences between the regions (mostly in favour of those regions containing large cities) and the gap between the urban and rural areas. Internal migration within the counties is a long-term and intensive process. In the year 2011, only six counties (the City of Zagreb and the County of Zagreb among them) had a total positive balance of migration (Annex 2, table 21), meaning that fifteen counties faced a decrease in their population in comparison with ten counties in 2008. This process was combined with the **negative natural population growth** (-2.2 per 1,000 inhabitants²⁸ in 2011) which resulted with an ageing population (the average age was 41.5 in 2011 compared to 41.3. in 2010, 41.1 in 2009, 41 in 2008 and 40.8 in 2007²⁹). Moreover, in 2011 all counties with the exception of the City of Zagreb, recorded a negative natural growth. These processes have two different impacts: one is the progressive depopulation of some rural areas and the second is a concentration of inhabitants in large cities and their environs (Zagreb, Rijeka, Osijek, Split, Šibenik and Dubrovnik). In addition, the phenomenon of commuting to work daily from the city's suburban area is common.

The polarisation of population is connected with infrastructure problems that have emerged within cities and their surrounding areas (for instance: problems with roads, parking areas, public transport, the regeneration of urban areas which were not originally planned for such huge development and growth, etc.). Eastern part of Continental Croatia has been experiencing considerable depopulation in all of its counties. Such regions also

²⁸ CBS, First release No. 7.1.1., 19 July 2012.

²⁹ CBS, Monthly Statistical Report 1/2010 and Monthly Statistical Report 8/2012

demonstrate weak economic performance, have underdeveloped infrastructure and generate low levels of income.

Four cities in Croatia have over 100,000 inhabitants (Zagreb, Split, Rijeka and Osijek) and another five cities have between 50,000 and 100,000 residents (Zadar, Slavonski Brod, Velika Gorica, Karlovac and Pula). Zagreb, the capital of Croatia, is an international metropolis of lower degree and one of the most dynamic regions within this part of Europe. Although it faces some problems with transport infrastructure and the regeneration of some neglected areas of the city, it is now the most important development pole in Croatia, with the ability to produce and stimulate growth and innovation around the country.

However, tackling the problem of the population's concentration in large cities is not the only objective. It is absolutely necessary to follow two aims in parallel: to reduce the existing disparities and at the same time not to disturb the advancement of the most developed regions, whose progress should be further promoted since it is of critical importance for the socio-economic development of the whole country.

In conclusion, there is no significant discrepancy in key indicators on NUTS 2 level (comparison of Continental and Adriatic Croatia) and there is not much room left for deduction of territorial differences in order to achieve territorial coherence at this level. Moreover, considering the gap existing between EU levels and levels achieved in both Continental and Adriatic Croatia, it is clear that additional resources for development can not be focused at one region only. Territorial preferences, aimed to reduce the development differences, must be ensured for the lower - NUTS 3 level, which is in Croatia established at the level of counties. Specific bottom-up approach can be used to ensure territorial focus, since each county has its own County Development Strategy valid for the period 2011-2013, through which the sectoral focuses of the counties have been explained.

Competitiveness of Croatian regions

The scope and intensity of progress in individual regions or counties and their ability to "catch up" with the more developed parts of Croatia, and the European Union, can best be understood through a competitiveness analysis. A competitiveness research conducted in 2007 in Croatia was based on the World Economic Forum 2002 methodology, which provided a good background for tracking changes and adjustments of national policies focused on the removal of barriers to development and competitiveness enhancement.

National competitiveness is based on among other things, companies' comparative competitiveness, i.e. a good business environment and business sector in the whole country. In order to achieve a high quality of life for everyone and improve national competitiveness, regions should cooperate to share their knowledge of development, innovation and use of natural resources, identify the engines of growth in each individual region and eliminate obstacles to competitive growth. The competitiveness research conducted in 2007 provided an analysis of the initial state of regional competitiveness in Croatia, a first and crucial step toward establishing a more effective regional development policy.

Since the regional competitiveness monitoring began in Croatia in 2002, its regional competitiveness ranking has consistently fallen. From 2002 to 2006 Croatia's average ranking was in the range of 60th place, but in 2009 it dropped to 72nd, and then to 77th in 2010³⁰. Low business sector productivity³¹ and constant presence of various obstacles in the

³⁰ National Competitiveness Council, Annual Reports on Croatian Competitiveness in 2002, 2004, 2006 and 2008.

business environment³², which are primarily caused by the inefficient judiciary and public institutions systems, corruption a lack of ability to absorb new knowledge, technology, innovation and labour market inefficiency make it difficult to strengthen competitiveness. The fact that some processes of institutional change have not been completed (e.g. the “guillotine” of unnecessary regulations - project HITROREZ)³³ considerably slows down the development of a simpler and more transparent business environment regulatory framework and also makes it difficult to create positive energy for changes in the society.

The competitiveness of the Croatian economy on a national level is a reflection of local and regional level competitive capacities, which only enhances the importance and the need for regional and local development in the country. Therefore, Croatian national and regional development policies have to be complementary and aligned with the European Union’s regional policy.

The Regional Competitiveness Index 2010 (RCI 2010) monitors and evaluates the competitiveness of the regions, as well as the competitiveness of all Croatian counties and the City of Zagreb (NUTS 3 level), like in the research conducted in 2007.

The analytical approach employed is based on a combination of statistical and perceptive indicators that evaluate the quality of the business environment and the business sector.

Table 3: Regional Competitiveness Index Model

Competitiveness Pillars						
1. Demographics, health and culture	Business Environment	Statistical indicators (2/3)	Regional Competitiveness Index			
2. Education						
3. Basic infrastructure and public sector						
4. Business infrastructure						
5. Investments and entrepreneurial trends	Business Sector	Statistical indicators (2/3)			Regional Competitiveness Index	
6. Level of entrepreneurship development						
7. Economic results - level						
8. Economic results – trends						
1. Location Advantages	Business Environment	Perceptive indicators (1/3)	Regional Competitiveness Index			
2. Local Government						
3. Infrastructure						
4. Rule of Law						
5. Education						
6. Financial market and local competition						
7. Technology and Innovations	Business Sector	Perceptive indicators (1/3)			Regional Competitiveness Index	
8. Clusters						
9. Marketing and management						

Source: National Competitiveness Council 2010

The RCI of 2007 encouraged most of the subject counties to discuss gaps in regional and county competitiveness. It created a strong interest in improving and making better use of their own existing potential, which is necessary for the improvement of development capacities, competitiveness and quality of life of all citizens. Implementation of the RCI

³¹ Labor productivity in Croatia was 59.2% of the EU 25 average (2006). However, Croatia’s labor productivity lags even more when compared to the EU 15 average, which is 106% of the EU 25 average. (“Path to Faster Convergence: Challenges and Cooperation Overview“, World Bank, Zagreb, January 2008, p.18.)

³² The World Bank study on the ease of doing business ranked Croatia 103 of 183 countries. Doing Business, World Bank, 2010.

³³ The project was implemented in 2006 and 2007; 1,455 regulations relating to the economy have been reviewed, and 799 recalls/simplifications were proposed. Only 368 proposals were implemented. The HITROREZ project implementation summary (July 28, 2009) is available at www.hitrorez.hr

makes it easier to monitor and analyze the impact of various environmental elements and create a climate favourable to business and investments, as well as to monitor and analyze the business sector's vitality. At the same time, the business sector uses the RCI to make investment decisions and to evaluate potential locations for their new business ventures and local politicians use it to compare their policies to those of other counties and improve them. The public sector and State administration also require continually updated information on the regional/county level of development and competitiveness. The RCI provides this information as a background for the adoption of development programs and the development and implementation of all relevant policies (ranging from educational, innovation, social, taxation and investment) focused on bridging the gaps in relative development across the country.

Until now, the levels of development in different parts of Croatia (counties, cities, municipalities) were usually assessed by using indicators like GDP per capita or the unemployment rate. The RCI of Croatia is based on 123 statistical indicators from different sources and 68 perceptive indicators that were recorded while the survey was conducted. This array of indicators enabled a more comprehensive comparison of regions and counties. The index includes a series of indicators of the quality of life at regional and county levels and provides a rich and quality background for continuous monitoring of Croatia's regional competitiveness.

Since 2007 there have been changes in the competitiveness profiles of individual counties, but the least competitive counties haven't improved their ranking, while the ranking of the most competitive counties remained the same. All counties (except for County of Lika-Senj) increased their GDP per capita, but at different rates. However, the gap between the poorest and the richest hasn't been reduced. In 2007, the difference was 1 to 3.14 (GDP per capita in County of Vukovar-Sirmium and GDP per capita in the city of Zagreb), while in 2010 the difference was 1 to 3.09 (GDP per capita in County of Brod-Posavina and GDP per capita in the City of Zagreb). This only confirms the importance of regional competitiveness research, which gives an overview of the effectiveness of various policies focusing on the reduction of such gaps as soon as possible.

According to the ranking results of the counties (Table 4) the top 5 are County of Varaždin, the City of Zagreb, Istria, Međimurje and County of Zagreb, which are also the top 5 in terms of the RCI. The counties ranked as least competitive are County of Požega-Slavonia, Vukovar-Sirmium, Sisak-Moslavina and Lika-Senj, i.e. counties that suffered most in the Homeland War. The ten counties with the lowest competitiveness rank also have the lowest development index (below 75% of the average of the Republic of Croatia). This coincidence shows that the cause of their poor development is, for the most part, also the cause of their poor competitiveness.

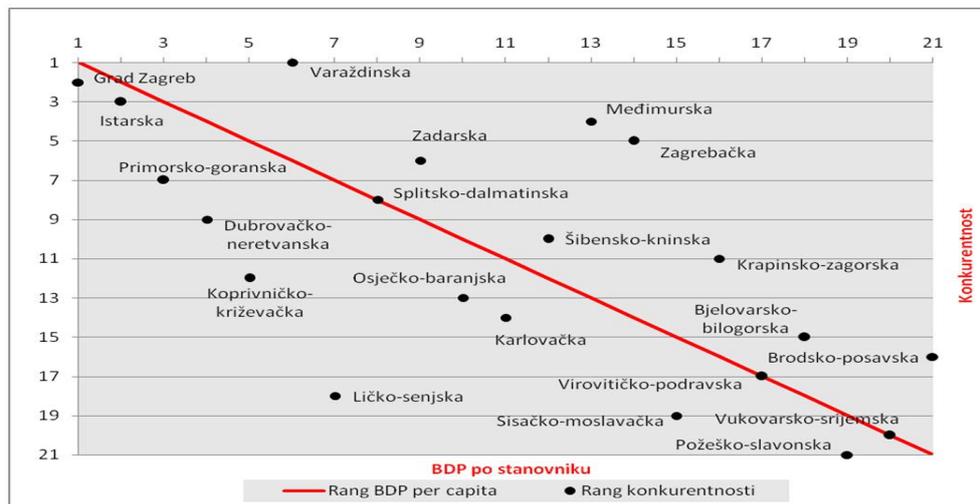
Table 4: Regions and counties ranked according to their competitiveness in 2010

Overall Competitiveness Rank		Counties	Business Environment	Business Sector	Statistical Rank			Perceptive Rank		
2010	2007				Overall	Business Environment	Business Sector	Overall	Business Environment	Business Sector
1	4	Varaždin	1	1	6	5	7	1	1	1
2	1	City of Zagreb	2	4	2	1	3	7	9	7
3	3	Istria	7	5	1	2	1	13	13	10
4	2	Međimurje	6	2	3	7	2	6	6	6
5	5	Zagreb	3	6	7	4	9	5	5	3
6	9	Zadar	4	3	10	13	8	3	2	5
7	6	Primorje - Gorski Kotar	8	7	5	6	4	12	11	12
8	8	Split -Dalmatia	12	9	4	3	5	14	17	13
9	10	Dubrovnik-Neretva	11	11	9	8	10	11	12	9
10	13	Šibenik-Knin	14	13	8	9	6	16	16	20
11	15	Krapina - Zagorje	13	10	11	10	12	8	10	8
12	7	Koprivnica-Križevci	9	8	13	14	14	4	4	4
13	14	Osijek - Baranja	5	12	14	12	20	2	3	2
14	12	Karlovac	10	14	12	11	11	10	7	11
15	11	Bjelovar - Bilogora	16	17	15	15	17	15	14	16
16	18	Brod-Posavina	15	16	19	18	19	9	8	11
17	17	Virovitica - Podravina	17	15	17	16	16	17	18	14
18	19	Lika - Senj	18	18	18	21	13	18	15	21
19	16	Sisak - Moslavina	19	19	16	17	15	20	20	18
20	21	Vukovar - Srijem	20	20	20	19	18	19	19	19
21	20	Požega - Slavonia	21	21	21	20	21	21	21	17

Source: National Competitiveness Council, 2010

A comparison of the data on the counties' competitiveness (i.e. their growth potential) with data on GDP per capita, or the current level of development of individual counties, indicates a high correlation (Figure 13). Low competitiveness is usually followed by low GDP per capita. A less favourable competitiveness level indicates that the sustainability of a higher GDP per capita is endangered in the long run. When the gap between the GDP and competitiveness levels is large it usually indicates that GDP includes an inflow of value from outside of the region/county (i.e. subsidies or investments).

Figure 11: Counties ranked by competitiveness and GDP per capita



Source: National Competitiveness Council, 2010

The largest discrepancies between competitiveness and development have been identified in County of Lika-Senj, which is at the bottom of the competitiveness list, but ranks 7th in GDP per capita. These discrepancies are not sustainable in the long run and indicate the need for a different approach to development, which has been confirmed by changes that took place between the regional competitiveness research conducted in 2007 and that conducted in 2010. County of Lika-Senj is the only county where GDP per capita was lower in 2010 (HRK 60,432) than it was in 2007 (HRK 62,485)³⁴. County of Međimurje and County of Zagreb are ranked higher in competitiveness than they are in GDP per capita, which leads to the question of why this competitiveness capacity is not reflected in a growth of gross domestic product per capita.

To establish regional development policies on national, regional and county levels, it is important to supplement the information on county/regional business sector and environment rank with information on the quality of the elements that define the business environment and business sector.

Continental Croatia includes the most competitive counties, mainly situated in the North-Western part, as well as the least competitive, situated at the very bottom of the list. The biggest advantage of the North-Western part is the level of entrepreneurial development, along with favourable indicators regarding demographics, health, cultural activities, education and basic infrastructure. There are still deeper development problems in Krapina-Zagorje and Koprivnica-Križevci counties because they are still lagging behind in comparison to their surrounding, the Varaždin, City of Zagreb, County of Zagreb and County of Međimurje which take a leading position according to a series of statistical indicators (especially investments and entrepreneurial trends, education, demographics and business sector economic results). However, eastern part of the region is the least

³⁴ The regional competitiveness study conducted in 2007 used GDP per capita data from 2004, while the study conducted in 2010 used GDP data from 2007.

competitive, and will require the most investment to catch up with the competitiveness level of other regions. This applies to all of the competitiveness pillars. Although in a situation like the one presented, when there is so much to gain, the dynamics of achievement in the business sector and tangible economic results are much better than they are in the North-Western part. The eastern counties are at the bottom (ranking 13th to 21st) of the competitiveness list, both according to their competitiveness and their GDP per capita.

Adriatic Croatia, although similar if the indicators are considered at average levels, has a considerably different competitiveness profile than Continental Croatia. The reason behind this difference is a very good business environment (demographics and education) and the presence of good business sector indicators (investments and entrepreneurial trends and trends in business economic results). The region still faces problems with the quality of basic and business infrastructure and entrepreneurship development which is particularly emphasised in County of Lika-Senj.

Key challenges

The most crucial issues that **regional development** encounters are:

- development gap of both Croatian NUTS 2 region in comparison to EU level;
- significant socio-economic disparities within NUTS 2 regions;
- insufficient basic business and tourism-related public infrastructure - in terms of the number, location, size, quality and appropriateness of facilities; and
- progressive depopulation of some regions and concentration of inhabitants in large cities and their hinterlands.

1.1.3.1. SME development

Thriving small and medium sized enterprises (SMEs) are generally considered to be an engine of economic growth and jobs creation in Croatia. In the last two decades Croatian economy has been characterized by the transition process and the conversion of the existing businesses from state to private ownership, and at the same time the establishment of new privately owned small businesses. The result of these developments is reflected in the increase of the share of small businesses and actual financial results.

According to the data of financial reports for 2011³⁵, business entities in Croatia amount to 98,530 subjects liable to corporation tax out of which 96,855 are micro and small, 1,316 medium, 359 large and 86,230 are craftsmen, employing a total of 851,386 workers. The data shows continuous growth of the number of entrepreneurs in the past five years and illustrates vivacity and growth of the Croatian SMEs.

Small business in Croatia represents 99.7% of the whole economy, similar to the EU 27 where they represent 99.8% of the whole economy³⁶. Micro entities account on average 80% of total number of small business subjects, liable to submission of financial reports. In the Ministry of Entrepreneurship and Crafts' (MEC) official Registry of crafts, by the end of December 2011 the number of active crafts was 86,230 employing 195,281 craftsmen and workers.

An average number of the employed in small entities in the period 2003-2010 is about 4 to 5 employed, while the average number of the employed in medium-sized entities in the same period increased by 87% (on average, from 61 employed in 2003 to an average of 114 employed in 2010). Pursuant to shares in total employment SMEs had the share of 67.2% of overall employment, and in EU 27 SMEs share in total employment is 67%³⁷.

Table 5: Total number of employees by company size

Number of employees	2008	%	2010	%
Micro	133.276	8,57	134.682	9,40
Small	256.532	16,50	226.268	15,80
Medium	165.687	10,66	151.872	10,60
SMEs	555.495	35,73	512.822	35,80
Large	303.332	19,51	279.414	19,51
Cooperatives	4.766	0,31	3.279	0,23
Crafts	227.550	14,64	185.970	12,98
Others(Public Administration, etc)	463.662	29,81	450.969	31,48
Total persons in employment	1.554.805	100,00	1.432.454	100,00

Source: FINA. CBS data

Depending on the observed business year, the share of small business entities in GDP ranges from 33 to 33.8%, medium-sized entities about 19% and totalling more than 50%. Shares in exports of small and medium-sized entities are almost equated, the share of both entities in overall exports being about 21%, totalling to 41%.

The density of small and medium-sized entities is measured by the number of SMEs per 1,000 inhabitants. In the period 2001-2010, in Croatia, the density of SMEs increased from 12.71% in 2001 to 22.47% in 2010, as a result of an increase of the SMEs number in spite of the reduction of the number of inhabitants.

SME sector contributes around 57.1% of total value added in comparison to 58.5% in the EU27 according to the 2008 data³⁸. In the year 2010, the year of general losses, when GDP

³⁵ FINA

³⁶ SBA fact sheet Croatia 2010/2011

³⁷ SBA fact sheet Croatia 2010/2011

³⁸ SBA fact sheet Croatia 2010/2011 (see Annex 2)

fell by 1.2%, the SME sector still made a positive result. However, the basic characteristic of the period is a large number of loss making entrepreneurs (41.9%).

The leading productive sectors in Croatia are³⁹: the wholesale and retail trade sector (24.35% of enterprises); manufacturing (13.27%); construction (13.07%); accommodation and food service activities (10.67%); and, professional, scientific and technical activities (10.38%). These five sectors represent 72% of all SMEs.⁴⁰ SMEs are concentrated in a number of manufacturing sectors and sub-sectors. The principal sectors are: food production and processing, textiles (especially wearing apparel), manufacture of timber and wood products (except furniture), articles of straw and painting materials, rubber and plastic products, and the manufacture of metal and machinery products. An analysis of manufacturing sector indicates that there is a substantial difference between the sectors and sub-sectors in which most SMEs operate (food products, wearing apparel, basic wood products, fabrication of metal products), most profitable being: beverages, leather products, pharmaceutical products, computer and electronics, trailers and motor vehicles, and repair of machine and equipment.

Table 6: SMEs, Sector Percentages, 2008

	Manufacturing	Construction	Wholesale	Professional Services	Others	TOTAL
Micro	10.25	12.83	29.67	15.71	31.54	100
Small	21.34	15.85	28.44		34.37	100
Medium	31.57	11.51	25.96		30.96	100
Large	31.87		25.00		43.13	100

Source: CBS Administrative and Business Register

In relation to SMEs' geographic location in two NUTS II regions (the Adriatic and Continental), 26.21% SMEs are located in the Adriatic Region, while 65.46% are situated in the Continental Region. In terms of GDP per capita in PPS, compared to the EU27=100, both NUTS II Croatian Regions are characterized as equally developed, Continental Region with an index of 63% and Adriatic Region with 60%. Croatia, as a country, has an index of 62%⁴¹. However, it is important to emphasize that the differences are very pronounced in the view of the structure of SME development at the county level. For instance, in the north-west counties (NUTS III regions), which are part of Continental NUTS II Region, there is the largest number of SMEs, with the greatest share of total employment in SMEs and the greatest value added generated by SMEs. On the other hand, the central and eastern counties of the same Region have the smallest number of enterprises, least employment in SMEs and the lowest generation of value added (only 7.9% of total value added generated in 2008) which makes them Croatia's poorest performing counties in SME terms. Profitability is an acute problem in both Regions, whereby 41.9% of all enterprises were loss-making in the Adriatic Region compared to 61.6% in the Continental Region. The highest number of profitable enterprises was found in the Croatian north-west counties.

Data on the location of economic activity on the county level, measured in terms of registered businesses, shows the concentration of SMEs in a few major urban centres and their surrounding areas. The fact that economic activity is to a great extent linked to larger urban centres (Zagreb, Split, Rijeka, and Osijek) and their surrounding areas, demonstrates the lack of balanced business development among Croatian counties. The lead belongs to the City of Zagreb, whose share in the total number of entrepreneurs in the year 2011 amounted to 33.45%. On the other hand, this share was only 0.7%⁴² in the Požeško-Slavonska and Lika-Senj County for the same year.

³⁹ The Croatian SME Observatory Report 2012

⁴⁰ The Croatian SME Observatory Report 2012

⁴¹ EUROSTAT, 2012

⁴² CBS

Regarding the SME policy, until recently Croatia was implementing the guidelines of the European Charter for Small Enterprises. In 2009, these were replaced with the Small Business Act for EU, under which the good practice will continue to be implemented. However, the SME policy index will continue to be used as a benchmarking tool for SMEs. The policy index implementation capability in this field is relatively well structured, resourced and framed in a concise set of SME strategies and operational plans. There is a distribution of roles between the Ministry of Entrepreneurship and Crafts (MEC) and the SME agency (HAMAG INVEST). Croatia has aligned SME Encouragement Act⁴³ with the EU SME definition, but full alignment still needs to be ensured in the Croatian Accounting Act⁴⁴.

According to the economic criteria and recommendations in Croatia Progress Report 2012 as regards enterprise and industrial policy, improving the business environment should remain a priority and efforts are necessary to improve it.

The Croatian Government, in order to improve conditions for SME development, has invested considerable effort into the reduction of red tape and the administrative burden, the harmonization of national policy in areas such as science and education, the introduction of a one-stop shop (HITRO.HR) and support for entrepreneurial infrastructure: business infrastructure, e-Croatia and regional competitiveness.

Regarding the business environment, the HITRO.HR initiative to speed company registration and HITRO.REZ to cut regulatory burdens on SME are encouraging. The HITRO.HR service in the period 2007 when established till end of January 2012 recorded more than 47.540 companies and 5.647 crafts registrations in 61 HITRO.HR offices and more than 3.500 of the total number of the newly established companies are in foreign ownership. HITRO.HR has expanded to all the county centres, larger towns and islands in the Republic of Croatia. Besides costs reduction, major savings in time have been realized, since the whole procedure of the establishment has been reduced from the initial 40 days in 2004 to only 24 hours, by means of the project “*e-Tvrtka*“(e-Enterprise) which enables foundation of enterprises from any public notary office in Croatia in one day due to the established connections between the commercial courts. This also introduced the possibility to reserve a business name of the company online, which will also simplify and shorten the pre-registration process. The development of online registration for crafts (e-crafts) has been positive and could be extended to all types of companies⁴⁵.

Despite relatively good IT literacy per capita, use of online payment operations and the online goods and services trade is rather low. Statistics shows that 61% of total SMEs in Croatia have web sites, 85% is the percentage of usage of financial and banking services and 63% of e-government usage⁴⁶. According to the amendments to the Order of the VAT⁴⁷ in Croatia, starting from 1 August 2011, e-invoicing and e-bill are equivalent to a paper bill (the obligations of Member States in EU is to equalize until 1 January 2013)⁴⁸. In February 2012 there were 527 users of e-bill services in Croatia and that number is growing on daily basis, 97% enterprises had Internet, 84% broadband Internet and 11% very fast internet access (above 30 Mbps), 39% of companies purchased goods and services via the Internet and 26% used Internet for selling their products⁴⁹.

HITRO.REZ, the regulatory guillotine project, ended in 2007 and after its completion the tasks were delegated to the Ministry of Administration. In the course of the HITRO.REZ Project 1.451 areas of regulations directly important for the economy have been examined and 799 recommendations were delivered, of which 501 recommendations were accepted

⁴³ SME Encouragement Act (OG No 29/02; 63/07; 53/12)

⁴⁴ Accounting Act (OG No 109/07)

⁴⁵ EC Regular Progress Report 2008

⁴⁶ CBS, http://www.dzs.hr/default_e.htm

⁴⁷ OG No 149/09, 89/11, 29/12 and 64/12

⁴⁸ EU OJ No 89/11

⁴⁹ Source: Ministry of Economy

by the public authorities and 368 were implemented (above 70% of recommended). Despite these initiatives, Croatia still has to make further efforts to reduce the financial and temporal costs of registration and licensing. As of November 2009 the Government legislation office (GLO) was appointed as a central body for the development of the RIA system and coordination processes with ministries authorized for fiscal, economic, environmental and for social impact. In August 2011 the Law on impact assessment was adopted (OG 90/2011), entered into force on 1 January 2012. The implementation of RIA as a method of systematically and consistently examining potential impacts arising from government action purpose shall influence policy makers to adopt the most efficient and effective regulatory options, using evidence-based techniques to justify the best option. RIA is also a key instrument for the communication between government, businesses and citizens, as it aims to increase the transparency of the regulatory process, foster the consultation of stakeholders and improve the justification of regulatory solutions.

Programme for SME business simplification as a part of the Government Economic Recovery Program developed by the former MELE was adopted in June 2010 encompassing 27 measures covering, among others, business simplification and costs reduction, facilitation of financial sources, e-business, entrepreneurial education, business consultancy and promotion.

According to the **Government Programme of Incentives for Small and Medium-Size Enterprises 2008 - 2012**, each year Ministry of Entrepreneurship and Crafts (MEC) gives incentives to SMEs which are related to strengthening competitiveness, uniform regional development, raising the quality of entrepreneurial infrastructure, decreasing administrative obstacles, strengthening the entrepreneurial climate in the society and e-business development, growth of target group entrepreneurs (women and young entrepreneurs, war veterans and disabled persons). In addition, the SME state aid Register has been developed at Ministry of Entrepreneurship and Crafts.

Financing small and medium entrepreneurship has been based on interest rate subsidies for credit lines implemented by Ministry of Entrepreneurship and Crafts and counties and on guarantee funds implemented by HAMAG INVEST, while the **development of entrepreneurial zones** has been a continuous process implemented in collaboration with the local self government.

Within the Government Programme of Incentives to Small and Medium-Size Enterprises 2008 - 2012, development of craftsmanship is settled as a specific objective. Through an Operational plan, incentives for development of vocational schools, craftsmen lifelong education, supporting students by scholarships, encouragement of craftsmen and companies as the providers of practical training, informatics training for tradesmen and craftsmen, acquiring of additional qualifications for craftsmanship and development of traditional and artistic crafts were allocated. Projects and activities of SME promotion, according to the 2011 Operational plan for SME Incentives, are shown in Fig.12

Table 7: The results of the Government Operational Plan of Incentives to SMEs for 2011

Projects /activities from the Operational Plan for 2011.	Grants			% in total	Average
	No.	Amount in HRK	Amount in EUR	(%)	Amount in HRK
Improving competitiveness of Croatian SMEs	720	40,266,041	5,419,386	20.25	55,925
Competitiveness and innovations	206	7,858,000	1,057,604	3.95	38,146
Education in Crafts	298	6,832,599	919,596	3.44	22,928
Education for Entrepreneurship	174	4,399,300	592,100	2.21	25,283
Entrepreneurial Infrastructure	104	51,000,000	6,864,065	25.65	490,385
SME Support Institutions	58	4,603,000	619,515	2.31	79,362
Entrepreneurship of young, start-ups and disabled persons	605	4,000,000	538,358	2.01	6,612
Women Entrepreneurship	1.203	10,740,316	1,445,534	5.40	8,928
Additional crafts qualifications	1.191	2,513,758	338,325	1.26	2,111
Promotion of Entrepreneurship	67	1,897,100	255,330	0.95	28,315
Development of traditional and artistic crafts	316	5,843,201	786,434	2.94	18,491
Cooperatives	49	3,000,000	403,769	1.51	61,224
Improving of international competitiveness and internationalisation	171	25,319,750	3,407,773	12.73	247,228
Entrepreneurship in culture	128	4,000,000	538,358	2.01	31,250
Gazelles / Emerging companies	64	21,675,000	2,917,227	10.90	744,263
Clusters	46	4,900,000	659,489	2.46	106,522
TOTAL	5,400	198,848,065	26,762,862	99.98	1,966,973

Source: MEC

The results of the Government Operational Plan for SME Incentives for 2011 show that 5,400 SMEs applications have been accepted for funding from the National budget in the amount of HRK 198.848 million (EUR 26,762 million) through 16 different projects.

Program of Improving International Competitiveness and Internationalisation of Croatian economy, started in 2006, is composed of two different Projects. One aiming at strengthening the marketing activities on the foreign markets and internationalisation of new products and the other through which two different activities were financed - joint presentation on international fairs and economy missions organised on foreign market. In the period from 2009 to 2011 MELE allocated HRK 96.20 million (EUR 12.95 million) for the Program. In the same period, more than 400 grants in the total value of HRK 85 million (EUR 11.44 million) were given to export oriented companies which used the funds to better access foreign markets.

Also, HRK 11.20 (EUR 1.5 million) million was granted to chambers and clusters of companies for their joint presentation of Croatian companies in foreign markets. MELE itself participated in organising 150 joint presentations at foreign fairs as well as 6 economic missions and 2 representative offices of Croatian clusters in target markets.

In 2011, the Croatian commodity exports increased by 13.15% as compared to 2010. At the same time imports also increased by 13.19%. The commodity exchange deficit in 2011 increased by 13.25%, as compared to the past year, while the coverage of imports by exports amounted to 58.9%.

An important component of the competitiveness of the country is evaluation of its results in innovation. Croatia has a very poor execution in the areas of innovation and knowledge creation, as well as in areas of innovation, entrepreneurship, and implementation. In 2011, Croatia had the innovation index ranked on 76th place (from 142) with GCI 3.1.

⁵⁰ The transformation from HKR to EUR was done on the basis of the CNB average yearly exchange rate for 2011

The most important source of funding for the total domestic investments in R&D is the government sector which in 2009 provided 51.2% of Gross Domestic Expenditure on R&D (GERD), while the business enterprise sector contributed with 39.8%. The majority of Business Enterprise Research and Development (BERD) is financed by business companies themselves (72% in 2008) while the foreign investors contribute to the business sector with 14.7%.

The structure of the business expenditures on R&D (BERD) in 2010 (€ 128m) reveals those sectors in which most of R&D activities were performed. The highest proportion (32.6%) was in scientific R&D, followed by telecommunications (17.8%) and pharmaceuticals (17.8%). Relatively significant shares have also been observed in food (5.1%), financial and other services (5.5%), motor vehicles (4.4%) and energy supply (4.7%⁵¹).

Table 8: Enterprises, by Innovation Performance, Activity and Size, 2008-2010

	<i>Total</i>	<i>Innovators</i>	<i>Non-innovators</i>	<i>Share of innovators,%</i>
<i>Total</i>	10 068	3 752	6 315	37,3
<i>Industrial enterprises</i>	3 641	1 626	2 015	44,7
<i>Service enterprises</i>	6 427	2 126	4 300	33,1
<i>Small enterprises</i>	8 208	2 745	5 463	33,4
<i>Medium-sized enterprises</i>	1 520	773	748	50,9
<i>Large enterprises</i>	339	234	105	79,0

Source: CBS 2012

According to the research about the importance of **innovation** in enhancing the competitiveness of the company named the Croatian innovation quotient⁵² (“*Hrvatski kvocijent inovativnosti*” - HKI), companies give very high priority to innovation in business strategy, and almost 68% of the companies considered innovations among the three highest priorities in business, but at the same time most of them seldom successfully commercialize ideas.

When it comes to the number of new or improved products and services that companies have developed over the past three years, large companies are in an enviable advantage over small and medium-sized businesses, mostly owing to easier access to funding. Thanks to that, as much as 50% of large companies in the past three years developed 10 or more products, while the same number of products grew only 4% of medium and 16% small Croatian companies. Of course, it should be taken into account that the larger companies have a greater portfolio of products. Only 15% of small firms generated more than 70% of total revenues from the commercialization of innovations, the same results were achieved by only 4% of medium and no large company.

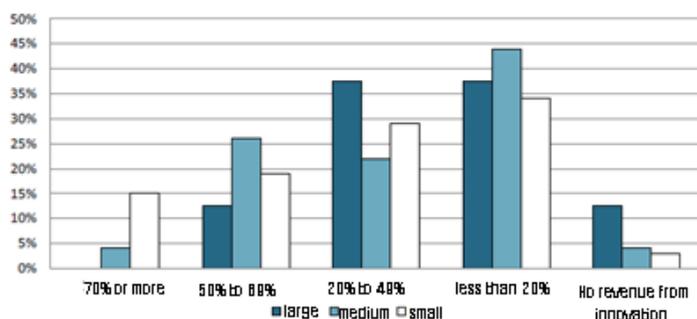
A similar situation exists in the commercialization of new or improved products, where 10 or more products successfully commercialized 25% of large, medium 4% and 9% of small firms. 38% of large companies in the last 3 years commercialized from 5 to 9 products, and the same result is achieved and 30% of secondary and 22% of small companies where innovation in this segment of their size hinders the development and commercialization of a large number of new products.

According to the HKI survey, 46% of companies declared they have over the past three years developed 2-4 new or improved products, but only 43% of those companies succeeded in commercialization of these products. According to this survey, only 16% of Croatian companies have in the last three years developed more than 10 new products, and since then have successfully commercialized only 10%.

⁵¹ Erawatch Croatia

⁵² Final report with results and recommendations, Group of Authors , September 2011

Figure 12: The share of revenue from innovative products/services in the company's revenue



Source: HKI

Another factor that exposes the insufficiency of innovation in Croatia is that patent applications submitted to the European Patent Office (EPO) are noticeably lower than the EU-27 average. In 2007, Croatia submitted only 7.21 patent applications per million inhabitants⁵³, while the average for the EU-27 was 116.5. One of the reasons lies in the fact that Croatia is inefficient in transforming investments in research and development into results that could be patented, which suggests that the national system of innovations is not efficient enough in the commercialization of R&D activities, and there is insufficient public awareness with regards to intellectual property rights protection.

Access to financing is among the top ten "major obstacles" for the expansion of business in Croatia, while SMEs in Croatia are also confronted with inefficiencies in the public administration and suffer from a cumbersome regulatory framework.

According to the Annual Report of the CNB in 2011⁵⁴, the banking sector placed HRK 289.347,3 million (EUR 38,943 million),, whereof the placement towards companies amounted to HRK 118.808,9 million (EUR 16,055 million) or 41.06% of total placements. The major part of the overall credit placement is directed towards the households (44.48%), while 2.70% of overall credit placement was placed towards state units. The largest portion of corporate loans was used to finance working capital and liquidity maintenance.

FINA analysis of the financial data submitted by all enterprises, except small crafts, shows that micro and medium sized enterprises are more dependent upon credit conditions than small enterprises. They borrow more from external sources than do small enterprises. Medium sized enterprises are adversely affected by heavy financial costs due to their lower equity structure. They are being penalised by having large amounts of debt, and the high financial costs they have to pay in order to carry the debt and finance their operations. Financial costs, for this group, represent almost 10% of total costs, while for small companies financial costs are around 4.5%.

During the period 2002-2010, total outstanding loans to enterprises increased by 120.58%, a compound annual rate of 10.39%. Similarly, total new loans to enterprises increased by 130.05% during the same period, a compound rate of 10.98%, almost identical to the growth rate of outstanding loans from the commercial financial institutions. If we consider that the compound inflation growth rate was (2.3%) 3.22%, it can be concluded that total credit to enterprises increased annually in real terms by 7.76% per annum.

In relation to the cost of credit to enterprises, overall, interest rates in Croatia were on a par with EU countries. Bank interest rates continued to decrease in 2011, but at a

⁵³ EUROSTAT, 2012

⁵⁴ CNB Annual Report 2011

considerably slower pace than in the previous year (see Annex 2, Tables: Active Interest Rates and Passive Interest Rates). The continued decrease in lending interest rates resulted also from a regulatory cost reduction implemented in the first half of the year, with the downward trend in both lending and deposit rates halted, and to some extent reversed, due to the escalation of the debt crisis and heightened uncertainty in late 2011.

In order to improve access to finance for SMEs, the Government Operational Plan includes credit lines "Local SME Project Development" and "Local SME Project Development - micro credits" which have been implemented in cooperation with municipalities and commercial banks since 2009, both projects subsidising loan interest rates.

The "Local Project for Development of SMEs" had total credit potential of HRK 1.42 billion (EUR 191 million), by November 2011. total of 89 loans were granted with a total value of HRK 606.563.868 (EUR 81,637,128) and the remaining credit potential is HRK 813.436.131 (EUR 109,479,963). In the same period, "Local Project for Development of small and medium enterprises - Micro loans" with a total credit potential of HRK 89,5 million (EUR 12 million),, approved 95 loans amounting to HRK 13.237.910 (EUR 1,781,683). In both Programs the lending is implemented until the utilization of credit potential.

SMEs are faced with stronger growth constraints than large companies, for instance in terms of higher interest rates and a narrower range of funding opportunities.

Primary sources of financial support for development of SMEs in Croatia are the banking sector, Credit Unions and Government programs of incentives and subsidized credit lines. Venture capital funds and business angels are still not recognized as important sources of financing for small and medium enterprises in Croatia.

In addition to the commercial banks, significant support in SMEs lending is provided by the Croatian Bank for the Reconstruction and Development (HBOR) in 23 different programme groups. In 2011 1,331 loans were approved amounting HRK 3.6 (EUR 484.5 million) billion which is 15% more than in 2010. This information relates to the approval of small and medium enterprises across all programs. The highest growth of approved loans to SMEs is achieved through programs for the establishment and development of entrepreneurship and loan programs for tourism development which approval rate is 2.5 times higher than in 2010. It is important that the investments of small and medium-sized businesses in 2011 have doubled compared to the year 2010.

There is no official statistics with regards to supply of bank loans to the SME. The survey conducted by the EIF⁵⁵ amongst the largest Croatian banks shows similar results. The share of SMEs loan portfolio in total portfolio is estimated at 25%. Although the share of the SMEs loans in total loan portfolio is estimated at respectable 25%, most of the loans are to medium-size enterprises and the estimate of the share to micro- and small-enterprises is approximately 8% in the total loan portfolio (less than EUR 3 billion).

The SME segment was very negatively affected during the crisis: the risks escalated to such an extent that the banks could not take the risk in increased lending to this segment. Their ratio of bad loans continued to increase rapidly (the share of non-performing loans increased from 2.0% (Dec 2008) to 9.2% (Dec 2010) for large corporate and from 2.8% (Dec 2008) to 5.6% (Dec 2010) for retail segment)⁵⁶. Although this phenomenon is typical of the overall credit portfolio, the ratio of bad loans is by far the highest and fastest growing (in absolute terms), precisely in this market segment. It is therefore reasonable to assume that credit applications in the SME segment have relatively more problems with meeting lending criteria than large companies. Access to credit is particularly difficult for micro and small businesses, which do not have enough collateral, and are start ups. The consequence is often a rejection of a large number of sustainable and profitable investment projects.

⁵⁵ SME Financing Gap Assessment in Croatia -EIF (July-September 2010)

⁵⁶ Croatian Bankers Association Analysis No. 21, Financing SME , March 2010,

One possible solution to this problem is the use of loan guarantees that can help in the process of obtaining credits for SMEs. Such guarantee funds, that enable SMEs access to finance, are already implemented on a limited scale by HAMAG INVEST - Croatian Agency for SMEs and investments, operational since 2003. HAMAG INVEST has total guarantee exposure potential amounting to HRK 1 billion (approximately EUR 137 million). In the last three years HAMAG INVEST implemented guarantees under nine different guarantee schemes. All of HAMAG INVEST guarantee programmes cover up to 80% (between 40-80%) of the principal amount of loan (interest is not covered).

The total volume of guarantees amounted to HRK 206,25 million (EUR 27.76 million) in 2008; HRK 137,4 million (EUR 18.49 million) in 2009, HRK 178,1 million (EUR 23.97 million) in 2010 and HRK 154,2 million (EUR 20.75 million) in 2011. In 2011, HAMAG INVEST has approved total of 112 guarantees with an average amount of the guarantee amounting to HRK 1,377 million (EUR 185 million) for a total volume of loans of HRK 285.58 million (EUR 38.4 million) which led to total investments of HRK 494.27 (EUR 66.52 million) million.

Table 9: HAMAG INVEST - Guarantees granted 2008-2011

Category	Year	2008	2009	2010	2011	Total
1	Number of guarantees granted	180	106	133	112	531
2	Amount of guarantees granted (HKR/EUR)	198,462,356	137,433,395	178,157,658	154,264,185	668,317,594
		26,710,949	18,497,092	23,978,150	20,762,339	89,948,532
3	Amount of loan (HKR/EUR)	416,052,980	282,385,286	333,466,061	285,579,212	1,317,483,539
		55,996,363	38,006,095	44,881,031	38,435,964	177,319,453
4	Amount of investments (HKR/EUR)	714,047,033	621,726,306	638,421,410	494,269,086	2,468,463,835
		96,103,235	83,677,834	85,924,820	66,523,430	332,229,318

Source: HAMAG INVEST

Another form of assistance to SMEs which has been implemented by HAMAG INVEST since 2004 is the “Consultants network” project implemented through:

- Education and certification of small business consultants
- Co-financing of advisory services for SMEs by voucher system

In HAMAG INVEST’s “Consultants network” there are 98 certified consultants specialised for different areas in SME sector⁵⁷. The vouchers are issued for preparation of business and investment studies. Total of 90 vouchers for SMEs were issued in 2010, which is a lower number than in 2009 when 119 vouchers were issued and in 2011 total of 117 vouchers were issued with the purpose to increase the competitiveness of existing SMEs and to encourage and enhance start-ups. One of main reason for this is connected to the economy crisis and more difficult access to finance.

Business infrastructure is a key condition for the development of economic activities and economic growth. In the annual Government Operational Plans for the Promotion of Small and Medium Entrepreneurship project dedicated to development of supporting institutions is implemented continuously. The Project covers regional development agencies, business

⁵⁷ HAMAG INVEST

centers, business incubators, technological parks, business zones etc. All mentioned entrepreneurial infrastructure is in charge for support, education, and consultancy, info to entrepreneurs, advisory services etc. The aim of the Project is development of regional capacities and infrastructure of supporting institutions in accordance with the principle of balanced regional development. Emphasis is given to entrepreneurial infrastructure networking and in relation to their business activities linking and cooperation with R&D institutions and business entities and scientific research. Within the period 2008-2011 the activities of totally 94 business supporting institutions were co-financed, specifically:

- 26 development agencies
- 35 entrepreneurial centres
- 26 business incubators
- 7 technological parks.

In the year 2011 assessment⁵⁸ of Business support institutions (BSI) was conducted among 88 BSIs which included: 21 Regional Development agencies, 10 Local Development agencies, 16 Business Incubators, 6 Technological Parks and 35 Entrepreneurial centres. Main concentration of BSIs is in traditionally largest counties which gravitate with biggest centres of Republic of Croatia, like Zagreb (including County of Zagreb with 8 BSIs), Osijek (Osječko-baranjska County with 11 BSIs), Split (Splitsko - Dalmatinska County with 7 BSIs), and Rijeka (Primorsko -Goranska County with 7 BSIs). In the lagging behind Regions there are 33 BSIs which represent 37.5% of the total number of BSIs. Counties in lagging behind regions have 1-2 BSIs, with one of them being Regional Development Agency, except Sisačko-Moslavačka County with 5 BSIs. On the other hand, in more developed north-western Croatia like Varaždin County there are total of 6 BSIs, Koprivnička County with 7 BSIs and in the Adriatic Istria County there are 7 BSIs.

The main role of BSIs is to support the long-term sustainable development of SMEs in the region, municipality, or equivalent territory where they act. BSIs work directly with the existing entrepreneurs and potential investors, providing them with the assistance in registering their business, selecting sites for their facilities, providing financial support, advisory services and help when dealing with everyday problems. As a regular activity they provide information to investors, business partners and service providers on opportunities for expanding their business activities and investments. In 2010 BSIs organized 540 training sessions for SMEs with objective to promote entrepreneurial culture and support the initiating and development of SMEs, developing specific entrepreneurial skills and ICT competences, and encouraging access to finance sources and EU funding.

The construction of entrepreneurial zones was financed by local and regional self-government units, public institutions, EU-funded projects and different ministries. In the period between 2004 and 2009, former MELE co-financed the construction and development of 293 business zones, which, according to the data submitted by the local self-governing units, occupied around 8,000 hectares and had approximately 1,800 active entrepreneurs employing 31,000 persons. The costs of building infrastructure per 1 ha of land amounts to (depending on the terrain) between EUR 80.000-100.000. These include the costs of preparing projects (the parcelling of land, special geodetic survey, preliminary and final design of infrastructure) and costs of project implementation (construction of sewerage systems, roads, public lighting, water supply, telecommunication infrastructure). If the investments and costs include additional services (logistics and distribution centres, training centres, administrative buildings, etc.) within the enterprise zones and the availability of adequate amounts of electricity (to build the substation) costs are rising at an even higher level. In period between 2004 and 2009 over EUR 70 million were invested in business zones by former MELE, but considering the number and size of zones, the average incentive per hectare was around EUR 8,700.

⁵⁸ Project Capacity Building of Service Professionals and Business Support Institutions: Report on the Current capacity assessment of Croatian Business institutions, 2011

Despite these investments, the quality of available business infrastructure limits the economic activities and growth of enterprises. In particular, the large entrepreneurial zones (with surface over 70 hectares) are considered to be inadequate for the reception of foreign and domestic investments due to the low level of infrastructural equipment (only 13.53% of the free surface is fully equipped)⁵⁹. In small and medium sized zones the situation is better, provided that the highest rate of infrastructure equipment is located in the small zones.

The occupancy rate of large business zones is considered low (34.75%) compared to the medium-sized zones (40.84%), despite a high interest of investors in large zones. The reason behind this is that the large business zones have inadequate infrastructural equipment for the reception of foreign and domestic investments that have requirement for an area of land greater than 50 ha, which is difficult to be realized within the small and medium-sized zones. According to the conducted “Supply and Demand Analysis of Business Zones in Croatia” that included potential investors Letters of Intent, within the entrepreneurial zones there is a total supply shortfall of 823.25 hectares (see table below). The greatest deficit is in the large zones, where there is a supply shortfall of 892 hectares. The situation in the middle zones is somewhat more balanced, with a supply excess of 2.31 hectares, while in the case of small zones supply exceeds demand by 66.4 hectares.

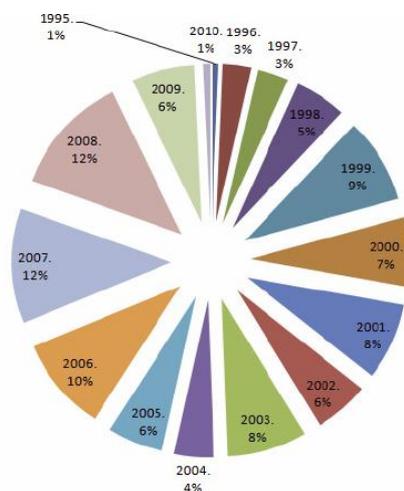
Table 10: Results of Supply and Demand Analysis of Business Zones

TYPE OF ZONE	EQUIPPED WITH INFRASTRUCTURE (ha)	DEMAND ON LOCAL LEVEL(ha)	FOREIGN DIRECT INVESTMENTS - TIPA PROJECTS(ha)	SUPPLY - DEMAND (ha)
SMALL (< od 50 ha)	218,45	151,51	0,5	66,44
MEDIUM (50 do 100 ha)	243,71	228,5	12,9	2,31
LARGE (> od 100 ha)	277	401	768	-892,00
TOTAL	739,16	781,01	781,4	-823,25

Source: Regional development agencies, companies that manage entrepreneurial zones, TIPA calculation, 2010

Between 1993 and 2010 (in 18 years) total **Foreign Direct Investment (FDI)** amounted to € 24.722,9 million. In 1999 FDI for the first time crossed one billion EUR and kept at that level until the year 2003 when it stood at 7,16% of total GDP. In the year 2004 FDI recorded a decline and fell to a less than a billion of EUR. But, in the 2005 it returned again to the level of year 1999. In the year 2006 the FDI is growing at € 2.764,8 million and makes 11.23% of total FDI which makes an increase of six percentage points compared to the year 2005. Until the year 2008 FDI is in constant growth and then reaches its highest value in the observed period, 17.013% of total FDI (€ 4,218.6 million). As a result of the financial crisis gripping the world at large, FDI falls in the 2009, but not as dramatically as in year 2010 when FDI falls below the level of post war 1996 year and amounts € 297.5 million.

Figure 13: Share of FDI in GDP in Croatia 1995-2009



⁵⁹ “Supply and Demand Analysis of Business Zones in Croatia”, Trade & Investment Promotion Agency, 2010

The amount of FDI in a particular year by itself does not say much, but if we look at the structure of the activities, we can get a better picture. In the observed period most of investments were in the financial intermediation, € 8.459.8 million (34.36% of total FDI in the relevant period) and in the wholesale and commission trade € 2.722,2 million (11.06% of total FDI in the relevant period). Developments in the period between 2006 and 2010 were especially interesting to observe. The third of all investment in the year 2006 was placed in the financial intermediation, while in the year 2007 this proportion exceeds 50%. A sudden jump in investment in wholesale trade and commission trade has been seen in the year 2008, which continued even in times of crisis, while investments in financial intermediation recorded a drastic decline in the year 2010.

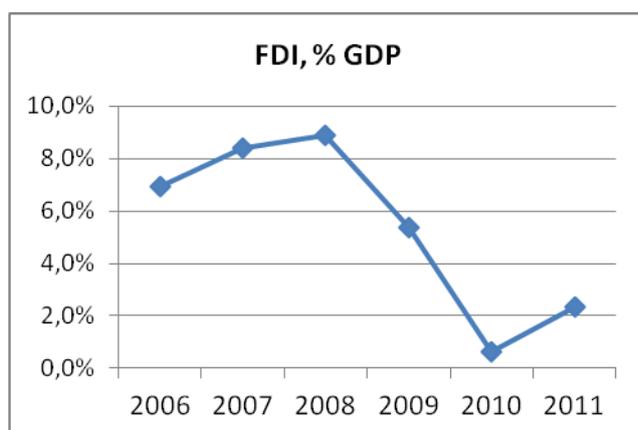
In the period between 1993 and 2010 the first eight investors in the Republic of Croatia invested 82.24% (€ 20,331.4 million) of the total amount of FDI which shows a large concentration of investors. Looking at the top three investors only, one can come to the information that they have invested over 50% of funds in the relevant period (52.37%), which absolutely amounts almost € 13 billion. This confirms the fact that direct foreign investments in Croatia are very concentrated.

The largest investors in Croatia and monetary investment in the period (€):

- Austria - 6,084,9 million (24.71%),
- Netherlands - 3,677,2 million (14.94%),
- Germany - 2,938,2 million (11.93%),
- Hungary - 2,314,3 million (9.40%),
- Luxembourg - 1,371,8 million (5.57%),
- France - 1,361,1 million (5.53%),
- Italy - 1,210,6 million (4.92%),
- Slovenia - 1,134,0 million (4.61%).

It is evident that most FDI comes from European countries, all members of the European Union. Additionally, confirmation of the high concentration of FDI is the fact that Austria has invested a quarter of the total funds in the observed period. In the years 2006 and 2009 the Netherlands has emerged as a major investor, while Austria has stagnated. Year 2010 is particularly interesting because it shows as a year in which major investors (Austria and Netherlands) withdrew substantial funds, but some new countries, such as Italy, Belgium and Luxembourg, have proved as a important investors.

Figure 14: Share of FDI in GDP in Croatia 2006-2011



Source: CNB, CBS

As evident from Table above, FDI has never, in the reference period, exceeded 10%, and the highest was in the year 2008 (8.87%) when both GDP and FDI were on the highest level.

The stagnation of Croatian economy in the uncertain surrounding of global financial markets, determines the continuation of low inflows of foreign capital. In the 2011 there were €

1.074,8 million in foreign direct investment (FDI), 361.2% more than the previous year, but 392.5% less than in the 2008. In proportion to the GDP, the amount of FDI is currently at a level of only 0.2%, which is even four times less than in 2008.

Taking into account that share of FDI in GDP has decline considerably in the past two years (2.3% in 2011), the projection for the upcoming period would be to reach a ration FDI/GDP of 5% within the next 3 years and maintain it on a constant level with nominal increase of both GDP and FDI on yearly basis.

In comparison with some EU member countries (Hungary, the Czech Republic, Bulgaria, Romania, Slovakia and Poland) Croatia is lagging far further behind than it should be. Some of major problems that inhibit foreign green field investments are the inadequate and unequipped business-related infrastructure, the size of industrial plots, the availability of basic infrastructure, links to major transport corridors, cumbersome regulatory framework and inefficiencies in public administration and the availability of high quality labour⁶⁰.

According to the economic criteria in Croatia Progress Report 2009 it was estimated that "economic growth in Croatia has identified a problem of a small number of "Greenfield" investments". The development of large business zones would create a tool to attract "Greenfield" investments that would encourage the growth of competitiveness enabling Croatia to prepare for the EU single market. In conclusion, it can be said that despite the progress made over recent years, there are still a number of challenges in terms of SME performance that need to be overcome if Croatia is to reap the full benefits from, and respond effectively to, EU and global markets.

Key challenges

The SMEs in Croatia are confronted with many problems. More specifically:

- The sector continues to suffer from the cumbersome regulatory framework and inefficiencies in public administration;
- The analysis above shows that the economy lacks access to finance, despite the fact that Croatia has a relatively solvent and stable banking system, while access to longer-term financing remains difficult, particularly for newly established businesses;
- Despite relatively good IT literacy per capita, use of online payment operations and the online goods and services trade is rather low;
- Sectors with substantial sources for growth, including technological and academic entrepreneurship, are insufficiently involved in business activities;
- There is a lack of connection between entrepreneurship and R&D, not only in the relations of business with science institutions, but also with companies dealing with new technologies, research and development;
- Productivity in the SME sector is low. The technological content of products and components is limited and there is a lack of orientation toward exporting;
- A large number of enterprises are located in big cities or their vicinity and this fact is detrimental to the attempt to balance entrepreneurship among the regions
- More favourable conditions for investments need to be further enhanced, especially outside urbanised areas where BSIs need to be strengthened in this respect;
- SMEs are either not used to outsourcing professional advisory services, or cannot afford to do so or do not see the benefit of such services in terms of improving their performance;

⁶⁰ "Supply and Demand Analysis of Business Zones in Croatia", Trade & Investment Promotion Agency, 2010

- Private and thus also a more competitive business advisory market in Croatia still needs to develop more in order to be able to provide stronger and quality support to all business entities in the market.

1.1.3.2 Innovation, Research and Development

Technical and technological development is an important factor that impacts the economic development of regions and their long term sustainability, notably under the conditions of strengthening globalisation. Promotion of research and development together with innovation policy is therefore one of the priority areas for Croatia. At present it is important to profit on and further develop the existing scientific and technical potential and notably to reach a high level of innovation capacity. In line with this, further promotion and strengthening of basic research is also important since it presents foundations for more applied forms of research and technology transfer leading to creating commercial value to the discoveries that result from all forms of research

Within the last decade, especially with regards to accession negotiations with the EU, Croatia underwent significant changes at organisational, institutional, legal and administrative level, thus creating a more favourable environment for the enhancement of entrepreneurship and innovations. However, **research, development and innovation sector** in Croatia is somewhat lagging behind European and international competitors and there is still space for improvement.

Pursuant to the Act on Scientific Activity and Higher Education⁶¹, scientific activity is conducted at **institutions** such as: universities, public research institutes, research institutes, Croatian Academy of Sciences and Arts and other legal persons duly registered in the Register of Scientific Organisations.

The R&D and higher education sector consists of⁶²:

- 25 public research institutes, 11 private institutes, 7 technology centres, 16 research centres in industry, and one military research centre;
- 7 public universities, 13 public polytechnics, 3 public schools of professional higher education, 3 private universities, 2 private polytechnics, and 28 private schools of professional higher education;
- 5 technology transfer offices at universities (4) and research institutes (1)

Out-dated infrastructure and equipment represents one of the obstacles for Croatian public research organisations and higher education institutions to enhance the quality and availability of their services/research and thus become well integrated in the European Research Area (ERA) as research and educational centres.

Further, as set in the Science and Technology Policy of the Republic of Croatia, reform of higher education system in Croatia is necessary in order to harmonize Croatian higher education system with the European system. Based on relevant national and European strategies on higher education, Croatian universities developed their own strategies⁶³ which clearly demonstrate common goals of developing these institutions into recognized science and education centres, well-integrated in European network of higher education institutions. However, unclear and unstable financial conditions, inadequate financial resources from the state budget, lack of working space and/or equipment at some faculties of the universities are recognized as both weaknesses and threats in the attempt to achieve these goals.

Research facilities, and facilities which can be used as a research/business cooperation interfaces are currently severely underdeveloped in Croatia and require to be improved.

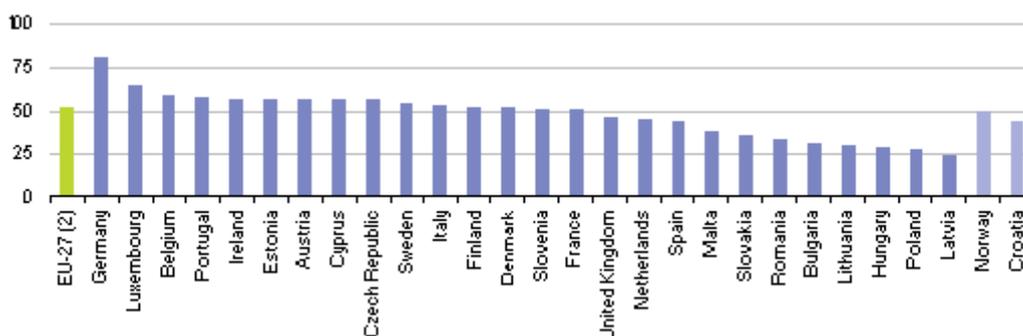
⁶¹ OG 123/03, 198/03, 105/04, 174/04, 02/07, 46/07, 45/09, 63/11

⁶² Source: Ministry of Science, Education and Sports

⁶³ University of Rijeka Strategy 2007-2013, University of Dubrovnik Research strategy 2009-2015, University of Zagreb Research Strategy 2008-2013.

On the other hand, situation in the innovation sector shows the share of innovative companies in Croatia being 44,2% of the total number of companies - which is comparable to EU-27 average (51.6%)

Figure15: Share of innovative enterprises in the total number of enterprises, 2008 (%)



Source: EUROSTAT, 2008

Data on **human resources** in science and technology (HRST) can offer a better understanding of the demand and supply in the sector. Therefore, the data are focused on two main aspects:

1. current labour force in the S&T sector, and
2. inflow from the education system to the S&T labour force.

Within the institutional network comprising S&T and higher education system, there are 6931 researchers (in 2009 expressed in full time equivalent (FTE)). This number shows significant research potential, however, the useful exploitation of this potential and knowledge, as well as the adjustment to the development and needs of the economy are low. Compared to the total income, expenditures on innovation are still low. Croatian companies do not sufficiently exploit technology, innovations or R&D as a source of competitive advantage.

HRST as a share of the total labour force has been continuously increasing from 2002 (27.6%) to 2010 (32.1%). In 2011, 30.9% of the total labour force in Croatia was in the science and technology sector, which is comparable to most of the EU27 member states⁶⁴ (EU27 average being 42.3%). While Croatia employs 4.51% (2007) in high- and medium-high-technology manufacturing sectors, trends in the EU27 countries for these sectors vary from less than 1.5% in Cyprus and Luxembourg to over 10% in Germany and the Czech Republic⁶⁵ (Annex 2, table 11). Furthermore, regarding employment in the knowledge-intensive service sector, Croatia with 23.43% in 2007 can be compared to most of the EU27 member states (EU average is 32.96%) (Annex 2, table 12).

The public sector employs 81% of all the researchers and allocates almost 90% of the total investment into science and research, whereas only 10% of institutes' revenues and 6% of faculties' revenues come from research done for the business sector⁶⁶.

As regards potential inflow from education to the sector, Croatia shows different trends at different levels of tertiary education, but in total does not differ significantly from EU27 trends. In 2008, the majority of master students graduated in social sciences (57.7%), whereas the number of students graduating in natural sciences (7%), engineering (13.7%)

⁶⁴ EUROSTAT

⁶⁵ EUROSTAT

⁶⁶ CBS, 2009.

and biomedicine (6.4%) was considerably lower.⁶⁷ However, in terms of the number of students choosing natural and technical doctorate studies, statistics for academic year 2007/08 show there are no larger discrepancies among scientific fields.⁶⁸ In 2008, 9.2% of all graduates (all levels of tertiary education) in Croatia graduated in the field of Science, Mathematics and Computing (compared to 9.7% in EU27) and 13.7% graduated in Engineering, Manufacturing and Construction (compared to 12.3% in EU27).⁶⁹

To conclude, Croatia generally follows European trends in terms of demand and supply of personnel in S&T. However, brain drain has been the main bottleneck of the system for almost four decades, which has also had a negative effect on the Croatian economy⁷⁰. This trend has been caused among other things by the fact that highly qualified work force has a very limited job market on hand in Croatia and unattractive working conditions, while options on offer abroad include a wider scope of both positions that are in line with achieved qualifications, better possibilities of getting ahead and more attractive overall remuneration as well as better LLL options.

The share of research and development personnel in the business sector (in 2010: 0.13% of the labour force in Croatia to 0.53% in the EU-27⁷¹) is not sufficient for the accumulation of regional technological potential.

Total investments in R&D, as a percentage of the general national budget (government budget appropriations for R&D, GBOARD), in 2010 amounted to 0.68%⁷². The average GERD for the period 2002-2010 is **0.8% of the country's GDP**.

The most important source of funding for the total domestic investments in R&D, in 2010 was the government sector which provides 49.2% of Gross Domestic Expenditure on R&D (GERD), while the business enterprise sector contributes with 38,8%. The majority of Business Enterprise Research and Development (BERD) is financed by business companies themselves (72% in 2008) while the foreign investors contribute to the business sector with 14.7%. Investments in R&D⁷³ in Croatia demonstrate a declining line since 2005. In the period before 2005, the total investments in R&D (GERD), as share of GDP, were constantly rising, from 0.77% in 1997 to 1.05% in 2004, which provided Croatia a status of the regional leader in science and technology. After a sharp decline of GERD to 0.75% of GDP in 2006, GERD slightly increased in 2007 and 2008 (0.8% and 0.89% of GDP, respectively) but started decreasing again in 2009 (0.83 %) and especially in 2010. (0.73%).

Although investments by the business sector were increasing (from 0.36% to 0.40% of GDP in the period 2005-2008), they are decreasing in last few years (0,34 in 2009 and 0,32 in 2010) so that the absolute value of these investments is still much behind public investments (Annex 2, table 14).

The fact that the public sector is more active in R&D than the private is contradictory to the European trend, where private enterprises contribute more than half of total expenditure to R&D, and also reveals that the business sector in Croatia lags behind in R&D expenditure compared to the European average. The most active sectors are engineering and life sciences (Annex 2, table 15).

⁶⁷ Source: CBS

⁶⁸ Number of doctorate candidates per field in 2007/08 is as follows: natural sciences - 14.05%, engineering - 26.3%, biomedicine - 15.5%, social sciences - 17.3%, humanities - 15.5%, other fields - less than 7%. Source: CBS

⁶⁹ Source: Eurostat, Education statistics

⁷⁰ Source: Unity through Knowledge Fund

⁷¹ EUROSTAT, 2011.

⁷² EUROSTAT, 2011

⁷³ According to reviewed data by the Croatian Bureau of Statistics (a revision from 2009, for the period 1995-2008)

Figure 16: Gross domestic expenditure on R&D as percentage of GDP

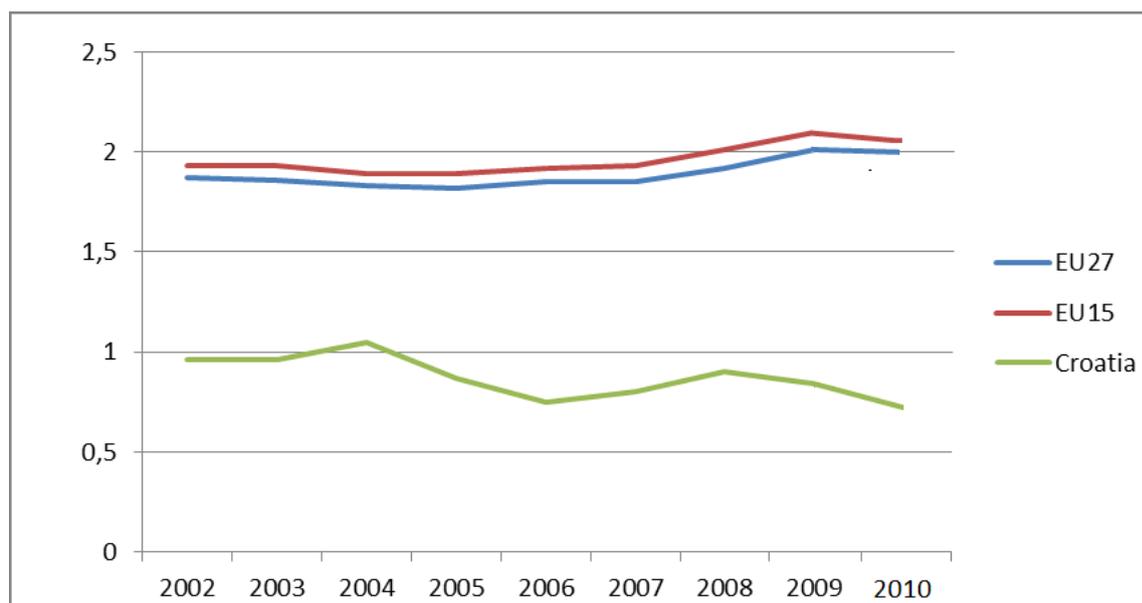


Table 11: Gross domestic expenditure on R&D as percentage of GDP

	2002	2003	2004	2005	2006	2007	2008	2009	2010
EU 27	1.87	1.86	1.83	1.82	1.85	1.85	1.92	2.01	2
EU 15	1.93	1.93	1.89	1.89	1.92	1.93	2.01	2.1	2.06
CROATIA	0.96	0.96	1.05	0.87	0.75	0.8	0.9	0.84	0.73

To encourage further growth of investments in R&D by the private sector, the fiscal incentives for R&D advanced significantly in 2004 when the standard measures on custom exemptions were extended by the incentives related to the value added tax (VAT), investments in R&D, etc. Presently, the following fiscal measures can be identified for encouraging R&D activities: custom exemptions⁷⁴, R&D tax credits⁷⁵, R&D allowance⁷⁶ and investment incentives⁷⁷. Croatia constantly provides State aid for R&D and innovations, in the form of state subsidies or tax incentives. The State aid is provided for: (1) basic research, (2) applied research and (3) developmental research. Horizontal state aid to R&D and innovations has been rising continuously since 2004, which proves a growing concern for R&D and innovations and their role in economic growth.

⁷⁶ The regulation is the result of harmonisation of the Croatian tax system with EU rules. R&D tax allowances were formulated under the Rules on state support for research and development projects (OG 116/2007) based on the Act on the Amendments and Supplements to the Scientific Activity and Higher Education Act (OG 46/2007, article 111a-111f)

⁷⁷ The Ministry of the Economy and the Ministry of Entrepreneurship and Crafts are crucial institutions in charge of investment promotion activities. The incentive measures are regulated by the Investment Promotion Act (OG 122/03)

Together with state aid instruments and the de minimis state aid provided by the ME and MEC, the total amount of state aid for R&D and innovations in 2010 amounted to 168 million Croatian kuna (approximately EUR 22.7 million)⁷⁸.

Moreover, the financing of science and technology projects in Croatia has been provided from the national budget alone or as a co-financing component of the EU funding and the World Bank funding. The **national funding** of individual scientific projects is provided through the MSES and the National Foundation for Science, Higher Education and Technological Development.

MSES provides research grants in 6 different scientific areas: (1) life sciences, (2) technical sciences; (3) biomedicine and health; (4) biotechnical sciences; (5) social sciences and (6) humanities; in line with the defined long-term and short-term strategic priorities through the competition-based programme called "Research Projects". In July 2007, the financing of a total of 1,996 projects commenced, whereas in March 2008 additional 301 projects were accepted for financing. Based on the *Decision on financing research projects in year 2010*, in July 2010, after the evaluation of project reports, a total of around 2,072 projects remained in support. The same number of projects continues to be financed in 2011, in total amount of around EUR 15,7 million.

For the projects funded by the national budget through NSF (since 2001) there are around 120 applications yearly, and approximately 50% of them have been accepted for funding. So far, in the period 2005-2009, 188 scientific projects in the areas of natural sciences, technical sciences, biomedicine and health and biotechnology have been funded through NSF in total amount of about EUR 10 million. Projects in the area of natural sciences (54%) and biomedicine (21%) have been financed with the largest share of financing.

In addition to the national funding of scientific projects described above, the formation of the innovation system in Croatia took place in 2001 with the introduction of Croatian programme for innovative technology development (HITRA), with two subcomponents of the programme: TEST (Research and Technological Development projects, implemented by Croatian Institute for Technology - HIT) and RAZUM (development of knowledge-based companies, implemented by Croatian Business Innovation Agency -BICRO). The main goal of the programme was to give support to R&D activities in development of new products for the Croatian economy.

EU funding of science and technology projects is provided through the EU programmes FP7⁷⁹, COST and EUREKA and through the Science and Innovation Investment Fund under IPA RCOP financed in the period 2007 to 30 June 2013, from the IPA allocation. Further, Croatia has participated in the pre-accession funds CARDS and PHARE, in projects targeting the establishment of intellectual property rights protection system. In the field of higher education and lifelong learning, Croatia participates in TEMPUS, ERASMUS and COMENIUS programmes.

In 2005 the HITRA project was extended to become Science and Technology Project (S&T Project), worth EUR 35 million and co-financed from the state budget and the **World Bank** loan, with the aim to improve business environment for science and technology. The S&T Project includes three main components: (1) restructuring of public research institutes, (2) introduction of support programmes for companies, implemented by BICRO and (3) Unity-through-knowledge Fund (UKF), as the main instrument for financing international collaborative scientific projects and tackling brain-drain.

⁷⁸ Source: Croatian Competition Agency (CCA)

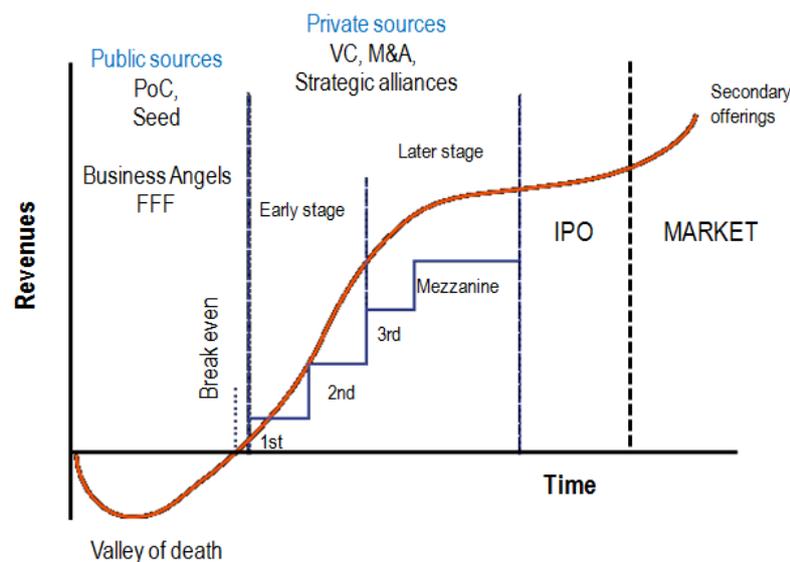
⁷⁹ Until 15 October 2009, a total of 96 Croatian partners have contracted EC co-financing in the amount of EUR 15.2 million within 75 projects.

Several programmes are currently being implemented by BICRO under this umbrella at the national level, with the aim of strengthening the link between science and industry, including:

- **Proof-of-Concept Grant Fund (PoC)**, used to demonstrate feasibility of a new process or technique and its potential for commercial application,
- **RAZUM Program**, a seed capital programme aimed at the development of knowledge-based companies,
- **TEHCRO Program** focused on technology infrastructure development,
- **VENCRO Program**, or risk capital industry development program, aimed at generating better market conditions for VC industry development through public funding,
- **IRCRO Program** - R&D program targeting small and medium size business to set up their R&D activities.

Entrepreneurs trying to transform new ideas into commercial products face significant challenges in raising finance at the very early stages of development of product or company.

Figure 17: Start-up financing cycles



RAZUM particularly addresses this gap in early-stage financing for promising technologies and offers very favourable conditions and early-stage financing to start-ups and SMEs for new product development.

Technology transfer services in Croatia are mostly provided by Technology Transfer Offices (TTOs) at universities and research organisations. They should help researchers in all innovation commercialisation phases, particularly:

- identification of potentially marketable ideas
- proof of concept/prototype development
- IPR protection
- Companies start-up / licensing

as well as support permanent communication and cooperation between industry and research groups, identifying expertise and competences of the science groups and needs of companies in order to match them.

The problem with TT offices lies with still underdeveloped or partially developed professional service system which supports technology and knowledge transfer.

That problem could be solved by investing in development of professionally facilitated services within HEI and PROs in order to help researchers to shorten the way from potentially marketable idea to the market and to help the industry sector to better cooperate with research groups which will be addressed through the Science and Innovation Investment Fund grant scheme, under the RCOP financed in the period 2007 to 30 June 2013, from the IPA allocation.

Only structured and well organised TTOs at Croatian HEIs and PROs, with fully developed professional technology and knowledge transfer services could make a significant impact on availability of research results of public funded institutions (which have mayor research potential) to industrial exploitation.

Another factor that exposes the insufficiency of innovation in Croatia is that patent applications submitted to the European Patent Office (EPO) are noticeably lower than the EU-27 average (see Annex 2, table 16). In 2010, Croatia submitted only 5.65 patent applications per million inhabitants⁸⁰, while the average for the EU-27 was 108.59. One of the reasons lies in the fact that Croatia is inefficient in transforming investments in research and development into results that could be patented, which suggests that the national system of innovations is not efficient enough in the commercialization of R&D activities, and in the public's insufficient awareness with regards to intellectual property rights protection. Although the intellectual property rights system is well developed compared to other South-European countries, Croatia's overall global ranking for intellectual property rights protection (69th out of 142 countries) is considered relatively weak⁸¹. In addition, Croatia's export of high-tech products is decreasing and amounted to 6.61% of total exports in 2007, a great deficit in comparison to the 15.96% average of the member states (Annex 2, table 17).

However, measured by the Innovation Union Scoreboard (IUS⁸²) in 2011, Croatia belongs to moderate innovators which is a step forward compared to former European Innovation Scoreboard (EIS, 2009) where Croatia was categorised as catching-up country with innovation performance far below the EU-27 average. Relative strengths are in Human resources, Innovators and Outputs. Relative weaknesses are in open, excellent and attractive research systems and intellectual assets. High growth is observed for Non-R&D innovation expenditure, Public-private publications and Community designs. A strong decline is observed for PCT patent applications and License and patent revenues from abroad. Growth performance in Firm investments, Linkages & Entrepreneurship and Intellectual assets is above average.

Considerable effort has been put into developing a national innovation system in Croatia, especially by institutions such as MSES and former MELE, which were aided in this process by the BICRO and HIT which are specialized state agencies responsible for the implementation of National Innovation System (NIS).

The greatest weakness seems to be technological exploitation of knowledge (i.e. technology transfer) with a still underdeveloped professional system which supports technology and knowledge transfer from HEIs and PROs towards industry and encourages their cooperation (technology transfer offices). The other is out-dated infrastructure and equipment which represents one of the obstacles for public research organisations and higher education institutions to enhance the quality and availability of their

⁸⁰ EUROSTAT, 2007

⁸¹ World Economic Forum: "Global Competitiveness Report", 2011-12

⁸² EUROSTAT, 2010

services/research. The latter is inadequate financial means that would propel Croatia's transition towards a knowledge-based economy to which it strives. The World Economic Forum Report ranks the technology transfer between universities and the business sector as low in Croatia (ranking 77th out of 142 countries).⁸³ The cooperation of the business sector with research organizations and higher education institutions is unsatisfactory, and as a result, technological capabilities of the industry, particularly smaller companies and SMEs, are inadequate.

From the sectoral data shown above it is evident that despite variable total R&D investments (GERD data) and a considerable space for improvement regarding the number of statistical indicators, R&D and Innovation sector has evolved in the past 10 years towards higher investments in R&D by the private sector and increased state aid for R&D and innovations, which demonstrates Croatia's commitment towards encouraging innovation and transfer of knowledge and results of scientific discoveries to industry and business in order to increase competitiveness and generate sustainable growth and productivity (as set in the Science and Technology Policy of Croatia 2006-2010).

In general, the development of Croatian science system in the last 10 years has been directed from pure academic basic research towards applied research and collaboration with industry. This has been achieved through the reorganisation of the institutional network, along with redirection of investments through the Croatian Science and Technology project.

Further national policy objectives in science and technology sector will be directed towards the continuation of major objectives of the S&T policy 2006-2010, in accordance with the achievements so far and necessary further improvements, and in line with the emerging European strategy 2020 where *knowledge and innovation* represent one of the three major areas for interventions, along with a *more sustainable economy and high employment and social inclusion*.

Research activity within the publically funded research institutions such as Higher Education Institutions (HEI) and Public Research Organizations (PRO) in Croatia generates knowledge and technologies that yield high quality jobs, successful businesses, better goods and services and more efficient production and management processes. Therefore, the process of knowledge transfer from public sector to business and wider community for the benefit of economy and ultimately for the benefits to the society has remained in the focus of the national policy agenda for strategic development.

Key challenges

In the field of **Innovation, Research and Development** we can find several major issues such as:

- Insufficient demand for innovation in the business sector;
- Low GDP share spent on R&D;
- Insufficient research infrastructure to enable innovation and technology transfer to the SME sector;
- Weak connection between entrepreneurship and R&D;

⁸³ World Economic Forum: "Global Competitiveness Report" 2011/2012

- Drain of highly qualified research workers to foreign countries - brain drain (particularly young researchers);
- Inadequate (i.e. outdated, lacking, low quality) R&D infrastructure.

1.1.3.3 Tourism

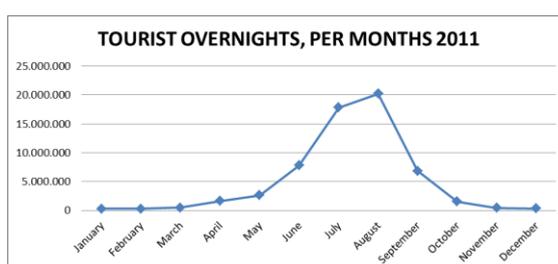
The Croatian economy is geared towards tourism which is of vital importance for the well-being of many areas, particularly those situated on the Adriatic coast. With its unique natural wealth and cultural-historical heritage and attractive geographical position Croatia is exceptionally attractive for tourism. Tourism sector in Croatia in 2011 contributed with 8.3 % to the national GDP and had 14.4%⁸⁴ share of international receipts to the GDP and the income of inbound tourism amounted to 6.6 billion EUR⁸⁵.

The predominant tourist product is summer/seaside vacation tourism which results in high seasonality as evident in table below (Tourist traffic - per months 2011). The vast majority (94%) of the tourism accommodation businesses are situated in Croatia's seaside resorts with the inland (with the exception of Zagreb, to some degree) being marginalized in spite of its diversified resources and attractions. This lagging behind is attributable to undeveloped tourism infrastructure⁸⁶ and superstructure and the lack of thoroughly conceptualized happenings which would attract arrivals and several day stays. This is due to the lack of distinctive and specialized tourist offer and insufficient market orientation and recognisability of Croatia as a tourist destination offering various tourists products and services aside from sea and sun. The creation of comprehensive and specialized tourist products and the increase in number of tourist arrivals to the inland area is thus one of the goals of tourism development in Croatia.

Figure 18: Tourist traffic per months

Tourist traffic - per months 2011

	total arrivals	total overnights
January	108.444	275.138
February	131.720	294.759
March	202.780	466.786
April	573.754	1.656.647
May	792.199	2.615.880
June	1.597.348	7.794.268
July	2.889.885	17.810.473
August	2.990.657	20.233.298
September	1.319.949	6.852.477
October	501.834	1.520.446
November	191.491	456.282
December	155.616	350.821



Source: Central Bureau of Statistics

The driving tourism industry is by far seaside tourism closely linked to the Adriatic Sea and geographical advantages of Croatia as a car-destination country. The unique characteristics

⁸⁴ Croatian National Bank, 2011

⁸⁵ Croatian National Bank, 2011

⁸⁶ Tourism infrastructure is the physical element that is created or made to cater for visitors (Davidson, 1993). Tourism infrastructure comprises 'soft' and 'hard' infrastructure. Soft infrastructure implies to training, business development, accreditation schemes and industry leadership. Hard infrastructure implies to transportation facilities and services, information facilities, interpretation of landscape, heritage and nature, environmental protection, accessibility of tourist destination/products, public infrastructure for tourists (water and waste management systems), hotels and other types of accommodation, travel agencies, tourist information centres, restaurants, car rentals and similar. + Ordinance on public tourism infrastructure, 2009.

of the seawater (crystal clear and clean) and coastline (length and indentation - approximately 1800 km. long, relatively sparsely inhabited coastline with over 1000 islands of which only 66 are inhabited) together with a mild climate, have long been recognized and used as the main comparative advantages of Croatian tourism.

In recent analysis of market demand preferences, a few types of tourism are mentioned as being present on the market: ecotourism, cultural tourism, convention and incentive tourism, thematic tourism, sport and adventure tourism, cruises and nautical tourism. Taking into account the availability of cultural and natural heritage and given geographical advantages (over 1000 islands, unspoiled and undeveloped areas) for the development of these selective types of tourism and special interest tourism segments development, Croatia has much unused potential.

Concerning the **accommodation capacity**⁸⁷, in all types of tourist facilities total number of accommodations in 2010 amounted to 910 000 bed places. Hotel accommodation capacities accounted for 13% of this total, while the major part (47%) was located in private rooms and 26% on camping grounds.

Table 12: Accommodation capacities in 2010, number of bed places

Hotels	Tourist villages	Camping sites	Small family units	Others	Total
121,300	31,900	232,100	428,500	96,200	910,000

Source: CBS

The fact remains that total accommodation stock has an unfavourable structure by types of establishments. In 2010, the total share of beds in hotel-type establishments (hotels, apartment-hotels) was only 13 %, while the share of beds in small, family-type establishments, camping sites and other types of establishments was 73 %. Out of the hotel-type establishments, five-star hotels accounted for 7.6%, four-star hotels for 32%, three-star ones for 46% and two-star ones for 14% of all hotel facilities. As well, most of these hotels were built in late '70s, and have been rarely refurbished and renovated, leaving them outdated and poorly equipped for today's tourist demands. Such unfavourable structure of tourist accommodation, in which private accommodation (with local residents, in small, family-type businesses) prevails, has great impact on the length of tourist season, business performance of tourist sector and Croatia's image as a tourist destination. Other than mentioned, this also leads to insufficient number and low level of quality of tourist accommodation.

However, private accommodation, although with the biggest share in all establishments still has the shortest capacity utilization that lasts only 46 days whereas the camping capacity utilization lasts about 66 days as can be observed in Table 13 (Average number of tourist overnights per bed). Duration of occupancy in hotels is, on the other hand, almost three times as longer - about 126 days due to the predominance of hotels as preferred form of tourist accommodation throughout the whole year, except in July and August when private accommodation and camping accommodation prevail.⁸⁸

⁸⁷ Source: Ministry of Tourism.

⁸⁸ SOURCE: Chamber of Commerce „Croatian Economy in 2009“

Table 13: Average number of tourist overnights per bed in 2011

	Hotels	Tourist resorts	Camps	Private rooms	Other	Total
Zagreb	110				61	60
Krapina - Zagorje	97			53	47	
Sisak - Moslavina	143			51	53	101
Karlovac	82		43	36	51	46
Varaždin	80			44	51	58
Koprivnica - Križevci	56				41	49
Bjelovar - Bilogora	35			42	39	39
Primorje - Gorski Kotar	129	78	71	63	64	58
Lika - Senj	114		76	37	45	50
Virovitica - Podravina	56			44	22	54
Požega - Slavonija	38			29	63	57
Brod - Posavina	69			20	54	56
Zadar	112	84	56	50	47	57
Osijek - Baranja	101			31	63	80
Šibenik - Knin	115	66	61	51	58	60
Vukovar - Srijem	57	43			20	48
Split - Dalmatia	122	94	51	48	72	61
Istria	138	96	72	55	62	77
Dubrovnik - Neretva	127	76	32	45	57	68
Međimurje	72				41	54
City of Zagreb	140				45	100
TOTAL	126	91	66	46	60	65

SOURCE: Croatian Bureau of Statistics

In the period 2006 - 2011, the arrivals and overnight stays in tourist accommodation facilities (Annex 2, Table 22) showed an increase in numbers.

In 2011, 11,456 million tourists visited the country out of which 9.9 million were foreign tourists (87%), while 1.5 million were domestic tourists. A total of 60,354 thousand overnight stays was officially registered. The figures in 2011 show yet another increase in total number of tourists and overnights. (Annex 2, table 23 *Tourist Traffic in 2011, by Counties*) with the most popular counties as tourist destinations being Istria, Split-Dalmatia and Primorje-Gorski Kotar.

The share of inland tourism in 2011 in total tourist arrivals was 11.3%, while 3.9% in total overnights. Out of these the City of Zagreb accounted for 56% of all tourist arrivals and 50% of all overnights recorded in the inland area with 730,945 tourists in 2011. The second most visited county in Croatia is the Karlovac County which is far below the City of Zagreb with 165,450 arrivals in 2011 which indicates that in inland areas other than Zagreb there exists tourist capacity but to a much lower degree. (Annex 2, table 24 *Tourist Traffic in the Inland Counties in 2011*).

Aside from the basic offer, tourist accommodation in general does not have enough complementary attractions and infrastructure to contribute to upgrading the quality of the establishments and to increase occupancy rates, especially beyond the main season. Tourist destinations are deficient in attractions such as conventions and meeting halls,

wellness and spa facilities, swimming pools, aqua parks, amusement parks, golf courses, tennis courts, equestrian facilities, funiculars to panoramic lookouts, ski facilities, etc. As is indicated by the TOMAS Summer 2010 market survey, only 30-50 % of tourists in Croatia is engaged in cultural or sports activities during their stay which are also the reasons of their lower satisfaction rate.⁸⁹ According to the TOMAS Summer 2010⁹⁰ market survey, run by the Institute for Tourism, the average tourist consumption in Croatia amounted to EUR 58 per tourist/per day. Out of that amount EUR 29 were spent on accommodation, EUR 5.3 on food on the premises, EUR 6.4 on food off -premises, EUR 2.7 on beverages, EUR 8 on shopping and EUR 6.6 on sports and leisure - culture, entertainment, excursions etc. The reason for this is the dispersed and unrelated tourism offer such as the lack of comprehensive tourist products and packages which would motivate tourists to spend more on different activities.

In order to enhance the Croatian tourist offer the Ministry of Tourism (MT) has been running several developmental programmes mostly to SME's aimed at enticing the tourism offer development in areas where this industry has been sub-developed. Co-financing has also been offered to tourism projects which were to promote tourism-wise sub-developed areas and/or integrate the tourism offer of the blue and green Croatia. Programmes have had significant results, especially in niche tourism products development (rural, cultural, health, youth, MICE, eno-gastronomy, ecotourism, convention and incentive, sports and recreation etc.), by using the richness of cultural and ethnological heritage, natural resources, tangible and intangible culture. The basic goal of upgrading the tourism offer in the sub-developed and rural areas of Croatia has been achieved as is described in the following paragraph.

In the period 2002-2009 the programme under the working title *Incentive for Success* has been aimed at supporting the SME development in tourism through special credit lines for small entrepreneurs and crafts. The Program has been based on the commercial banks credit assets and the Ministry of Tourism assets aimed at extending subsidies for interest rates on credits granted. The eligible activities covered investments in the purchase or construction and refurbishment of small accommodation facilities that fall into the category of hotels, apart-hotels and camping grounds. The number of accommodation units in the facility eligible for this credit was limited to 40 rooms in hotels, 20 apartments in apart-hotels and 100 camp units for the camping grounds. A section of the Program, named *Under the Centennial Roofs* has also covered the old houses renovation that had to be in compliance with the genuine local architecture. Refurbishment of these facilities has been implemented in cooperation with the curators and the Ministry of Culture.

Due to the extended credit repayment period (up to 20 years), the grace period of up to two years and a reduced interest rate, these credits have been highly advantageous to the beneficiaries. The interest rate level i.e. the subsidy level has depended on the investment scope, thus not being the same for each credit. The subsidy has been more substantial for investments in old and protected structures, as well as in additional facilities (like a swimming pool, a tennis court etc.) that diversify the offer of the credit beneficiary. Also the lower interest rate has been applicable when the facility being invested in has been located in the under-developed inland area or on a hardly accessible island.

In the six year period of the *Incentive for Success* Programme implementation, 476 credits, worth 268 million EUR were granted in cooperation with 24 commercial banks. Investments have been made in 357 hotel accommodation facilities; 107 old houses/objects of cultural

⁸⁹ SOURCE: TOMAS 2010, Institute for Tourism

⁹⁰ SOURCE: TOMAS 2010, Institute for Tourism

heritage have been renovated; 30% of all credits have been invested in the inland areas of the country; 15,000 new bed places were generated.

These credits have diversified the tourist offer of the small family run hotels and have made grounds for 3,700 new job openings.

In addition to the *Incentive for Success* Programme, the Ministry of Tourism has, under a range of other grant programmes, provided a further € 7.9M of funds to SMEs, Agencies and NGOs active in the field of tourism. These grant schemes generated over 5.000 applications and disbursed grants to nearly 1.400 organisations over the period 2008-09. These funds were used to support the enhancement of the existing tourism portfolio in Croatia as well as supporting its diversification. These specific programmes were the following:

- Programme for Subsidising Thematic Tourist Routes Development;
- Programme for Encouragement, Protection, Reconstruction and Inclusion of Cultural and Natural Heritage in Tourism;
- Special Tourism Types in Continental Area Encouragement Programme;
- Special Tourism Types in Coastal Area Encouragement Programme;
- Programme for Subsidising Genuine Croatian Souvenirs.

Cultural tourism is more and more becoming a significant part of the Croatian supply as well. Croatian cultural heritage comprises many cultural goods, movable, immovable and intangible and is defined in the Law on the Protection and Preservation of Cultural Goods.⁹¹ Overall, there are 4,058 protected cultural goods, of which 3,032 immovable, 173 historic complexes, 788 movable goods (collections and individual objects) and 85 intangible cultural goods. The greater part of the cultural heritage (over 40%) is located in the Adriatic coastal part of Croatia, which is generally the most significant and most developed tourist region in the country.

This rich and diverse cultural heritage offers a great potential for the creation of broader and more diverse tourist offer throughout Croatia, but significant investments in the infrastructure is still needed for the sustainable use of cultural heritage. Investments in the development of selective type of tourism, i.e. cultural tourism⁹² as special interest based tourism, promotes the search for and participation in cultural experiences and enables Croatia to market its rich and diverse cultural events to its citizens and visitors.

Currently, due to the relatively low level of integration of natural potentials and cultural heritage into the tourism offer, the share of **culture in tourism** is very modest. According to the researches (TOMAS SUMMER 2010 Survey) around 7% of tourists come to Croatia motivated by culture, while 54% of tourists who come are not motivated by culture but still visit cultural sites. Events attract the largest share of the culture of motivated visitors (46%), followed by cultural sites (34%) and museums/galleries (30%). Also, cultural attractions and events in the continental regions attract significantly higher proportion of the culture of motivated visitors (49%) compared to those in coastal regions (27%)⁹³. Investments in cultural tourism, particularly cultural heritage, in its preservation,

⁹¹ According to the Law on the Protection and Preservation of Cultural Goods (Official Gazette, nos. 151/03,157/03 corrigendum) cultural goods are defined as; moveable and immovable items of artistic, historical, paleontological, archaeological, anthropological and scientific importance; archaeological finds and archaeological zones, landscape and its components that bear witness to human presence in that area, and have an artistic, historical and anthropological value; intangible forms and phenomena of human spiritual creativity in the past, as well as documentation and bibliographic heritage, and buildings and other facilities that permanently preserve or display cultural goods and documentation concerning them

⁹² According to the Strategy, cultural tourism is defined as a visit of persons to places outside their permanent residence motivated completely or in part by their interest in history, art, heritage or local, regional, groups or institutional life style.

⁹³ TOMAS Cultural tourism in 2008, Institute for Tourism 2009

protection, revaluation and use as a resource for economic activities come from various sources, have different goals and frequently include indirect investments. In addition, in respect to cultural tourism there is no systemic database on investments nor is there a project database or mechanisms in place for the monitoring and assessment of results and effects.

The main source of investments in cultural heritage was the Ministry of Culture which in 2008 allocated an annual amount of 25 million EUR and 1,190 programmes of which the greatest part was channelled for renovation and protection. Since 2005 the Ministry of Tourism has been financing programmes of protection, reconstruction and revitalization of cultural heritage geared at developing tourism. In 2008, the Ministry of Tourism invested 2 million EUR in 443 projects of 994 that applied for support. The Croatian Tourist Board participates with an amount of 166 000 EUR in the co-financing of 78 projects (of 471 that applied) in cultural tourism. Investments in entrepreneurship in culture, particularly cultural heritage, in its preservation, protection, revaluation and use as a resource in economic activities are quite modest for the time being. To date, they have been implemented only within the pilot project "Entrepreneurship in Culture", realized by the former MELE in cooperation with the Ministry of Culture. Funds were allocated for the first time in 2008, in the total amount of 276 000 EUR.

In the period between 1991 and 1996 more than 2,500 buildings under protection were damaged or destroyed and have partially lost their touristic value. At this moment legal status as protected cultural goods have 5657 immovable cultural goods (including 35 historical complex, 327 historical areas and 400 archaeological sites). It is challenging to describe the condition of the monuments - some are conserved, some partially renewed, some completely renewed, but some are in a really bad condition. Increased international cultural co-operation established through the Ministry of Culture with the Council of Europe and UNESCO resulted in the ratification of all the international agreements in the field of cultural heritage protection (immovable, movable, archaeological, underwater and intangible heritage). So far Republic of Croatia ratified four conventions with Council of Europe⁹⁴, six UNESCO Conventions⁹⁵ and insigned one natural⁹⁶ and six cultural properties⁹⁷, as well as ten cultural practices and expressions of intangible heritage on UNESCO World Heritage List.

So far, there is an evident insufficiency and underdevelopment of all those activities and means with which cultural heritage can be used for increasing the competitiveness of tourist products, for opening new market segments, increasing local and regional consumption, prolonging the tourist seasons and increasing the effectiveness of business operations and thus in the final instance enable additional income for better protection and preservation of cultural heritage.

Natural heritage together with nature protected areas and their tourism valorisation is another aspect where interventions are necessary in order to integrate them into the

⁹⁴ Convention for the Protection of the Architectural Heritage of Europe, 1985; Convention for the Protection of the Archaeological Heritage of Europe, 1992; European Landscape Convention, 2000; Convention on the Value of Cultural Heritage for Society, 2005

⁹⁵ Convention for the Protection of Cultural Property in the Event of Armed Conflict with Regulations for the Execution of the Convention, 1954; Convention on the Means of Prohibiting and Preventing the Illicit Import, Export and Transfer of Ownership of Cultural Property, 1970; Convention concerning the Protection of the World Cultural and Natural Heritage, 1972; Convention on the Protection of the Underwater Cultural Heritage, 2001; Convention for the Safeguarding of the Intangible Cultural Heritage, 2003; UNESCO Universal Declaration on Cultural Diversity, 2005

⁹⁶ Plitvice Lakes National Park

⁹⁷ Episcopal Complex of the Euphrasian Basilica in the Historic Centre of Poreč, Historic City of Trogir, Historical Complex of Split with the Palace of Diocletian, Old City of Dubrovnik, Stari Grad Plain, The Cathedral of St James in Šibenik

tourist offer. According to the State Institute for Nature Protection, in Croatia there are 433 areas of protected nature in several categories. These protected areas of nature are divided as strict reserves (2), national parks (8), special reserves (80), nature parks (11), regional parks (2), nature monument (85), significant landscape (84), park-forest (33) and monuments of park architecture (127). These areas account for 8.48% of the total area of the Republic of Croatia, or 12.07% of terrestrial territory and 1.94% of the territorial sea⁹⁸. From the aspect of biodiversity, the Republic of Croatia is considered as one of the Europe's richest countries due to its geographical position on the crossroads of several bio geographical regions and with characteristic ecological, climate and geomorphological conditions. Great diversity of coastal, maritime and underground habitats resulted in rich flora and fauna which counts over 38,000 known species, while the approximation of total number to be around 50,000 to 100,000 species⁹⁹. The integration of the listed protected areas into the tourism offer as well as the upgrading of infrastructure within, especially in national parks, with emphasis on sustainable development, is one of the key challenges for future tourism development.

Table 14: Visitors to national parks

VISITORS TO NATIONAL PARKS			
	TOTAL	DOMESTIC	FOREIGN
Total	2.266.889	323.393	1.943.496
Brijuni	156.549	58.710	97.839
Kornati	91.780	39.330	52.450
Krka	683.739	76.336	607.403
Mljet	95.498	13.886	81.612
Paklenica	118.288	14.963	103.325
Plitvice lakes	1.083.451	94.809	988.642
Risnjak	18.212	11.950	6.262
Northern Velebit	19.372	13.409	5.963

Source: Central Bureau of Statistics

Other types of tourism that show potential to develop into economically important products include rural tourism, ecotourism, thematic tourism that has potential because of Croatian cultural heritage and natural beauties, sport adventure tourism (golf, diving, white water rafting, canoeing, kayaking, paragliding, hot air balloon flights, free climbing, off-road racing, etc.), wellness tourism, corporate travel, conventions and incentive tourism. Insufficient quality of tourist products and services for the mentioned selective and special interest tourism segments and the unused possibilities urge us to invest in the development and all-year-round promotion of these forms of tourism.

⁹⁸ the State Institute for Nature Protection, 2012

⁹⁹ Ministry of Culture, 2010

Key challenges

In the field of tourism a set of deficiencies can be found, such as:

- high seasonality (summer months) and unequal regional distribution of tourism development (coastal regions);
- unfavourable accommodation structure contributing to seasonality issues;
- lack of individualized and comprehensive tourist products for all-year tourism and low level of tourist products and services, especially for special interest tourism for specific market segments;
- low level of integration of cultural and natural heritage and resources into the tourism offer;
- promotion of coastal tourism products and offer (coastal and inland) in the pre and post summer periods and all year promotion for inland areas;
- lack of tourist packages in continental destinations and their promotion for all-year tourism operation;
- low quality and the lack of additional offer in existing accommodation facilities especially private accommodation;
- poor destination management on local and regional level- reorganization of existing tourist bureaus into destination management organizations and destination management companies.

1.1.4 SWOT Analysis*

<i>STRENGTHS</i>	<i>WEAKNESSES</i>	<i>OPPORTUNITIES</i>	<i>THREATS</i>
Priority axis 1: Development and upgrading of the regional infrastructure and enhancement of the regions' attractiveness			
<ul style="list-style-type: none"> - existing institutional set-up on national and regional level for regional development - active government policies to develop the areas lagging behind - partnership relations between all relevant stakeholders on national and regional level as well as bottom-up approach to planning - high concentration of natural, cultural and historical heritage provides potential for tourism - favourable geographic location and good accessibility and position on TEN-T network and road corridors 	<ul style="list-style-type: none"> - lack of sectoral specialisation in Croatian regions and inadequate usage of territorial capital - unbalanced regional development and growing regional disparities - low inflow of direct investments with significant impact on employment and export - concentration of economic activities and inhabitants in large cities and the most developed areas - existing business related infrastructure (BRI) and business support institutions (BSI) insufficiently equipped - insufficient utilisation of the natural and cultural potential for tourism - lack of facilities that contribute to increasing the quality of tourist offer - severe war damage to cultural heritage and tourism infrastructure particularly in the lagging behind regions 	<ul style="list-style-type: none"> - utilisation of comparative advantages of the regions through their specialisation - development of regional clusters and "Triple Helix" approach (networking between public, private and science and research institutions) - development and valorisation of existing BRI and BSI - growing demand for services and high-quality tourism products - access of Croatian regions to the financial resources of the EU funds (after accession to EU) and to the enlarged EU market providing possibilities for attracting investments - improved accessibility to tourist areas and business infrastructure through modernised transportation networks 	<ul style="list-style-type: none"> - significant differences in basic socio-economic character at the regional and local level - continuation of the depopulation process of less developed regions and concentration of population in urban areas with negative impact on labour market - continuation of unfavourable demographic developments - both negative natural growth and ageing of the population - insufficient upkeep of the environment in tourist areas - insufficient funds available for preservation and restoration of cultural heritage objects which could become part of wider tourism offer - increased global competition between destinations
<p>*The SWOT is presented per Priority Axes for better inter-relatedness of the analysis, the SWOT as its summary of key points and the strategy</p>			

<i>STRENGTHS</i>	<i>WEAKNESSES</i>	<i>OPPORTUNITIES</i>	<i>THREATS</i>
Priority axis 2: Enhancing the competitiveness of the Croatian economy			
SMEs and business climate			
<ul style="list-style-type: none"> - systematic alignment of national SME policy with European good practice - active government policy on promoting business climate - favourable geographic location and good transport accessibility - economically and politically stable and safe state - increase of the share of small businesses in GDP - established system of initiatives and incentives for development of entrepreneurship at the national and regional level - standardised system for FDI attraction and pro-active approach to FDI in regions - established system of providing counselling and support in BSI - long tradition as tourist destination - extraordinary biodiversity and landscape diversity - high concentration of natural, cultural and historical heritage - population interested in tourism development 	<ul style="list-style-type: none"> - small number and slow growth of high-tech companies - low SME investment into technology and R&D and consequently low work productivity - relatively low number of SMEs with quality standards - lack of systematic and independent evaluations of impacts of implemented policies - existing BSIs and business related infrastructure insufficiently equipped - Insufficient intensity and quality of public services to businesses and in particular for start-up entrepreneurs - low level of networking in domestic economy - short tourist season with a focus on seaside tourism - lack of facilities and insufficient quality of services that contribute to increasing the quality of tourist offer - insufficient utilisation of the natural and cultural potential for tourism - unfavourable structure of tourist accommodation 	<ul style="list-style-type: none"> - further SME development in sectors with higher value added through foreign assistance and application of relevant successful business models and methods through lessons learned in EU member states and globally - EU and global trends and innovations in increased effectiveness and coordinated functioning of entrepreneurial support environment - FDI targeted at increased use of industrial areas and revitalisation of so-called brown parks to facilitate the entry of further new investors in existing production facilities - exploitation of foreign market opportunities (creation and focus on relevant market niches) and related technological and regional specialization - growing demand for diversified services and high-quality tourism products as a result of globalisation - global trends in tourism influencing development of modern tourist centres 	<ul style="list-style-type: none"> - global financial crisis and instability on the largest export markets due to the crisis - strong foreign competitive pressure on businesses (especially SMEs) - negative impact of the global recession on the SME sector - brain drain due to better economic situation and work conditions abroad - export stagnation due to external obstacles like strong competition - continuation of lack of FDI due to stronger attractiveness of foreign markets - increased global competition between tourist destinations - unfavourable global environmental changes influencing tourist resorts especially - development of mass tourism through FDI

STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
Research and development and transfer of technologies			
<ul style="list-style-type: none"> - significant research potential - the share of innovative companies (as of total number of companies) is comparable to EU 27 average - experience in implementing innovation policy through continuous programmes and projects - experience in developing the institutional framework for the innovation system on the national level - established programmes for financing innovation projects with public funds aligned with international best practice - high demand for R&D and innovation funding schemes - share of labour force working in the science and technology sector is comparable to most EU 27 member states - Croatia has reached the category of “Moderate Innovator” according to IUS 	<ul style="list-style-type: none"> - <i>decreasing expenditure on R&D and insufficient funding of support programmes for technology development and commercialisation of innovations</i> - <i>insufficient cooperation between R&D institutions and entrepreneurship , namely in terms of transferring R&D results to the business sector</i> - <i>out-dated infrastructure and equipment in HEI and PRO</i> - <i>insufficient innovation infrastructure that enables technology transfer to SMEs</i> - <i>low number of patent applications and granted patents</i> - <i>dominance of the public sector both in terms of investments in R&D sector and in terms of employing researchers</i> - <i>brain drain - high number of Croatian experts working abroad due to better working conditions</i> - <i>still limited professional service system provided by TTOs</i> 	<ul style="list-style-type: none"> - <i>greater exploitation of research potential for commercialization in R&D sector, given existing good quality basic research</i> - <i>development of new high-tech technologies</i> - <i>additional financial instruments for funding innovation due to EU accession;</i> - <i>higher commercialization of development results on the basis of partnership between private and public sectors</i> - <i>encouraging further growth of investments by the private sector</i> - <i>creating favourable environment for entrepreneurship and innovations through organisational, institutional, legal and administrative changes</i> 	<ul style="list-style-type: none"> - movement of global investment capital into territories with higher price competitiveness - investments into R&D further limited by the ongoing crisis and tightening of R&D budgets in both public and private sectors - continuation of the “brain-drain” phenomenon in case of slow provision of R&D-friendly conditions

1.2 Lessons learned from previously implemented EU interventions

In the process of negotiation and preparation of Croatia for entering the EU, regional policy plays a very important role. EU offers Croatia pre-accession programs that can help in implementation of necessary reforms towards achieving a competitive market economy, institutional building, development of infrastructure, etc. During the pre-accession period, Croatia has benefited from the CARDS, Phare, ISPA and SAPARD programmes and is currently benefiting from the IPA programme (Instrument for Pre-Accession Assistance), with projects related to increasing institutional capacities for managing EU funds, cross border cooperation, transport network, environmental protection, regional competitiveness and agriculture.

In matters of EU assistance, specifically CARDS and Phare programmes, there were several interventions related to increasing **competitiveness**. Of these, vast majority of projects were focused on administrative capacity building and assisting national administration in preparing for their future roles in managing and implementing Structural Funds. They served as a solid basis for learning the programming process and acquiring managing skills specific for EU funds. Additionally, for the science and technology sector CARDS and Phare projects assisted at building up networks and a “critical mass” of technology transfer stakeholders within public research organisations and higher education institutions who became target community for the future IPA interventions under the Measure 2.2. Technology transfer and support services for knowledge-based start-ups.

Of the pre-accession projects implemented through Phare and CARDS, only one grant scheme for SMEs has been implemented and should be mentioned for its pioneering role in the Croatian experience of managing such EU funded projects. Namely, through Phare 2006, MELE implemented the first EU co-financed grant scheme for the SME sector in Croatia - ***Support for Increasing the Competitiveness and Export of Croatian SMEs***, which was a pilot grant scheme for export-oriented SMEs that involved the provision of consultancy support essential for enhancing their competitiveness and thereby increasing their exports. The support basically focused on the following areas: establishment and incorporation of procedures for testing and certification of Croatian products in order to ensure compliance with international quality standards, improving marketing, promotion and presentation of Croatian products within the EU single market and organizing training for staff in technical, marketing and quality assurance departments.

Under the grant scheme out of 75 applications 21 projects were awarded grants and were implemented in full. According to the survey that was conducted (by means of a questionnaire to final beneficiaries, following project completion) and the analysis of all the delivered final reports, the overall competitiveness within the SMEs assisted has increased. The SMEs strengthened their export capacities by entering new markets (50% of SMEs), finding new customers (22% of SMEs) and establishing links with potential customers (28%). Also, many of grant beneficiaries managed to create innovative and more competitive products or to improve the overall quality of their products.

At the same time, all grant beneficiaries gained experience in the implementation of EU funded projects. The analysis of delivered results of 21 grant beneficiaries which implemented their projects, according to submitted Final Reports, indicates that grant beneficiaries successfully implemented 96% of planned activities and utilised 82% of the total original contracted amount. In addition, thanks to the project, some of the grant beneficiaries have employed additional staff in the time of crisis.

Regarding the impacts of this project, it is important to point out that the majority of companies successfully managed to annul the recession trends and even raised the employment rate. Among other impacts, it is necessary to highlight that the productivity level and competitiveness of the SMEs on the EU single market has improved (through certification, introduction of new technologies etc.). Moreover, export potentials of competitive products have been extended and cooperation with partners from the EU on new projects has been established, so it is realistic to expect that in the future these companies could contribute to raising the volume of exports of Croatian SMEs. Also, the grant beneficiaries' staff gained priceless knowledge on export initiation, export expansion and dealing with export markets.

As added value to this project, it is also necessary to emphasize that many grant beneficiaries participated in several conferences and workshops with the objective of transferring the acquired knowledge and experiences to potential beneficiaries of IPA and Structural Funds and are continuously invited to do so by the relevant authorities since entrepreneurs tend to value and rely on such firsthand experiences which can in turn motivate them to apply for EU funding and shows them that the outcomes can be beneficial to their businesses.

However, further lessons learnt from this pilot grant scheme mostly indicate that private companies encountered difficulties in the preparation of their applications because they were inexperienced in the area of project preparation and partly due to the lack of support from the regional development agencies and other relevant advisory services. Also, as a recommendation for the implementation of future grant schemes for the SME sector, there is a need to assist the grant beneficiaries in the implementation steps and secondary procurement procedures.

In 2007, all of the existing pre-accession programmes were replaced by a unique Instrument for Pre-Accession Assistance - IPA. IPA was introduced mainly as a transition programme towards Structural and Cohesion Funds usage and is implemented through five components in Croatia. The component focused on regional development and competitiveness is being carried out via IPA component IIIc "Regional Competitiveness Operational Programme 2007-2013" (IPA RCOP 2007-2013¹⁰⁰).

The IPA RCOP 2007-2013 mobilized business potential at the regional and local level with the implementation of more than 50 projects through three priority axes. The majority of the projects are generally related to institutional capacity building in order to prepare the national authorities for Structural Funds management. Still, the private sector also benefits both directly and indirectly from those projects and the general public awareness has been raised regarding the benefits of EU assistance. The following projects may serve as good examples:

The **Development of investment climate** project overall objective was to enhance the business and investment climate across Croatia. The purpose of this particular operation has been to extend to all counties in Croatia the Investment Certification Programme for Regions (ICPR), developed upon the best international practice and initiated under previous interventions, as well as to develop and deliver an advanced ICPR programme to interested counties. ICPR aimed to enhance knowledge and skills of the representatives of all institutions in the provision of services to investors at county level.

The certification process was focused on achieving best international practice in information provision, property availability, marketing capacity and customer support for

¹⁰⁰ IPA allocation for 2013 actually covers only the first six months of 2013, until the perceived date of accession to the EU, 1st July, 2013, following which Croatia can use the structural funds and the Cohesion fund, whereby this ERDF OP should be relevant, legally replacing the whole EU 2007-2013 financing period.

potential investors in the participating counties. All participating counties put their efforts to achieve certificates as foreign direct investment attractive locations. Moreover, team work between county referent institutions and their cooperation has been identified as a crucial for the local/regional success. Certified regions now have clear SWOT analysis and are ready to approach potential investors due to developed mind-set and promotion materials. During the project implementation 18 outreach campaigns were performed and sectors, projects and markets targeted.

Another relevant project was **Capacity Building of Business Service Professionals and Business Support Institutions (BSIs)(CABBS)**. The purpose of this project was to improve the quality and availability of business support services to SMEs, by developing the professional expertise and enhancing the capacities of business service providers and local BSIs; and preparing them for the use of Structural Funds. The results of the operation were the creation and digitalisation of a National Database of Business Service Professionals, recommendations for quality standardisation of business support services and for the improvement and upgrading of the existing certification system in HAMAG INVEST according to the European/Croatian Qualifications Framework, design and delivery of a training programme and support provided to upgrade the skills and competences of business service professionals, assessment of the current capacity of BSIs; design and delivery of a training programme for upgrading BSIs' competences in providing business advice and guidance to SMEs; delivery of trainings on Structural Funds' skills and competences. The capacity assessment of BSIs has shown that the entrepreneurial infrastructure is dominated by public entities. Thereby lessons learnt from this project indicate that the private sector in the field of provision of business support services should be encouraged by public policies both at the national and local level in order to create motivation and free up competition between BSIs. The development of a public/private partnership in establishing BSIs should be considered as a possible alternative.

Promotion and provision of advisory services to SMEs (SMEPASS)- the operation purpose was to promote and provide business advisory services to SMEs with four key activities envisaged: Promotion of consulting opportunities for SMEs in the area of marketing and quality management, selection of SME to be consulted, provision of consulting services to 200 SMEs, monitoring of service delivery and evaluation of SMEs' satisfaction and usefulness of services. The operation enhanced the local consultancy capacity and provided 67% of assignments to assistance in the area of (export) marketing; 33% of assignments covered quality management - out of which approx. 1/3 receiving certification shortly after the end of the assignment. Also, 200 work plans have been signed by clients demonstrating both acceptance and satisfaction with the delivered services. The important result/impact of the operation is the changed mind-set of local entrepreneurs when it comes to consultancy services. The SMEs are keener on using business advisors in their everyday work, and the project proved sustainability through considerable number of SMEs that followed up the cooperation with advisors provided by the operation.

The purpose of **E-business Competitiveness Improvement Programme** was to increase the level of utilisation of, and participation in, e-commerce and e-business activities by enterprises in Croatia through ten selected Business Support Centres. The project was focused on developing a better understanding in SMEs of the importance and applicability of e-business tools as a means to achieving competitiveness. The project was delivered at two levels. The first one dealing with increasing the capacity and capability of ten Business Support Centres (BSC) throughout Croatia in order to give them the means, knowledge and competences to enable them to raise awareness and deliver e-business support to SMEs in their regions. The second level dealt with the actual delivery of awareness raising and training about e-business to SMEs. Each BSC prepared an e-Business Development Strategy

showing how they will deliver awareness raising and training in e-business directly to SMEs in their region. After the assessment of ICT equipment requirements selected BSCs were equipped with ICT equipment that will be sustained and serve SMEs in their further education regarding e-business. By the end of the project selected Business Support Centres delivered 21 e-business awareness raising seminars to 573 participants and 32 e-business training workshops to 639 participants. Also an e-Business handbook was produced and printed in 1,000 copies as well as published on web site www.e-poslovanje.eu. Business Support Centres great commitment during the implementation of this project resulted with very well attended workshops for SMEs that were organized after the project ended. Many entrepreneurs now understand the importance and applicability of e-business tools as a means to achieving competitiveness.

Furthermore, the IPA RCOP 2007-2013 included three grant schemes - one related to regional development, second one to small and medium enterprises and the third one to technology transfer.

The previous PHARE 2005 and current IPA grant scheme **Business-Related Infrastructure** addressed the ten least developed counties in Croatia and focused on reducing regional differences by improving business related infrastructure that enable businesses to perform more successfully in those areas. However, the demand for the financing of BRI projects has been present not only in the less developed, but in all counties in the Republic of Croatia. This could be witnessed from the Central Electronic Data Base (CEDB) established and managed within the MRDEUF according to the Act on Regional Development of the Republic of Croatia¹⁰¹. In addition, demand for BRI investments can also be traced through the SWOT analysis and data provided in all of the County Development Strategies which represent basic planning documents of the local (regional) self-government units. Therein, the development of business related infrastructure has been recognized as a key component of the overall socio-economic development among the development priorities.

Regardless of the fact that there has been a great interest for BRI projects, the practical experiences from the implementation of this grant scheme, first and second RCOP BRI Call, imply that the applications' quality still needs to be improved in order to be eligible for the EU financing. This can be confirmed by the high number of applicants for the Call for project ideas published in 2010 where 69 project concepts applied for technical assistance for project preparation. However, the technical assistance project had capacity to prepare only 20 of them to be ready for grant application. In 2009 the first RCOP BRI call for proposals gathered 34 applications for a total of EUR 22 million, which was five times more than the EUR 4 million available, while the 2nd RCOP BRI Call for proposals gathered 57 applications for a total EUR 45 million, which was three times more than the EUR 15 million available.

Similarly, the implementation capacities, particularly related to the financial management and secondary procurement at regional and local level, even significantly improved over the last few years, certainly need to be further strengthened and this could be ensured only by providing continuous support, in the preparation phase and also during the implementation period. Likewise, the continuous efforts in terms of timely identification of potential bottle necks related to the implementation of the Operation, on national and regional/local level, could certainly contribute to more efficient action planning and successful achievement of results.

The grant scheme for SMEs - **Increasing the competitiveness of the Croatian SMEs** which will be implemented during 2012 is addressed to SMEs with the purpose of strengthening

¹⁰¹ Adopted by the Croatian Parliament on December 11th, 2009

the competitiveness of Croatian SMEs by introducing international eco standards and energy efficiency technologies in production processes and by applying best practices and successful business models in order to more easily develop new and competitive products. For the purpose of promoting the grant scheme, workshops were held in January 2012 throughout the Republic of Croatia. A total of 20 workshops were held in cooperation with the Croatian Chamber of Economy and with a total of 2000 participants - potential applicants for this grant scheme. Regional coverage of the workshops was excellent due to the fact that workshops were held in almost all major cities of Republic of Croatia. This resulted in an immense response of SMEs to the first call for proposals, the value of gathered applications exceeding the available amount of EUR 4.5 million 30 times over, proving both the importance of timely and quality provision of information to the final beneficiaries as well as their interest in applying for EU co-financing of their projects.

The **Science and Innovation Investment Fund grant scheme** that also includes a parallel technical assistance project has reported success so far and represents an important incentive for the public scientific institutions to increase the number of commercialisation-oriented research projects. A number of potential applicants were assisted through the workshops, meetings, info days and on-line assistance which has reflected in the increased level of knowledge on TT topics and awareness. Experience of day-to-day work with TA team and close connection to potential beneficiaries had a very positive impact on staff managing pre-accession assistance in terms of establishing stronger connections with the research community in Croatia and discussing with them all issues and problems they face related to the technology transfer process. The first Call for proposals saw two deadlines for the submission of project applications. Out of 19 project proposals submitted to the first deadline, five were awarded grants. Further, 53 project concepts were submitted for Technical Assistance out of which 15 received assistance in terms of project preparation. The assistance in the project preparation provided for the potential beneficiaries resulted in the 13 times bigger number of applications than what could possibly be contracted for the second deadline of the First Call for Proposals and the number of applications for the second Call for Proposals was also very high.

In conclusion, current experience of the Science and Innovation Investment Fund grant scheme implementation and experience of TA team working closely with the potential beneficiaries has been used by IPA staff to set further directions for the design of the improved grant scheme to continue supporting commercialisation of public R&D in Croatia using future ERDF funds and subsequently, in cooperation with the Ministry of Entrepreneurship and Crafts, to examine the possibility of including the private sector in the new EU financial perspective for the period 2014-2020, with the objective to improve conditions for successful development of entrepreneurship based on research and innovation.

The process of implementing IPA has been in most aspects a learning by doing process that had to overcome constraints of limited staff capacity, new methods of working, resistance to change and somewhat slower acceptance of such practices by the overall national administration system. It introduced an Operating Structure composed of several national institutions which all needed to be coordinated in its work and needed to accept the fact of one institution (ME) bearing overall responsibility for the entire programme with its different sectors. In practice this meant that line ministries had to gradually grow used to the fact that they will be reporting and answering to the Body Responsible for OP and BRON had to grow used to the practice of coordinating a big multi sector structure in a consistent way which has not always been an easy task. This entailed issues such as lack of guidance by other national coordinating bodies (also inexperienced in such matters),

insufficient planning, but also low experience in negotiating with EC, inadequate audit skills of the BROP, inconsistency in the use of procedures, just to mention but a few.

Also, the major lessons that were learnt refer to the importance of detailed, clear, precise strategic project preparation as well as plans for the implementation of all projects and timely support to potential beneficiaries. Simultaneously with the programming process for Structural Funds it has become evident that technical assistance is strongly needed in the process of project pipeline development. Well prepared and mature projects ready for implementation under Structural Funds are a priority which demands full programming capacity of the Operating Structure staff but also specialist expertise of technical assistance. As technical assistance projects were available to the grant schemes applicants and also to the entire Operating Structure, the usefulness of the TA inputs into specialist areas such as assessment and evaluation of proposals; monitoring systems; financial procedures was more than obvious.

It is important to notice that the majority of IPA RCOP operations are implemented according to a procurement plan, which in itself is a test of the system's efficiency. As the OP contains operations that are implemented as grant schemes - the responsible ministries, i.e., the MRDEUF, MSES and MEC are continuously gaining valuable experience in EU-funded grant scheme management, even though all institutions have previous experience in managing national funding schemes. For instance, the MSES in scientific and research projects funded through its Funding for Research, National Foundation for Science Funding, and Unity through Knowledge Fund and the MRDEUF has been strongly involved in the programming and managing of EU funds since 2002 (dozen of CARDS & PHARE projects were implemented, with 5 PIUs consisting of 25 staff members) and ME in the above mentioned Phare 2006 Pilot Grant Scheme. Therefore, the mechanisms of grant schemes were already known to these ministries but the IPA RCOP brought novelties specific to the IPA programme. The initial findings of the so far completed evaluation of two RCOP grant schemes (BRI and SIIF) revealed that the grants were not only absorbable but insufficient - in the sense that in each case, applications in the first call exceeded the total allocation of funds for the schemes.

In short, the IPA RCOP served as a solid exercise platform for the future ERDF implementing system. Authorities and employees included in the management and implementation of the RCOP component of the IPA have "grown together", particularly regarding the coordination and harmonisation of three different ministries and different sectors.

However, there have also been constant issues of administrative capacity that all Croatian institutions involved in the management of EU funds experience due to inadequate remuneration and consequently large turnover of staff. Capacity building is, reasonably, one of the key criteria for successful absorption of the funds and considerable effort remains to be invested in the development of a systematic retention policy and in the promotion and education of employees. As with the entire set-up for EU funds, this issue will also take time to be dealt with progressively.

After confirmation in practice, having generated the expected results and having made a timely fulfilment of the audit recommendations for its improvements, the system as such should allow for the waiving of ex ante controls by the EU Delegation and, upon accession to the EU, the IPA Programmes should be transformed to SF programmes, and the IPA system should accordingly transform into the SF system, with an institutional structure fully compliant with the requirements of the Regulations of the European Council.

SECTION 2: STRATEGY

The present strategy of the RCOP has been developed on the basis of an analysis of the challenges for regional competitiveness, while regarding the wider policies, strategies and guidelines of both the European Union and the Republic of Croatia. During the process of strategy formulation, the following issues were additionally taken into account:

- Experiences with the IPA programme - Previous experience with programming and implementing the IPA has been taken into consideration, not only as it relates to strategy development, but also where it concerns the capacity to manage and implement the present RCOP.
- The short period of ERDF funds implementation in this programme - As the ERDF funds are to be implemented in a short period of time, the approach has been focused on efforts in those areas that are most significant for regional competitiveness and at the same time most likely to achieve a positive impact within a limited time period.
- The project pipeline - The institutions responsible for the programming are fully aware that the success of the RCOP entirely depends on the existence of projects that are ready to be implemented. The entire strategy is based on a thorough analysis of the maturity of existing projects, taking into account the financial and technical capacity available for their further preparation.
- The wider community - The draft strategy has been discussed with the wider community of stakeholders and their input has been incorporated.

The result of this approach is a strategy that is strongly focused on objectives, on present and future strategically important needs, and that includes sufficient safeguards to guarantee the programme's proper and timely implementation.

This section describes Croatia's strategic aims and objectives with positive impact on regional competitiveness, the correlations of this strategy with Community and national policies and strategies, as well as the horizontal issues involved. Additionally, it describes the process of partnership consultations with the relevant national and regional stakeholders.

2.1 Overall objective of the Operational Programme

The overall objective of the RCOP is to ***achieve higher competitiveness and a balanced regional development by making better usage of regional territorial capital***. It is derived from the strategic objectives of the NSRF, more specifically its thematic priority ***increasing competitiveness of the Croatian economy*** and the horizontal one, ***internal country cohesion and balanced regional development***.

This objective has led to the identification of the relevant priority axes, measures and operations, as described in section 3, **focusing on the greatest needs of the sectors and fields covered by the RCOP**. However, the OP's ambitions for this short programming period, the last six months of EU Financial perspective 2007-2013, must be realistic, not unlimited. The impact of this OP is restricted and therefore it must focus on selected priorities of high significance, for which the pipeline provides enough mature projects ready for implementation without great risk.

The **needs listed below** are given here in order to provide a wider environment from which the OP has selected its relevant priority axes, measures and operations, based mainly on the analysis of the socio-economic context, available sectoral strategic approach but checked and underpinned by projects in the pipeline:

- increase in the attractiveness of the regions and promotion of balanced regional socio-economic development through strengthening the infrastructure for business and tourism, including cultural tourism;
- increase in the competitiveness of SME -greater focus on production with higher added value, improvements in marketing and distribution, leveraging innovative ecological solutions and optimizing energy and resource efficiency,;
- development of a comprehensive tourism offer and improvements in Croatia's competitiveness on relevant feeder markets; preservation of Croatia's cultural, historical and natural heritage and its integration in economic and social life;
- growth of productivity based on R&D results, innovation and technology transfer;

2.2 Strategic objectives

The overall objective of the RCOP will be pursued through the following three **strategic objectives**:

1. **Increasing regional potential for economic development.**
2. **Development of entrepreneurship**
3. **Fostering innovation and research excellence**

These strategic objectives are complemented with one **horizontal objective** - *Internal country cohesion and balanced regional development* and are pursuant to the principle of **concentrating support on areas of key importance**.

The structure of the strategic objectives is as follows:

1. Increasing regional potential for economic development

- Support to the public authorities in creating and/or developing operational business structures providing scope for sustainable development of business, to attract investments, which will contribute to job creation;
- Enhancing the regional tourism potential to develop and market sustainable and diversified, territorially specific and higher value-added tourist products.

2. Development of entrepreneurship

- Improving SMEs' efficiency and productivity levels by supporting investments related to innovations in production processes and introducing the results of R&D into production leading to increase in development potential for new and competitive products;
- Improving the quality of institutional support to SME development at national and regional levels leading to better targeting of SMEs' needs and strengthening of their knowledge base;
- Enhancing commercial value of natural resources, cultural heritage and other manmade potential for the development of tourism;
- Stimulation of networking and clustering;

- Making quality business advisory services at all levels more accessible to SMEs.

3. Fostering innovation and research excellence

- Building capacities of higher education institutions and public research organisations for technology transfer activities and enhanced cooperation with industry;
- Fostering commercialization of research results and innovation and research excellence through R&D activities oriented towards the needs of economy;
- Improving overall conditions for R&D&I through infrastructural investments and investments in necessary research equipment.

Table 15: RCOP strategic objectives

STRATEGIC OBJECTIVES	Priority axes	Interventions focused on an achievement of Strategic objectives
Increasing regional potential for economic development (with special focus on lagging-behind regions)	PA 1 Development and upgrading of the regional infrastructure and raising the attractiveness of regions	Support to public business and tourism infrastructure
Development of entrepreneurship	PA 2 Enhancing the competitiveness of the Croatian economy	Improvement of SMEs' competitiveness Improvement of public business support
Fostering innovation and research excellence	PA 2 Enhancing the competitiveness of the Croatian economy	Support to development of technology transfer capacities Support to development of R&D infrastructure
Internal country cohesion and balanced regional development	Horizontal priority that shall be accomplished through implementation of the strategic objectives interventions and a positive impact thereof	

2.3 Identification of Priority axes

2.3.1 Identification of the priority axes and their justification

Taking into account Croatia's strategic steps for the achievement of the overall objective and strategic objectives, and the opportunities identified for supporting investments for entrepreneurship and economic growth, the RCOP is structured into three priority axes:

Table 16: RCOP Priority Axes

Priority axis 1:	<i>Development and upgrading of the regional infrastructure and enhancement of the attractiveness of regions</i>
Priority axis 2:	<i>Enhancing the competitiveness of the Croatian economy</i>
Priority axis 3:	<i>Technical Assistance</i>

Priority axis 1: Development and upgrading of the regional infrastructure and raising the attractiveness of regions

The matters covered by this priority axis are important for raising the attractiveness of the Croatian regions and at the same time are necessary elements in the overall balanced regional development.

Supporting the development potential of Croatian regions and providing the inhabitants with job opportunities and living standards comparable to the national and European level requires modernising regional infrastructure, improving the preconditions for job creation and mitigation of the process of depopulation. The sustainable development of Croatian regions is considered to be a wide process within which Priority axis 1 will be focused only on selected priorities that combine public investments in business, tourism and business support institutions and infrastructure in order to create favourable conditions for economic development, in line with national county development strategies, Strategy of Regional Development of Republic of Croatia 2011-2013 and Act on Regional Development.

Regarding the development of entrepreneurship, the lack of basic as well as sophisticated **business-related infrastructure** in both NUTS 2 Croatian regions is an obstacle to achieving a more dynamic and competitive economic growth. Such infrastructure is a pre-condition for the establishment and growth of enterprises and for attracting FDI and other types of investments. Priority axis 1 envisages investments into business-related infrastructure for which both Croatian regions will be eligible as Convergence regions (less developed counties will receive some preferences within the scoring system, intensity of assistance and in terms of co-financing - See Chapter 2.4.2 Compliance with national policies).

Whereas the second priority axis will support concrete development-research and entrepreneurial projects, the first priority axis will ensure the support infrastructure that will additionally promote the development of enterprises and transfer of technologies and commercialisation of innovation at the same time providing the most advanced business, research, educational, information and logistics services.

The key activity of the priority axis is the establishment of networks of business related infrastructure (BRI) and business support institutions (BSI) in areas where sufficient critical mass of knowledge can be ensured as well as sufficient concentration of economic activities and development potentials together with adequate population concentration.

This infrastructure and relevant institutions will specialise in accordance with territorial capital and comparative advantages of a wider area and their competitive advantages and among other, they may include business-industrial-logistics areas (zones), technological parks and centres, business incubators, higher education and research centres, and similar.

The RCOP will therefore support the local and regional public authorities in creating and/or developing operational business structures, to attract enterprises, especially SME, which will contribute to job creation and mobilization of the labour force available in the relevant areas.

The Croatian countryside offers many unexploited development opportunities and has strong potential based on the distinctiveness and uniqueness of its natural and historical heritage, which could be utilised for tourism and related services. Therefore investments in **tourism** aim on prolonging the tourist season by developing selective types of tourism, diversifying services and expanding tourist offer, creating regional and local economic growth opportunities, and at contributing to job creation through the valorisation and rehabilitation of specific geographic and natural assets, as well as the valorisation of publicly owned cultural and historical monuments of Croatia's regions, including the continental regions which are now underdeveloped for tourism. Such interventions in enhancement of tourist attractions and related tourism public infrastructure and development of new tourist product and marketing of destinations will complement the investments for SME in tourism within Priority axis 2. The renovation of publicly owned cultural and historical assets will also be driven by the strategy and objectives for tourism.

The RCOP will furthermore support the public authorities in specialisation, branding and promotion of regions and development of regional clusters, pro-active promoting of investment, developing larger regional infrastructure projects through co-financing studies, analyses, designs and other relevant project documentation, in order to prepare the regions for the next programming period.

Priority axis 2: Enhancing the competitiveness of the Croatian economy

2.1. SMEs and business climate

The performance of a region's existing businesses is the largest single factor in determining the future success of the regional economy in Croatia. Existing businesses need a climate in which they are able to become more competitive and grow in a way that is sustainable. Given the predominance of small and medium enterprises (SMEs) in the business sector, the development of an effective business support network is a relevant area for public sector involvement. This will provide companies with the advice, intelligence, and networks they need to make informed decisions about the development of their businesses. Focused assistance to high-tech industries may be appropriate to secure wider economic benefit. Also, new enterprises are vital for ensuring continuing economic prosperity. They develop in response to new or growing markets and help keep Croatian economy competitive. Creating conditions that promote entrepreneurship, by encouraging ambitious and creative people to take risks and move into new markets, supports the development of successful regions.

This Priority axis contributes to the overall objective of the RCOP by applying a comprehensive approach to the main strategic needs of SME through enhancing policy making and implementation, enhancing the business and investment climate. Also this Priority axis operations aim at enhancing business support for SMEs delivering soft services to SMEs including e-business, developing specialist support for high growth businesses, improving their technological structure, R&D, innovation, networking and clustering and

reinforcing their sustainability and competitiveness and strengthening the international presence of the Croatian economy.

Croatia's strategic approach aims to enhance competitiveness through the sustainable growth of productivity. This is to be achieved through productive investments into new technologies, equipment and facilities. These investments will cut across all aspects of competitiveness, i.e. productivity, quality, consumer appeal and marketing support, using of renewable energy, networking of business sector in order to increase efficiency and competitiveness by adding value (structural networking and encouraging the development of clusters around research centres).

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

Support to the business climate complements integrated support to the national economy through the development of enterprises, especially SME. Under RCOP direct support to SME will be implemented with a focus on encouraging investment into export-oriented activities, strengthening the business sector through the implementation of business start-up initiatives, leveraging innovative ecological solutions and optimizing energy and resource efficiency, increasing productivity levels, increasing investments to companies in the production sector and introducing the results of R&D into production through linking the business, scientific (educational) and public sector ("Triple Helix") and associating into interest associations.

The Croatian economy is geared towards tourism and the SMEs active in the tourism sector need specially designed direct support. In accordance with the sectoral strategy, the objective of the OP in the field of tourism will be diversifying services and expanding the tourist offer, increasing the quality of the existing accommodation capacities and building new ones, revitalisation of devastated, non-protected and out or almost out of use immovable cultural estate for entrepreneurial activities, aiming at the prolongation of the tourist season, development of the less developed tourist areas, especially inland and in hinterland by supporting specific forms of tourism and integrating them with traditional crafts and agriculture to increase the number of tourist visitors and improve their structure

2.2 Research and development and technology transfer

Modern economies rely increasingly on knowledge and innovation. Businesses need to continually develop their products and services if they are to remain competitive. Keeping up to date with rapidly changing markets, technologies and competitors is a critical component both for business success and for more sustainable futures. Encouraging a culture of increased innovation in all organisations, whether they are public, private or voluntary, is crucial as it can help to drive up productivity as a whole. The Croatian enterprise sector is currently demonstrating a low level of innovation, which is reflected in the low number of innovative companies out of the total, the low level of resources for the R&D sector coming from the enterprise sector, the inadequate saturation of the enterprise

sector with new technologies, and an insufficient number of research and development personnel. A low level of funding (both public and private) has direct impact on the identified weaknesses. Priority axis 2 in its aspect specifically related to **Research and development and technology transfer** therefore focuses on several issues meant to contribute to the increase of research capacity by investing in the development of R&D projects, including investment in R&D infrastructure and world-class scientific research and know-how centres, with the aim of supporting the development of a knowledge-based economy in Croatia by encouraging and commercializing innovation as well as the development and use of new technology.

In addition to research and development projects in companies and knowledge institutions for the transfer of the research results, also the investments into modernisation of the research and technological equipment in these organisations will be supported. Furthermore, to ensure continuous funding of projects within the new financial perspective of ERDF, building up the project pipeline and project preparation will be funded. The above listed activities will contribute to the improved conditions for R&D&I activities within the public R&D sector which will enable higher education institutions and public research organisation to intensify their networking and collaboration activities within other EU programs (such as for example the seventh framework program)

The successful establishment of Croatia as a knowledge-based economy depends on a faster development and quality transformation of the science and technology sectors. The main aspects of this policy require higher investments in the research and development sector on the basis of the criteria of excellence, the transformation of those systems to increase their efficiency, the encouragement of research partnerships, the promotion of private sector research and development projects aimed at the development of new products and processes, the strengthening of the support system for ensuring the quality of young researchers with a view to achieving more efficient and productive knowledge transfer and the establishment of a stimulating framework for their joint development through creation of clusters of excellence.

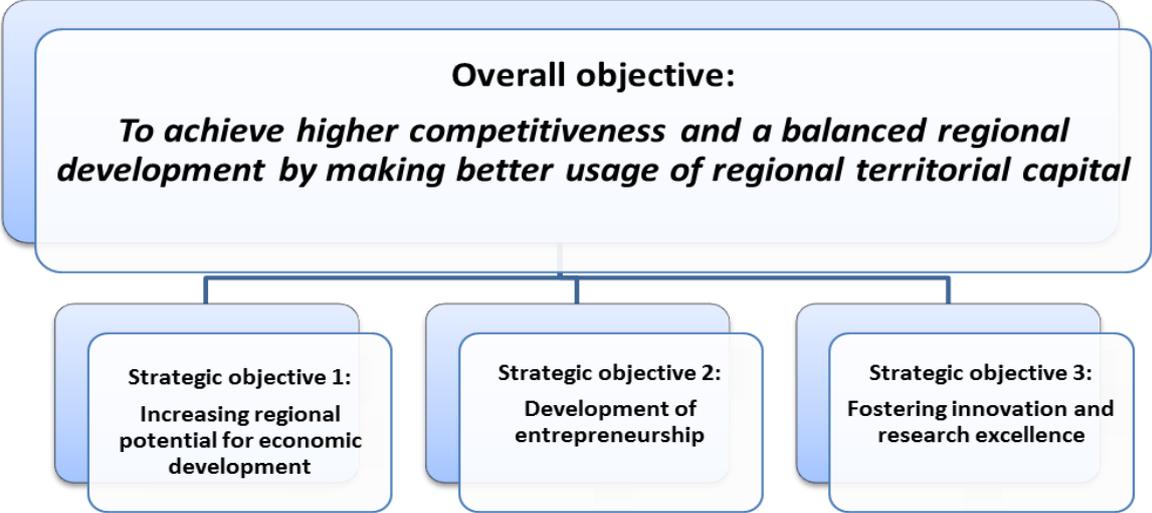
In order to achieve the greater competitiveness of all eligible sectors of the Croatian economy it is necessary to develop a culture of innovation, increase the contribution that science and technology make to the economy, create technological platforms for propulsive sectors, encourage collaboration between business and the existing knowledge base and support technology transfer and commercialisation of innovation. Creating the conditions for implementing technology transfer and developing support for a knowledge-based economy should result in a considerable improvement of the position of the Croatian economy and its sectors in European and global markets.

Priority axis 3: Technical assistance

The purpose of technical assistance is to ensure effective implementation of the programme, development priorities, priority orientations, projects and activities. The activities that will be implemented within the framework of technical assistance will promote recognisability of the programme and its integral parts, the quality of implementation of the project, its monitoring and control over its implementation. Within the framework of technical assistance, different evaluation studies will be carried out and the public will be kept informed of the RCOP achievements. At the same time, support to the bodies within RCOP Management and Control system will be secured with aim to improve management, monitoring and evaluation of the OP, as well as for the retention of

the expert staff through the coverage of related administrative costs and remuneration of OS' staff.

Figure 19: Logical Strategic Framework of the RCOP



Horizontal priority: Internal country cohesion and balanced regional

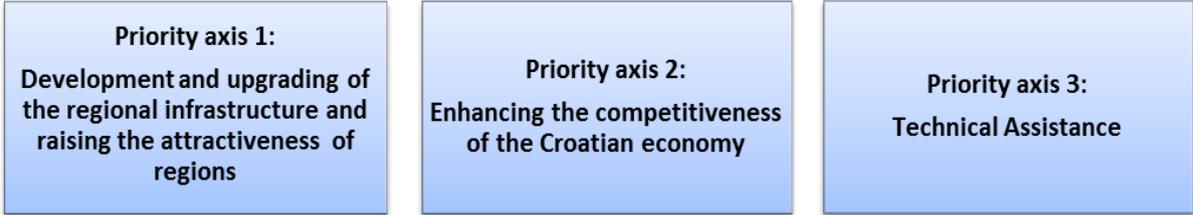


Table 17: Linkage of the RCOP priority axes with the NSRF objectives

NSRF thematic priorities		<i>PRIORITY AXIS 1</i> <i>Development and upgrading of the regional infrastructure and raising the attractiveness of regions</i>	<i>PRIORITY AXIS 2</i> <i>Enhancing the competitiveness of the Croatian economy</i>	<i>PRIORITY AXIS 3</i> <i>Technical assistance</i>
1	Development of modern transportation networks and increased accessibility of the regions	+		
2	Investment in environment infrastructure for sustainable development and improvement of nature and living environment	+	+	
3	Increasing competitiveness of the Croatian economy	++	++	
4	Employment and development of human capital	+	+	
5	Administrative capacity development	+	+	+
Horizontal priority	Internal country cohesion and balanced regional development	++	++	

++ direct link
+ indirect link

2.3.2 Indicative breakdown by categories of interventions - Earmarking

The priority axes covered by the RCOP will contribute to categories 01-09 of the categories of Structural Fund investment identified in EU General Regulation 1083/2006 Article 9. A table with an indicative breakdown of expenditure by category is presented in Annex 7.

2.4 Compliance with EU and national policies

2.4.1 Compliance with EU policies

The NSRF and the RCOP are based on strategic documents of the European Union and Croatia. The RCOP takes these strategic documents into consideration by selecting the objectives and activities relevant for Croatia and by creating an implementation structure for those interventions that most efficiently contribute to the objectives laid down in the NSRF.

Conformity of RCOP with the Community Strategic Guidelines on Cohesion

The RCOP is consistent with the **Community Strategic Guidelines (CSG)** on Cohesion, which define the framework for the operation of Structural Funds and identify areas where Cohesion policy can contribute in the most effective manner to the realization of Community priorities relating to the renewed Lisbon Strategy as defined under the Integrated Guidelines for Growth and Jobs.

The CSG on Cohesion for 2007-2013 are focused on three main guidelines and their related priorities:

1. Make Europe and its regions more attractive places to invest and work
 - expand and improve transport infrastructures
 - strengthen the synergies between environmental protection and growth
 - address Europe's intensive use of traditional energy sources
2. Improve knowledge and innovation for growth
 - increase and improve investment in R&D
 - facilitate innovation and promote entrepreneurship
 - promote the information society for all
 - improve access to finance
3. More and better jobs
 - attract and retain more people in employment and modernise social protection systems
 - improve the adaptability of workers and enterprises and the flexibility of the labour market
 - increase investment in human capital through better education and skills
 - increase administrative capacity

The RCOP conforms to the CSG to an extent defined by its specific nature - it is an OP funded entirely by the ERDF and oriented towards the improvement of competitiveness in Croatia, both at the national and the regional level.

The Operational Programme addresses the first guideline, "making Europe and its regions more attractive places to invest and work", mainly through environmentally friendly interventions. The Programme is responding to the necessity of creating a more attractive atmosphere for investments and work by promoting the compliance of enterprises with

environmental legislation, the rehabilitation of the physical environment (including natural and cultural assets) and support for environmentally friendly technologies.

The second guideline expresses the EU's objective of improving knowledge and innovation for growth. A structural shift in the economy towards knowledge-based activities is a prerequisite for this objective and it calls for action on a number of fronts: to address the low levels of research and technological development (RTD), especially in the private sector, and to increase regional capacity to generate and absorb new technologies and promote innovation. Both priority axes of the OP envisage actions that fully satisfy the EU objectives set by the second guideline.

The third guideline (more and better jobs) addresses interventions financed by the ESF. The RCOP, which is financed by the ERDF, conforms to this guideline indirectly, taking into consideration that the enhancement of Croatian competitiveness will have multiplying effects on employment, producing additional jobs in vital sectors of the national economy.

Moreover, the CSG provide the **territorial dimension of Cohesion Policy**, featuring its capacity to adapt to the particular needs and characteristics of specific geographical challenges and opportunities in order to accomplish more balanced development and build sustainable communities in both urban and rural areas. Such progress is ensured by the following Cohesion Policy parameters:

- contribution of cities to growth and jobs
- supporting the economic diversification of rural areas
- cooperation
- cross-border cooperation
- trans-national cooperation
- interregional cooperation

Rehabilitation of the physical environment, as well as the preservation of historical and cultural heritage, are interventions that comply with the guidelines for the territorial dimension of Cohesion Policy. Moreover, the Programme proposes the development of rural areas - which depend on tourism - through an integrated approach to high-quality tourist services; focused on consumer satisfaction, it will be based on the economic, social and environmental dimensions of sustainable development.

The conformity of the RCOP with the Community Strategic Guidelines on Cohesion is illustrated in the following overview.

Table 18: Conformity of the RCOP with the Community Strategic Guidelines on Cohesion

COMMUNITY STRATEGIC GUIDELINES	PRIORITY AXIS 1	PRIORITY AXIS 2	PRIORITY AXIS 3
1.1 Making Europe and its regions more attractive places to invest and work			
1.1.1 Expand and improve transport infrastructures			
1.1.2 Strengthen the synergies between environmental protection and growth	++	++	
1.1.3 Address Europe's intensive use of traditional energy sources	+	+	
1.2 Improve knowledge and innovation for growth			
1.2.1 Increase and improve investment in RTD	++	++	
1.2.2 Facilitate innovation and promote entrepreneurship	++	++	
1.2.3 Promote the information society for all	+	+	
1.2.4 Improve access to finance	+	+	
1.3 More and better jobs			
1.3.1 Attract and retain more people in employment and modernise social protection systems	+	+	
1.3.2 Improve the adaptability of workers and enterprises and the flexibility of the labour market			
1.3.3 Increase investment in human capital through better education and skills	+	+	
1.3.4 Administrative capacity	+	+	++
1.3.5 Help maintain a healthy labour force			
The territorial dimension of the Cohesion policy			
2.1 The contribution of cities to growth and jobs	++		
2.2 Economic diversification of rural areas	++	+	
2.3 Cooperation			
2.4 Cross-border cooperation			
2.5 Trans-national cooperation		+	
2.6 Interregional cooperation	+		

++ direct link

+ indirect link

Conformity of RCOP with the Europe 2020 Strategy

On 3 March 2010, the European Commission launched the **Europe 2020 - Strategy** for smart, sustainable and inclusive growth to guide Europe in overcoming the current economic crisis and to prepare the European Union's economy for the next decade. The strategy prioritises hastening the crisis' end and facing challenges such as globalisation, a shrinking labour supply, and pressure on energy and resources, as well as providing the building blocks for sustainable growth.

The strategy ensures that Europe's high quality of life and unique social model are maintained and even further enhanced, while employment, productivity and social cohesion are optimised.

The Strategy identifies three mutually reinforcing priorities:

- Smart growth - developing an economy based on knowledge and innovation
- Sustainable growth - promoting a more resource efficient, greener and more competitive economy
- Inclusive growth - fostering a high-employment economy delivering economic, social and territorial cohesion

The Strategy defines the following EU headline targets:

- 75 % of the population aged 20-64 should be employed,
- 3% of the EU's GDP should be invested in R&D,
- the "20/20/20" climate/energy targets should be met,
- the share of early school leavers should be under 10%
- at least 40% of the younger generation should have a tertiary degree and
- 20 million less people should be at risk of poverty.

In order to meet the targets, the Commission proposes a series of seven flagship initiatives in the EUROPE 2020 agenda. The seven flagship initiatives are: Innovation Union, Youth on the move, A digital agenda for Europe, Resource efficient Europe, An industrial policy for the globalisation era, An agenda for new skills and jobs and European platform against poverty. Implementation of these initiatives is a shared priority, and action will be required at all levels - EU, Member States, regional and local authorities.

Flagship initiatives which will be tackled within the scope of RCOP are:

1. Innovation Union
2. A Digital Agenda for Europe
3. Resource efficient Europe and
4. An industrial policy for the globalization era
5. An agenda for new skills and jobs.

Conformity of RCOP with the EU Strategy for Sustainable Development

The EU Strategy for Sustainable Development defines the only compact strategy of the EU for fulfilling its continuous commitment to address the challenges of sustainable development. The EU Sustainable Development Strategy provides an overall framework in which the Lisbon Strategy, with its renewed focus on growth and employment, provides the engine for a more dynamic economy. The objective of this strategy is to support the necessary structural changes that will enable the economies of member states to tackle the challenges of globalisation by establishing equal conditions in which dynamism, innovation and creative entrepreneurship may be developed while ensuring social equality and a healthy environment. This intention is reflected in four key objectives of the EU Sustainable Development Strategy - protection of the environment, social justice and cohesion, economic prosperity and fulfilment of international commitments. The RCOP is focused on achieving economic prosperity but some positive side effects (of mild intensity) are expected on the other three objectives as well.

Other sectoral EU guidelines

Individual sectoral policies and guidelines designed at the EU level provide mandatory or recommended conclusions to be addressed and reflected at national level. The RCOP and its operations fully respect all the relevant policies and guidelines related to the increase of regional competitiveness. The sectoral guidelines taken into consideration in the formulation of the RCOP are listed in Annex 5.

2.4.2 Compliance with national policies

The overall strategic approach for the programming period focuses on the implementation of policies aiming at convergence with the EU, improving the living standards of Croatian citizens, and promoting sustainable and balanced development of Croatia's regions and cities through a range of productive and social capital investments.

The overall objective of the NSRF is to accelerate the economic growth rate and promote sustainable development, with the aim of achieving real convergence.

On the basis of the socio-economic analysis, and the results of extended consultations for setting the above strategic orientations, the following five thematic priorities of the NSRF have been defined:

- Development of modern transportation networks and increased accessibility of the regions
- Investment in environmental infrastructure for sustainable development and improvement of nature and living environment
- Increasing competitiveness of the Croatian economy
- Employment and development of human capital
- Administrative capacity development.

The strategy of RCOP contributes mainly to fulfilment of the thematic priority *Increasing competitiveness of the Croatian economy*.

Internal country cohesion and balanced regional development, as a horizontal priority within the NSRF and consequently within all OPs, is stimulated by growth and the development of regions based on their endogenous conditions (their location, terrain morphology, climatic condition, natural resources and social capital including human capital, traditional products and other traditions, experiences and the images built during the years of their development).

In consideration of the current financial perspective, interventions that promote the competitiveness of regions and balanced regional development will be implemented under those programmes and sectors that are able to generate mature projects.

The main national strategy addressing the competitiveness of the Croatian economy is the **Strategic Development Framework for 2006-2013**.

Table 19: Compliance of RCOP with the Strategic Development Framework (SDF) 2006- 2013

RCOP Strategic objectives	Targets and principles of the SDF 2006-2013
Horizontal priority: Internal country cohesion and balanced regional development	<ul style="list-style-type: none"> - Ensure polycentric regional development and a reduction of the differences in economic development and living standard within counties - Foster sustainable development principles - Support areas lagging behind in development
Strategic objective 1: Increasing regional potential for economic development	<ul style="list-style-type: none"> - Ensure polycentric regional development and a reduction of the differences in economic development and living standard within counties - Develop comprehensive Croatian tourism offer, emphasising the complementarities of Adriatic and continental tourism - Increase quality and diversity of Croatian tourism offer on the overall
Strategic objective 2: Development of entrepreneurship	<ul style="list-style-type: none"> - Develop a favourable entrepreneurial climate as the essential condition for development and prosperity - Further revive industrial production - Create production based on superior technological processes - Encourage export - to slow down the growth of the external debt and deficit of the balance of payment - Promote the development of entrepreneurship as the main instrument of regional development - Achieve openness of economy (importance of export, technology and knowledge transfer) - Establish favourable investment climate - Affirm entrepreneurship as the key activity on which social dynamics and integrity rely - Create adequate conditions for FDI and ensuring permanent inflow of FDI into the export sector - Increasing the country's competitiveness by creating a more productive business environment
Strategic objective 3: Fostering innovation and research excellence	<ul style="list-style-type: none"> - Cope with inadequate use of innovations and scientific results in the development of the economy - Invest in scientific infrastructure and institutions for knowledge transfer - Raise absorption capacity of Croatian scientific organisations with respect to EU programme in R&D, especially through establishing connections with SME - Provide conditions for the transfer of knowledge and technologies in business ventures - Increase investment in science and research, create conditions for increasing investments made by the private sector, including by attracting foreign capital - Transfer knowledge as comprehensively as possible into the development of economy - Create flexible scientific research centres with modern equipment researchers can work on specific projects - Ensure polycentric development of science and research activities - Encourage research partnership and strengthen the support system researchers - Ensure adequate budgetary funds for the establishment of the infrastructure needed for technology transfer and for the start-up and incubation spin-off enterprises from university and research institutions - Achieve optimum usage of research equipment and infrastructure. science and research institutions and the private sector in modernising the research infrastructure

Until recently, Croatia's policy for **regional development** has been implemented through various measures and without a systematic approach covering the entire territory of the country. Several acts focused on specific issues and mainly on the regions that are lagging behind (those affected by war, or those which include islands, border and mountainous regions, or other areas of special state concern).

Therefore, the Croatian government has identified the need for an integrated, coherent regional policy based on its growing concern for the widening gaps in socio-economic differences and development potential between different parts and social groups within the country. In December 2009 the **Act on Regional Development of the Republic of Croatia**¹⁰² was passed and the **Strategy for Regional Development of the Republic of Croatia 2011-2013 (SRDRC)** was adopted in June 2010.

The NSRD ensures that the national and EU regional policy are brought onto a consistent, integrated and effective level, in order to enable the parallel usage of both national and EU cohesion resources, as well as to make possible the reduction of Croatia's internal disparities and catching up of the country as a whole with the average EU socio-economic development levels.

The NSRD encompasses the development priorities and interventions aimed at building the overall development capacity, reducing disparities and building the potential of assisted areas to compete. It also sets out a coherent unified policy and legal framework for regional development as well as a strategy for building the institutional framework on both national and regional level.

At the county level, development is based on the regional development documents called **County Development Strategies (CDS)**, which are in line with the NSRD. The CDSs are prepared by the County Development Agencies in cooperation with the County Partnership Council and in line with the priorities defined for the NUTS 2 regions that seek to match the local and regional development needs with (a) the national and EU development priorities, and (b) the availability of funds and the strategic documents covering the use of EU and national funding resources.

The NSRD is an essential strategic document for regional development; it establishes the most important pre-conditions for successful implementation of Structural Funds relating to regional development in Croatia. With the approved Act on Regional Development and the government's adoption of the NSRD, the situation in regional development and the preparation for Structural Funds is amended mainly in three fields:

- **Legislation.** The **Act on Regional Development**¹⁰³ provides, in parallel with strategy, the legal framework for regional development and the implementation of new measures, including funding from SF;

¹⁰² Act on Regional Development of the Republic of Croatia (OG 153/2009) followed by 6 acts of secondary legislation: 1) Government Decree on the Establishment of Partnership Councils of the NUTS 2 Regions (OG 38/10); 2) Regulation on Mandatory Content, Methodology, and Evaluation of County Development Strategies (OG 53/2010); 3) Regulation on the Registry of County Development Agencies (OG 53/2010); 4) Government Decree on the Development Index (OG 63/2010); 5) Regulation on the Central Electronic Database of Development Projects (OG 66/2010); 6) Government Decision on Categorization of Local and Regional Self-Government Units According to the Development Index Values (OG 89/2010), which lists assisted areas defined in the Law (whereby counties fall into Category I and municipalities into Categories I and II).

¹⁰³ Adopted in December 2009 (OG 153/2009).

- An **institutional framework and management structure** at the national and regional level (NUTS 2 and NUTS 3 regions), which is very important for capacity building and partnership. The act also defines the role of the Agency for Regional Development (established in December 2008)¹⁰⁴ and the roles of relevant ministries, self-government units and County Development Agencies;
- **Planning and programming** at national and regional levels - SWOT analysis and priorities at NUTS 2 level and design of instruments for the development of counties, NUTS 2 regions and assisted areas and also for cross-border cooperation. This should enable multi-annual programming, which is vital for the successful absorption of Structural Funds.

The NRDS provides a coordinated approach to sustainable socio-economic development in the country and connects the top-down and bottom-up development management by linking various ministries and central state institutions with other stakeholders of the country's socio-economic development (at national, regional and local level) in order to achieve a more balanced development of the country and to diminish socio-economic differences.

This approach is reflected on the objective of the NRDS which is to contribute to the economic growth and development of the Republic of Croatia in line with sustainable development principles, by creating conditions that would enable all parts of the country to strengthen their competitiveness and realize their development potential. This will be achieved by:

- accomplishing a better linkage between local and regional development needs with the development priorities at national level and eventually with the interventions of the EU Structural Funds,
- ensuring support for all areas with socio-economic development difficulties in order to increase and exploit their development potential by resolving the cause of their development difficulties, and
- reducing negative effects of national borders on the development of border areas by stimulating cross-border cooperation.

¹⁰⁴ OG 155/2008.

Table 20: Compliance of the RCOP with the Strategy of Regional Development of the Republic of Croatia 2011-2013

RCOP Strategic Objectives	NRDS 2011-2013 Strategic Objectives
Horizontal priority: Internal country cohesion and balanced regional development	STRATEGIC OBJECTIVE 1: DEVELOPMENT OF COUNTIES AND STATISTIC REGIONS Improved linkage between local and regional development needs, national and EU development priorities and the commitment and expenditure of national and EU development resources
	STRATEGIC OBJECTIVE 2. DEVELOPMENT OF ASSISTED AREAS All assisted areas of Croatia are supported to maximise their development potential by addressing the root cause of their disadvantage
	STRATEGIC OBJECTIVE 3. DEVELOPMENT OF BORDER AREAS Negative effects of national borders on the development of border areas diminished
Strategic objective 1: Increasing regional potential for economic development	STRATEGIC OBJECTIVE 1: DEVELOPMENT OF COUNTIES AND STATISTIC REGIONS
	STRATEGIC OBJECTIVE 2. DEVELOPMENT OF ASSISTED AREAS
Strategic objective 2: Development of entrepreneurship	STRATEGIC OBJECTIVE 1: DEVELOPMENT OF COUNTIES AND STATISTIC REGIONS
	STRATEGIC OBJECTIVE 2. DEVELOPMENT OF ASSISTED AREAS
Strategic objective 3: Fostering innovation and research excellence	STRATEGIC OBJECTIVE 1: DEVELOPMENT OF COUNTIES AND STATISTIC REGIONS

Regional development will be supported through utilisation of the regions' particular characteristics and their comparative advantages. This will encourage Croatia's regions to become more competitive on the single European market as well as on the global market and will ensure the growth of the national economy. The aim is to reduce the current significant socio-economic differences between regions through investments in basic infrastructure (as a precondition for competitiveness) and through attempts to limit the depopulation of some regions (which could potentially prevent use of the entire territory of the country).

As the entire territory of Croatia is eligible for the **Convergence Objective** of the EU Cohesion policy, and with the additional consideration that further development of overall competitiveness will not be possible without the participation of the most developed Croatian regions, all Croatian counties will be invited to take part in the proposed activities.

The principle of balanced regional development as a horizontal priority will be applied in such a way that it provides an opportunity for all regions to use their potential for economic and social development to the maximum extent. In parallel, some preferences for the assisted areas are provided in order to reduce regional disparities. The identification of assisted areas is based on the “Development Index” in accordance with the Act on Regional Development of the Republic of Croatia, article 24, which divides the self-governing units into categories (assisted areas being defined as counties falling into Category I, and municipalities falling into Category I and II, namely all units which development index is below 75% of the national average).

All self-governing units falling in the same category shall receive the same level of preferences (Category I having higher volume of preferences than Category II). The preferences can have three possible forms:

- extra points within the scoring process,
- a higher level intensity of assistance¹⁰⁵, and
- a percentage of co-financing provided by the national level instead of the applicant.

The strategy of increasing the development potential of the regions covers business-related infrastructure (communal and support infrastructure inside business zones and public tourism-related infrastructure), the infrastructure of e-communication, as well as cultural and historical heritage related to the tourism development. Support of economic activity (direct or indirect support to SME) has to be accompanied by the creation of favourable conditions for workers and their families, facilitating their participation in the labour market, and thus making regions an attractive place to live and work. All of the above will also help tackle the issue of the excessive concentration of population in larger cities and the depopulation of the countryside.

ERDF co-financed investments in the field of **tourism** will focus on better utilisation of natural and cultural resources, as well as on other manmade potential for developing tourism; more specifically, they will focus on prolonging the tourist season, attracting tourists all year round (with the goal of developing tourism in the continental areas too, through specific forms of tourism such as MICE¹⁰⁶, spa tourism, mountain tourism, rural tourism, active and hobby-based tourism, etc.), and on increasing and improving the structure of foreign visitors. Efforts will also be made to improve the public infrastructure for tourists, including cultural infrastructure and commercial facilities (accommodation, leisure, sports, recreation, rehabilitation, amusement, conferences, etc.) operated mainly by SME. The competitiveness of Croatian tourism will therefore be supported by both the improvement of the products for tourism (through new facilities and services) and intensive promotion and marketing activities on both domestic and foreign markets. The proposed interventions are in full accordance with the **Strategy for Croatian Tourism Development** and the long-term vision that is a part of this document.

Various national strategic documents have influenced the RCOP. The tables in Annex 3 show the links between the various national strategic documents and the foreseen types of interventions for each type of operations of the RCOP.

¹⁰⁵ Assistance intensity - % share of the grant in the total eligible cost of the project, e.g., for SME, a 50% grant of the total eligible cost in a less developed region, but only 40% or 35% in the most developed region.

¹⁰⁶ Meetings, incentives, conferences and exhibitions.

2.5 Ex ante evaluation

Ex-ante evaluation of the RCOP was undertaken between March and June 2012, in line with the Council Regulation 1083/2006. Draft report was presented to the main stakeholders in June and the final report was delivered in August 2012.

The evaluation was undertaken in the framework of the IPA 2008 project “Ex-ante evaluation of programming documents and strengthening evaluation capacity for EU funds post-accession”. The main reference document of the evaluation was the draft RCOP last edited in March 2012.

The ex-ante evaluation report was built on the following methodology:

- Desk-based review of background literature, Programme texts, operation manuals and other documentation, including previous evaluations, progress reports, annual implementation reports, and policy documents;
- Data analysis of monitoring information and Programme performance indicators, along with wider labour market and socioeconomic data;
- Strategic consultations with each of the key stakeholders, including all Ministries having management and thematic responsibilities in relation to the various interventions of the OP;
- Evaluation of the Priorities - and, in exceptional cases individual measures against the set evaluation criteria.

The complete ex-ante evaluation report is presented in Annex 6 while an excerpt containing the summary of the findings is offered below.

The main conclusions of the ex-ante evaluation are presented as follows:

- The objectives of the Programme in general respond to the needs and opportunities described in its analytical chapter. Policy choices broadly fit to the related policy environment set by the relevant national regional and sector policy frameworks, and also take into account the specific circumstances of the programming.
- The intervention logic of the Programme is valid and operational.
- Territorial aspects have been considered by the strategy.
- Increasing attention on the tourism sector raises the issue of stronger involvement of specific stakeholders of this sector in programming and management in the future.
- Indicators presented are largely appropriate to measure the changes in relation to the specific objectives of the Programme.
- Planned measures are expected to sufficiently promote the principle of equal opportunities and sustainable development, but areas of special concerns of neither equal opportunity nor environmental issues have been identified.
- In the R&D sector the greater involvement of the private sector would be beneficial already in the programming phase.
- The expected impact of the Programme is broadly in line with the objectives set. Socio-economic impacts are limited by the relatively modest amount of financial resources allocated to the programme.
- The management structure of the Programme will almost certainly follow the one established by the IPA OP. On one hand the system itself can be considered as being set up and operational, on the other hand, to be reliably operational under the

Structural Funds period, further steps of developing these institutions are to be made.

- The management of the OP focused on developing targeted project pipelines to the grant schemes implemented and less emphasis has been placed on creating and developing an institutional system that might become gradually self-sustaining and deliver continuous advice and assistance for further beneficiaries.

On the basis of the above conclusions, the following recommendations have been proposed:

1. To improve efficiency of handling territorial disparities, encourage, coordinate and assist counties to update their county development strategies and extend already planned preferences by targeted additional assistance to project holders in assisted regions.
2. Strengthen the input from the tourism sector representatives to programming and project selection, including by a more intense cooperation with industry stakeholders and local and territorial self-governments.
3. For R&D schemes prepare the extension of the eligibility to the private sector and consider launching a pilot scheme to collect experiences upfront.
4. Improve the quality of the main indicators for the purposes of evaluation.
5. Take necessary decision on the management structure and devise and make public a comprehensive roadmap with regard to the evolution of the roles of the current institutions involved in the management of the OP, including the IB's designated earlier.
6. Devise a comprehensive set of interventions in the delivery system of the OP, including coordinated actions in the review and re-design the assessment and contracting procedures and, for accelerating the pace of physical implementation of the projects, the reinforcement of technical assistance services for beneficiaries and physical monitoring activity.
7. Extend the scope of the presently available EU-funded instruments to support the consolidation and further development of local and sub-national institutions in charge of assisting potential beneficiaries in generating and developing projects.
8. Monitor the horizontal issues (equal participation of women and the promotion of the participation of vulnerable groups as well as environmental sustainability of the relevant operations).
9. Develop the analytical chapter of the OP to improve the clarity and the coverage of the analysis, as well as the coherence between analysis and the objectives.

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

1. New Strategy of Regional Development of Republic of Croatia, as well as County Development Strategies will be prepared for the period from 2014 to 2020 and the EU strategic documents such as EU2020 Strategy will be considered. However, due to the short period of implementation of the ERDF RCOP, updating of strategic documents which refers to period from 2011 to 2013 can be done only on the

individual basis. All actions within Priority 1 have to be in line with existing territorial development strategies (this rule has already been applied under IPA). Support to sub-national institutional structure is envisaged by national actions (Programme of preparation and implementation of projects), through support given to potential applicants, continuous communication and partnerships with SRDP and through Priority 3 actions.

2. Input from the tourism sector has been strengthened. Representatives of the Ministry of Tourism participated actively in preparation of the RCOP, especially in the socio-economic analysis for the tourism sector. The Ministry of Tourism and Ministry of Culture are included in the development of selection criteria together with MRDEUF/SRDP and can propose strategic projects to be included in the pipeline.
3. In the first versions of the RCOP 2012-2013, when it was considered that Croatia will become EU member state at the beginning of 2012, it was envisaged to include both private and public sector for R&D schemes, considering the fact that R&D scheme aims at fostering applied research and collaboration of public institutions with business partners (either private or public). However, under the current circumstances, where the initial Structure Funds period has been shortened to only 6 months in 2013, it would not be feasible to introduce such a substantial change of the R&D scheme design. Namely, there are two major limiting factors determining the design of the R&D scheme: timeline (as described above) and design of the existing RCOP with set priority axes and defined beneficiaries (Higher Education Institutions and Public Research Organisations for R&D sector). Given the above limited conditions for the programming of R&D scheme for the initial Structure funds period, MSES has decided to follow the step-by-step approach and gradual introduction of full eligibility of private sector representatives. In the design of the First Call of the Science and Innovation Investment Fund (SIIF) under RCOP 2007-2009, collaboration with SMEs was possible through SME associates, but it was neither mandatory, nor awarded with extra points. During the evaluation process of the project proposals it became obvious that there was a certain number of proposed SME associates and that this type of proposals should be awarded in the future schemes in order to encourage development of entrepreneurship based on research and innovation. Thus, the second Call for proposals within SIIF was designed to give extra points to the projects with the proposed associates. Finally, in the currently planned scheme for 2013, business associates (SMEs) will be mandatory and encouraged through extra points in the evaluation. From year 2014 onwards the private sector will be included in the optimal way, in close collaboration with the Ministry of Entrepreneurship and crafts.
4. Indicators have been further addressed and in line with the table of indicators from the last IPA modification 2012-2013.
5. Section 4 Implementation contains more information regarding the mentioned issues, while they are also being addressed through Priority 3 of the RCOP (i.e. through remuneration and trainings of staff) and appropriate modalities are being further developed nationally along within the scope of the preparations for the compliance assessment procedure.
6. Please see previous comment 5.

7. The activities to strengthen sub-national network of institution are envisaged within some national actions, continuous communication with the regional coordinators (including their participations in education for potential applicant and other educational activities) and within Priority 3.
8. Horizontal issues (gender equality and environmental protection especially) will be considered as requirements for all actions and additional promotion of those issues is envisaged through the scoring system.
9. The analytical chapter of the RCOP has been further developed. Analysis of the tourism sector for instance provides more details, including more information on cultural tourism, natural heritage, accommodation facilities condition etc. supporting the statements given in SWOT table, as was done for the other relevant sectors as well.

The implementation of **Strategic Environmental Assessment (SEA)** also belongs to the framework of ex-ante evaluation. The purpose of the strategic environmental assessment is to ensure the high level of environmental protection and contribute to the inclusion of the environmental aspects into the preparation and adoption of plans and programmes in order to promote sustainable development. This can be achieved by ensuring the environmental assessment of some plans and programmes which will probably have a significant impact on environment.

****CURRENT STATUS**** - SEA has been performed in line with the draft ERDF RCOP 2012-2013 from 2010 and is now being modified and finalised according to this draft of the OP. The expected outcome is expected to be favourable, as was the one for the mentioned ERDF OP 2012-2013, since this final ERDF RCOP encompasses a shorter period of implementation and thus less fields of interventions than the 2012-2013 draft did (it also included educational, health and IT infrastructure, which have been excluded from this OP draft).**

2.6 Partnership process

The development of the RCOP is carried out through an extensive consultation exercise led by the future Managing Authority (MA) of the OP - Ministry of Economy. This consultation exercise puts into the practice one of the key principles in preparation of the OP and strategic planning in general - a principle of partnership, as it is defined in the Council Regulation No. 1083/2006 (the General Regulation).

Partnership principle has been introduced through the establishment of the RCOP Drafting Group comprising representatives of the relevant state institutions. The composition of the OP Drafting Group is shown in Annex 1.

The OP Drafting Group has held fourteen meetings so far. Additional meetings of sub-groups were held for discussion on particular priority axes' structure, measures, operations and indicative fields of eligible activities.

During these meetings the content and focus of the RCOP was discussed in depth. The OP drafting group members were involved in the entire preparation of the RCOP. One week following each meeting, written contributions and comments to the discussed chapters were submitted to ME. Besides the contents of the priority axes, the OP drafting group also discussed the number, scope and focus of the RCOP Grant Schemes and the strategic orientations of the programme.

The OP Drafting Group and its members also contributed to the collection of data related to the sectoral analysis and information on the sectoral strategies. It also discussed at length the various areas of potential support from the RCOP, for the sectors of culture, social welfare and employment, which have finally not been included in the RCOP due to the absence of clear medium term strategies and planned interventions. The contribution of the OP Drafting Group consultations proved particularly useful in relation to the number, contents and scope of the grant schemes.

The work of the OP Drafting Group was an integral part for preparation of the RCOP under the management of ME as a predesigned MA and brought all necessary inputs and benefits from the stakeholders' cooperation and coordination. The OP Drafting Group is aware of the fact that the partnership approach safeguards the transparency of the programming process and enhances the chances for ultimate success of the interventions supported by the Operational Programme.

Building on previous experiences under the programming of the IPA RCOP, the consultation process for the current programming exercise has been further developed.

- A thorough analysis, including interviews with regional and local stakeholders, was carried out in order to identify gaps in reaching the relevant stakeholders and in using their inputs in the previous programming period. The analysis has shown that there is room for improvement; specifically, the consultation process should start early in the process of programming, thus avoiding relevant changes being introduced late in the process.
- In order to ensure ownership of the Operational Programme, it should be prepared in close consultation with relevant stakeholders, both national and regional.
- The institutions to be consulted on the Operational Programme should be different from those directly involved in its preparation.

In respect of these principles, the OP Drafting Group organised a first partnership consultation meeting on 15 July 2009, where the first draft document was presented and discussed. Following the discussion, the OP Drafting Group members were given additional time for written comments, which were expected to be the result of their own discussions with their respective counterparts.

Public consultations on the National Strategic Reference Framework and the relevant OPs organized by CODEF took place on 18 June 2010. The list of invited stakeholders included regional and local government representatives as well as representatives of public and scientific institutions. On this occasion the NSRF and OPs were presented, including RCOP with its strategic objective, goals, priority axes, measures, operations and potential beneficiaries. During the sectoral discussion on RCOP, types of operations and projects which were in a preparatory phase were presented. Stakeholders had the opportunity to find out which are the possibilities for including projects to the project pipeline, which are the preconditions for successful nomination of projects and whether there are possibilities to introduce additional priorities to the OP.

2.7 Horizontal issues

The various EU strategies define horizontal priorities influencing, in a complementary manner, fields such as **equal opportunities** (gender equality, eliminating discrimination of all kinds), **sustainable development** and an **information society**. The fields of support defined in the RCOP contribute, in line with their focus and possibilities, to the achievement of these horizontal objectives. The general meaning of each of the horizontal priorities is to ensure that a specifically defined objective is realised; this mainly relates to the various priorities of the NSRF and for that reason the objectives are difficult to achieve through one OP only. A coordinated approach, transcending the more specific priorities or projects, is therefore required. The realisation of horizontal priorities will be the subject of monitoring in RCOP annual reports.

2.7.1 Equal opportunities

Equal opportunities are a part of the European strategy for employment and the European framework strategy of non-discrimination and equal opportunities for all.

The issue of equal opportunities has been projected to the realisation of those specific objectives and areas where there is a potential risk of discrimination in terms of gender, age, race, disability, ethnic origin or religious status. The issue plays a key role in the fulfilment of active employment policy objectives, when resolving the balance of supply and demand in the labour market, and in preventing unemployment for persons threatened with unemployment.

To promote equality and combat discrimination, the RCOP and the projects implemented under it will be monitored to determine whether they are accessible to all of their potential end beneficiaries, regardless of the beneficiaries' gender, disability and/or age, racial and/or ethnic origin or religious status.

The principles of equality and non-discrimination have been ensured within the RCOP during the programming period and will continue to be ensured in its implementation. They will also be taken into consideration during evaluation processes (ex-ante, ongoing, etc.).

The issue of equal opportunities for men and women (Gender equality) cuts right across all operational programmes. Croatia endorses the EU policies in this field, and considers equality between men and women a precondition for fulfilling the overall EU objectives of growth, employment and social cohesion. Increased participation of women in the labour market offers both a guarantee of their economic independence and a substantial contribution to economic development and the sustainability of social protection systems. Croatia acknowledges that it is crucial to pursue and reinforce gender mainstreaming in the area of employment and social policies and to continue efforts to remove barriers to the full participation of men and women in the labour market.

In September 2006, the Croatian government adopted the National Policy for the Promotion of Gender Equality, 2006-2010. The objectives of the policy include the reduction of female unemployment and the elimination of discrimination, the promotion of female entrepreneurship and stronger enforcement of relevant labour laws. The policy also strengthens and promotes measures that support the reconciliation of professional and family obligations.

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

The RCOP is elaborated with respect to the principle of gender equality and non-discrimination. The relationship of the RCOP with the horizontal issues is more indirect in terms of social protection systems and government transparency as it is predominantly a programme for enhancing economic growth.

The principle of equal opportunities is addressed by all priorities (either directly or indirectly), mainly through preference points in the projects' assessment process. The potential beneficiaries requesting financial assistance through the RCOP shall demonstrate that the projects do not infringe this principle.

The obligation to respect equal opportunities, as one of the EU horizontal priorities, is laid down in the specification of conditions for the provision of assistance within the scope of individual support programmes. To ensure that this principle is taken into account at all levels of implementation, the following procedures shall be adopted during implementation of the RCOP:

- The requirement to ensure and demonstrate gender equality in the operation of RCOP projects shall be included in information and publicity campaigns, and in materials provided during calls for proposals/tender processes.
- Applicants in RCOP calls for proposals shall be expected to demonstrate how their project promotes equal opportunities or otherwise takes account of potential gender bias. They shall be requested to assess and describe, in the relevant part of the application, the project's impact on equal opportunities, i.e., determine whether the project focuses primarily on the promotion of equal opportunities, whether it has a positive effect on equal opportunities, or whether it is neutral from the perspective of equal opportunities.
- The requirement to observe equality of opportunities during project implementation shall be built into agreements with beneficiaries, and shall be checked as part of the internal controls and independent audit process.
- The projects indicators shall be broken down by gender where appropriate for the purposes of project and programme monitoring.
- Commentary shall be prepared on operations linked to equal opportunities in the annual implementation reports of the Operational Programme.

The impact of the OP on gender equality will be considered part of its evaluation, where relevant.

2.7.2 Sustainable development

The European Council has set the strategic goal for the EU of *becoming the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion*. It was further decided that the EU sustainable development strategy should build on this political commitment and complete it by including an **environmental dimension**, recognising that in the long term, **economic growth, social cohesion and environmental protection must go hand in hand**. The European Council considers sustainable development to be a key principle governing all the policies and activities of the EU. In this context, the "Declaration on the Guiding Principles for Sustainable Development" was approved. Principles of sustainable development are included in the RCOP as well as in other national policies and strategies.

Overcoming environmental degradation and resource consumption from economic and social development requires a major reorientation of public and private investment towards new, environmentally friendly technologies. This sustainable development strategy will function as a catalyst for Croatian and EU policy-makers and public opinion in the coming years; it is a driving force for Croatian institutional reform. Clear, stable, long-term objectives will shape expectations and create the conditions in which businesses have the confidence to invest in innovative solutions, and to create new, high-quality jobs.

Croatia's efforts to comply with sustainable development principles are imprinted in strategic documents elaborated during recent years, the most relevant being the Strategic Development Framework, 2006-2013 (2006), the National Environmental Strategy (2002), the Energy Development Strategy of the Republic of Croatia (2002), the National Waste Management Strategy (2005), the National Action Plan for the Protection and Improvement of Air Quality 2008-2011, and the National Strategy and Action Plan for the Protection of Biological and Landscape Diversity (2008).

Innovative technologies introduced in the Croatian economic sector will have either a positive or at least a neutral impact on climate change. Direct support will be granted to those activities and projects that promote the upgrading of existing technologies in order to mitigate their environmental impact and the introduction of environmentally friendly technologies.

The foreseen operations will support not only the acquisition of new equipment and technologies that are in compliance with environment regulations but also activities implementing European environmental standards and environmental management systems by enterprises.

Stimulating the transfer of modern technologies and innovation adapted to European environment standards will lead not only to an improvement in the competitiveness of Croatian enterprises but also to a reduction in their environmentally negative impact.

Special attention is devoted to reduction of the economy's consumption of energy and raw materials; the encouragement of cooperation among companies, non-governmental organisations and scientific institutes for the development of more environmentally friendly production processes and products; complex support to meet EU requirements in the area of environmental protection and emissions; the implementation and subsequent certification of environmental management systems in companies, etc. All these activities are aimed at improving the effectiveness and competitiveness of enterprises and the economy, as well as at reducing the adverse effects on nature of fast-track economic development.

Projects co-financed by the Operational Programme will fully respect the provisions of the Environmental Impact Assessment Directive, the Strategic Environmental Assessment and Natura 2000 Directive. Appropriate screening criteria will be applied at the projects' selection stage to ensure that the projects are compliant with the above-mentioned directives.

To ensure that sustainability and environmental protection are taken into account throughout programme management and implementation, the following procedures will be adopted:

- The promotion of environmental protection and sustainable development will be included in **information and publicity campaigns**, and materials provided during calls for proposals and tendering processes.
- Applicants for RCOP calls will be expected to prove that their project will **not have a harmful environmental impact**, to certify that it is environmentally neutral and/or to present how the project will make a positive contribution to sustainable development. These factors will be taken into account through the project appraisal process and selection criteria, if appropriate; where appropriate, projects should be compliant with the **EU environmental *acquis***, including the Environmental Impact Assessment (EIA) legislation.
- Any consequences of the appraisal of environmental impact during the selection stage will be reflected in agreements with beneficiaries, and will be checked as part of the internal controls and audit process.
- Commentary will be prepared on operations linked to environmental protection and sustainable development in the annual implementation reports of the Operational Programme.

The impact of RCOP on environmental protection and sustainable development has been considered as part of its ex ante evaluation and will be included in any further evaluations, where relevant.

2.7.3 Information society

One of the possibilities for achieving faster economic growth at present is directly connected to the use and dissemination of information and communication technologies (ICT). Informatisation provides the opportunity to increase the competitiveness of enterprises and to reveal new perspectives both in work organisation and in the creation of good quality jobs. One of the key goals of the Lisbon Strategy is to hasten the transition to a knowledge-based economy, where scientific research activities and innovation contribute effectively to economic growth.

Horizontally, the development of information society will be supported through the RCOP, namely through activities enhancing availability of communication, technology and applications infrastructure in business related infrastructure. The RCOP will contribute to the development of information society in Croatia, also by stimulating better utilisation of information technologies by enterprises in order to increase their competitiveness.

In this respect, under the RCOP and also under other OPs, the focus will also be on optimising specific services provided by the central state authorities and on integrating the technology and applications infrastructure.

SECTION 3: PRIORITY AXES

3.1. Priority axis 1: Development and upgrading of the regional infrastructure and raising the attractiveness of regions

Priority axis 1 contributes to the achievements of the Programme's strategic objective "increasing regional potential for economic development" through the following types of operations:

3.1.1 Support to public infrastructure

3.1.1.1 Main goals

Priority axis 1 of the RCOP is focused on setting up and developing public infrastructure, namely business- and tourism-related infrastructure in order to increase the attractiveness of Croatian regions for entrepreneurs and workers, inhabitants and visitors as well as to stimulate economic growth and job creation. Investments will focus on: improving the efficiency, capacity, quality and attractiveness of existing business zones, new and existing business incubators, and other business support entities grouping and servicing SMEs; and enhancing the infrastructural capacity leading to increased tourism activity.

In line with the strategic objective "increasing regional potential for economic development" this priority axis will also target the preparation of larger infrastructure projects with regional dimension and of intraregional importance targeting specific regional development needs.

The **specific goals** of Priority axis 1. Development and upgrading of the regional infrastructure and raising the attractiveness of regions are:

- Support to the public authorities in creating and/or developing operational business, R&D&I and tourism infrastructures providing scope for sustainable development of business, to attract investments, which will contribute to job creation and thus prevent brain drain and depopulation of less urbanised areas;
- Enhancing the regional tourism potential to develop and market sustainable and diversified, territorially specific and higher value-added tourist products.

3.1.1.2. Quantified Targets and Indicators

PA1 - Priority axis 1: Development and upgrading of the regional infrastructure and raising the attractiveness of regions

Objective	Indicator	Type of indicator	Definition	Unit	Baseline value (2007)	Source	Frequency of reviewing	Target (2012)	Target (2014)	Target (2016)
To increase the attractiveness of Croatian regions for entrepreneurs and workers, inhabitants and visitors	Jobs created	Result indicator	Number of full-time jobs created by provision of new/upgraded business/tourism infrastructure 3 years after the project completion	Number	0	MIS *	Annually	20	70	200
	SMEs established	Result indicator	Number of SMEs established/expanded by provision of new/upgraded business/tourism infrastructure 3 years after the project completion	Number	0	MIS *	Annually	9	30	75
	Visits in assisted cultural and tourism facilities increased	Result indicator	Increase in number of visits in cultural and tourism facilities assisted 3 years after the project completion	Number	0	Counties' Office for Statistics, MIS *	Annually	6,000	12,000	18,000
	Public tourism related infrastructure project completed	Output indicator	Projects related to new construction and renewal of existing public tourism related infrastructure	Number	0	Grant contracts signed/Final reports of grant beneficiaries approved by IB	Annually	0	12	15

	Public business related infrastructure project completed	Output indicator	Projects related to new construction and renewal of existing public business related infrastructure	Number	0	Grant contracts signed/Final reports of grant beneficiaries approved by IB	Annually	0	13	18
	Project pipeline prepared	Output indicator	Project applications with complete documentation for submission to IPA Business related grant scheme	Number	0	Contractor's periodical reports;	Annually	20	20	20
To support public authorities in preparation of projects for 2014-2020 period	Regional projects prepared	Output indicator	Number of projects prepared (with all necessary technical documentation) ready to be implemented	Number	0	Contactors' periodical reports; MIS	Annually	0	10	10

* The MIS will generate the information from beneficiaries' periodical reports and, where necessary, ex-post evaluations

3.1.1.3. Expected impacts

The successful implementation of interventions under Priority axis 1 is expected to increase the overall competitiveness of Croatian regions and contribute to holding-back growing regional disparities by enhancing regions' attractiveness for entrepreneurs, workers, visitors and inhabitants.

More specifically, this priority axis will support the development potential of the Croatian regions by contributing to:

- higher attractiveness for investors;
- generating opportunities for employment;
- establishing new SMEs;
- higher attractiveness for local inhabitants to live in particular regions due to the improved economic and social conditions (balance of immigration at NUTS 3 level);
- enrichment and diversification of the Croatian tourism offer;
- enhancing intraregional cooperation on the NUTS 2 level.

3.1.1.4 Indicative list of operations

This intervention is to be implemented through the following types of operations aiming at:

3.1: Support to public infrastructure

In an attempt to further improve the environment for FDI and other investments, and strengthen the competitiveness of Croatian SMEs, Croatia will invest additional funds in existing business zones and business support institutions, which will be equipped with all required infrastructure necessary to attract investments with employment potential.

It is envisaged that business zones with enhanced infrastructure will be able to provide additional services, generating added value to potential investors in the form of strategic training centres, technology transfer centres with incubation centres, research and development centres, business, logistics and distribution centres, centres of excellence, etc. and additional value added services thus increasing the occupancy rates and generating new employment.

Interventions in the field of public tourism infrastructure will be carried out to improve public tourist infrastructure including cultural heritage objects, with the objective of increasing the attractiveness of tourist destinations, development of selective type of tourism, prolonging the tourist season attracting tourists all year round, supporting tourism also on the mainland, and increasing the number and improving the structure of foreign visitors. Under this operation, cultural heritage objects of national interest will be widely integrated in the social and economic life of the regions.

Activities funded will mostly focus on the construction of new and reconstruction/modernisation of existing capacities, improvement of public spaces within tourist destinations, upgrading and diversification of facilities and features within the tourist locations.

This type of operations will target also the preparation of projects and their implementation with a focus on the preparation of larger infrastructure projects with regional dimension for the next programming period.

3.1.1.5. Indicative list of beneficiaries/target groups

Potential beneficiaries of the interventions under Priority axis 1 of the RCOP are:

- ministry in charge of regional development;
- self-governing units at the county and municipal level and their development agencies;
- national/regional/local public institutions or associations;
- other regional business support organisations and institutions representing the business community, industries, professional associations, chamber of economy, chamber of trade and crafts, association of cooperatives, etc.;
- public companies owned by regional/local self-government units;
- national/regional/local tourism boards and associations;
- non-profit organisations from the private sector such as NGOs, foundations and associations, including professional associations, and other, and
- nationally established bodies with local jurisdiction¹⁰⁷.

¹⁰⁷ National and Nature Parks.

3.2. Priority axis 2: Enhancing Competitiveness of the Croatian Economy

Priority axis 2 contributes to the achievements of the Programme's strategic objectives development of entrepreneurship and fostering innovation and research excellence.

3.2.1 Main goals

Through the following interventions, this Priority axis aims to provide better support to the development of SME competitiveness by assisting the sustainable growth of productivity, reinforcement of SMEs and their ability to compete in international markets and improving key elements ensuring a positive business climate as a way of increasing regional competitiveness and faster economic growth. This Priority axis also aims to improve overall competitiveness of the Croatian economy by improving conditions for innovation in the public R&D&I sector and thus support the generation of the pool of new ideas and technological solutions, which form the basis for economic growth and establishment of a competitive economy and will support the creation and growth of technology as well as knowledge-based SMEs.

The **specific goals** of the Priority axis 2 Enhancing Competitiveness of the Croatian Economy are:

- Increasing public administrative efficiency in order to create better conditions for a more favourable business environment;
- Improving SMEs' efficiency and productivity levels by supporting investments related to innovations in production processes and introducing the results of R&D into production leading to increase in development potential for new and competitive products;
- Improving the quality of institutional support to SME development at national and regional levels leading to better targeting of SMEs' needs and strengthening of knowledge base of enterprises through strengthening their support institutions in knowledge transfer;
- Enhancing commercial value of natural resources, cultural heritage and other manmade potential for the development of tourism by diversifying services and expanding the tourist offer;

- Stimulation of networking and clustering;
- Building capacities of higher education institutions and public research organisations for technology transfer activities and enhanced cooperation with industry;
- Fostering commercialization of research results and innovation and research excellence through R&D activities oriented towards the needs of economy;
- Improving overall conditions for R&D&I through infrastructural investments and investments in necessary research equipment;
- Enhancing capacities for Structural Funds project preparation and building up the project pipeline for the next financial perspective.

3.2. Quantified Targets and Indicators - PA2 - Priority axis 2: Enhancing Competitiveness of the Croatian Economy

Objective	Indicator	Type of indicator	Definition	Unit	Baseline value (2007)	Source	Frequency of reviewing	Target (2012)	Target (2014)	Target (2016)
Development of entrepreneurship	Investments induced (in assisted SMEs) CORE	Result indicator	Gross investments made by supported enterprises	mil. EUR	0*	MIS**	Annually, 2-3 yrs after the end of project	0	4.75	70
Fostering innovation and research excellence	Cooperation agreements between HEIs and PROs and business/industry signed	Result indicator	Projects financed from the grant scheme and under which these agreements have been signed, max 2 years following project	Number	0	MIS**	Annually, 2-3 yrs after the end of project	0	2	5

Objective	Indicator	Type of indicator	Definition	Unit	Baseline value (2007)	Source	Frequency of reviewing	Target (2012)	Target (2014)	Target (2016)
			completion							
	Number of start-ups occupying Biocentre	Result indicator	BiIncubation Programme launched	Number	0	MIS**	Annually, 2-3 yrs after the end of project	0	0	7
	Number of jobs created	Result indicator	Number of new employees in start-up companies occupying Biocentre	Number	0	MIS**	Annually, 2-3 yrs after the end of project	0	0	30

* The MIS will generate the information from beneficiaries' periodical reports and, where necessary, ex-post evaluations

Objective	Indicator	Type of indicator	Definition	Unit	Baseline value (2007)	Source	Frequency of reviewing	Target (2012)	Target (2014)	Target (2016)
To improve public business support	Comprehensive system of tools for monitoring the business climate established and counties assisted	Output indicator	Comprehensive system of tools consists of methodologies, register of incentives and studies	Number	0	MIS **	Annually	0	1	1
	Business Support Service Professionals assisted	Output indicator	Business Support Service Professionals receiving training in providing business advisory services	Number	0	MIS **	Annually	100	100	100
	Business Support Institutions (BSI) assisted		BSI and Business Associations receiving training in providing	Number	0	MIS**	Annually	31	119	200

		Output indicator	business advisory services and in improving communication with business community; e-business centres receiving training and physical investment support; Counties supported in improving investment performance through certification							
To improve SMEs competitiveness	Individual SMEs and Clusters assisted	Output	SMEs receiving business advisory	Number	0	MIS**	Annually	220	345	560

		indicator	services and SMEs directly supported through grants; Clusters receiving support in clustering and internationalisation							
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* The MIS will generate the information from beneficiaries' periodical reports and, where necessary, ex-post evaluations

Objective	Indicator	Type of indicator	Definition	Unit	Baseline value (2007)	Source	Frequency of reviewing	Target (2012)	Target (2014)	Target (2016)
To improve technology transfer and commercialization capacities of higher education institutions and public research organizations	Knowledge transfer projects completed	Output Indicator	Projects involving establishment and/or equipping of technology transfer offices and research institutions; proof of concept projects and collaborative projects with industry	Number	0	MIS**	Annually	6	20	50
	Project pipeline prepared	Output Indicator	Project applications with complete documentation for submission to science & technology grant schemes	Number	0	MIS**	Annually	30	30	30
				Infrastructure projects in the area of R&D&I prepared for application in the new financial perspective 2014-2020	Number	0	MIS**	Annually	0	3

	Biotechnology incubation centre (BioCentre) completed	Output Indicator	BioCentre constructed and equipped together with accompanying facilities	Number	0	MIS**	By the end of the project	0	0	1
	Equipment for advanced technologies (grid infrastructure) provided	Output Indicator	Project providing equipment to University computing centre (SRCE)	Number	0	MIS**	By the end of the project	1	1	1
	All research centres and laboratories at Rijeka Campus equipped	Output Indicator	Project providing research equipment to Rijeka University Campus	Number	0	MIS**	By the end of the project	0	4 centres and Laboratories equipped	4 centres and Laboratories equipped

* The MIS will generate the information from beneficiaries' periodical reports and, where necessary, ex-post evaluations

3.2.3 Expected impacts

Interventions under Priority axis 2 of the RCOP are expected to increase the competitiveness of the Croatian regions through direct and indirect support to SMEs and public higher education institutions and research organisations as a factor of sustainable economic growth. They are expected to establish a clear path for Croatian development based on research and innovation and produce a higher implementation of innovative and advanced technologies in business resulting in increased productivity and efficiency, added value, and motivation for development of new businesses as well as to improve the quality of institutional support to SME development at national and regional levels leading to better targeting of SMEs' needs.

More specifically, the investments of the RCOP will improve the conditions for successful development of entrepreneurship based on research and innovation and increased competitiveness i.e. should result in:

- Strengthened capacities and capabilities of SMEs service providers making quality business advisory services at all levels more accessible to SMEs;
- Strengthened competitive ability of SMEs at the national and regional level;
- Enhanced sustainable tourism development through improved commercial potential of natural resources, cultural heritage and other manmade resources;
- Strengthened capacities of the public R&D&I sector for technology transfer;
- Improved conditions for the development of a knowledge-based economy through technology transfers and support to research, technology development, innovation and commercialization activities;
- Established and improved research and innovation related infrastructure;
- Strengthened administrative capacities (project documentation prepared) and preparedness for the usage of EU (Cohesion policy) funds (and other instruments) for R&D and Innovations (project pipeline prepared).

3.2.4. Indicative list of operations

This intervention is to be implemented through the following types of operations aiming at:

- **Improving SMEs' competitiveness**

Upgrading conditions for competitiveness and entrepreneurial activities will be achieved through operations providing direct support to SMEs from both industry and services sectors, as well as companies that are growing and increasing their employment either by co-financing investments into innovative technologies, new product development, higher quality production with high added value and production which is less demanding on the consumption of energy and raw materials, adoption of international eco standards and energy efficiency technologies in production processes, expanding the production capacities, or by providing business advisory services to SMEs in areas such as: quality assurance (introduction of TQM system, quality-consciousness and quality development), marketing and product development (establishment of domestic and international sales channels, analysis of market and competitive position, E-marketing), project preparation and implementation.

Additional grants will be awarded to SMEs in tourism for investments that contribute to sustainable tourism development in Croatia. This grant scheme aims to finance small and middle sized enterprises in tourism by supporting the construction, refurbishment and raising the quality of accommodation of small and middle sized hotels, as well as the development of additional tourist offer and enhancing the commercial value of natural and cultural resources, whilst encompassing the sustainability and ecological guidelines set by national strategies. Priority will be given to projects focused on prolonging the tourist season and oriented towards less developed tourist areas, especially inland and in hinterland.

- **Improving public business support**

These operations aims to enhance the growth potential of SMEs by focusing on several elements underpinning following potentials: implementing coherent approach to entrepreneurship promotion by developing targeted SME policies and incentive programmes, entrepreneurial skills and entrepreneurial mind set-up and environment; promotion of e-business solutions; encouraging cooperation between businesses and

cooperation of businesses and public, education and research sectors through enhancement of clusters; developing effective business support capacities relative to investment promotion at the regional level and the communication with businesses regarding the future impact of key regulatory areas in Croatia and EU.

- **Support to development of technology transfer capacities**

This operation involves development and investment activities in economy directed towards research and technological development and commercialisation of innovation. The interventions shall be focused on strengthening capacities of public higher education institutions and public research organisations for technology transfer activities, commercialization of research results and enhanced science-industry collaboration (especially collaboration with SMEs), support to world class scientific research undertaken at public sector R&D, applied research projects, proof of concept activities and other innovation and technology development projects that will increase the possibilities of exploitation of knowledge generated within the public research sector.

- **Support to development of R&D infrastructure**

Support to infrastructure projects, with the aim of boosting priority sectors of the national economy, building research capacities and providing access to business solutions, will be provided through the establishment of new and/or modernization of existing research infrastructure, including investments in necessary research equipment. Support the creation and growth of technology- and knowledge-based spin-offs (from universities and research organizations) and SMEs by enabling infrastructure and access to technology and business development services, particularly for high value added sectors. Such infrastructure will have an additional important role in bringing the Universities and public research organisations closer to the economic and market needs as a direct facilitator of cooperation with industry and to prepare scientists and students for a career in entrepreneurship or industry.

- **Support to development of project pipeline**

This operation aims at building administrative capacities and preparedness for the usage of EU (Cohesion policy) funds (and other instruments) for R&D and innovations. The operation focuses on development of all project documentation needed for successful application

and further implementation of R&D&I infrastructure projects and grant schemes. These also include development of database of evaluators and assessors and providing finances for the evaluation of infrastructure projects and other (grant) MSES operations from 2013 onwards.

3.2.5. Indicative list of beneficiaries/target groups

Potential beneficiaries of the interventions under Priority axis 2 of the RCOP are:

- Private businesses entities, that meet the criteria for SMEs, conduct business in eligible business sectors and are registered in Croatia;
- Clusters;
- Public authorities at the central level (ministries and agencies);
- Regional/local public institutions or associations;
- Other business support organisations and institutions representing the business community, professional associations (e.g. Chamber of Economy, Chamber of Trades and Crafts, Association of Cooperatives, etc);
- Business support service professionals;
- County administrations and their partners.
- Higher education institutions (HEI);
- Public research organizations (PRO);
- Business Innovation Agency - BICRO.

Cross-financing

In accordance to Article 34(2) Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (CF) and repealing Regulation (EC) No 1260/1999, projects may contain a limited proportion of activities falling within the scope of assistance from the ESF, provided that they are necessary for the satisfactory implementation of the projects and are directly linked to them. The proportion of costs for ESF type of activities under Priority Axis 1 and 2 should not be more than 10% of total project eligible costs for projects.

3.3. Priority axis 3: Technical Assistance

Priority axis 3 is designed to support the management of the operations, ensure the effective implementation of the OP and facilitate the preparations for the next programming period.

3.3.1. Main goal

The main goal of the priority is to ensure a high level of absorption rates by providing support to efficient and effective Operational Programme management. More specifically, it will focus on development of institutional capacity for managing and absorbing EU funding in accordance with EU rules, regulations and procedures and applicable national legislation, as well as on implementation of actions aimed at sustaining the programming of future interventions in areas defined with the OP strategy and its objectives.

The main goal of this priority will be achieved by delivering the following **specific objectives**:

- Ensuring necessary human resources through adequate retention policy that will ensure stable and lasting employment of the staff responsible for the managing and implementation of RCOP;
- Enhancing the capacities of relevant institutions (MA, IBs) for the implementation of allocated functions;
- Assistance to the Managing Authority, Intermediate bodies and other public bodies involved in the management of the Programme **in carrying out management activities** in accordance with the provisions of EU Regulations;
- Introducing and implementing appropriate management and control procedures;
- Assistance in programming for the next financial perspective, identification of project pipelines and project preparation;
- Ensuring the consistency of implemented operations with Community regulations and policies; and
- Implementation of ICT instruments and systems to facilitate the efficient management and implementation of operations.

3.3.2. Priority axis 3: Technical Assistance Quantified Targets and Indicators

Objective	Indicator	Type of indicator	Definition	Unit	Baseline value (2007)	Source	Frequency of reviewing	Target (2012)	Target (2014)	Target (2016)
To develop the institutional capacity for managing and absorbing IPA	OP funds absorbed	Result indicator	Amount allocated to OP	%	0	Sectoral annual implementation report	Annually	35	85	175
To ensure efficient and effective OP management	Trainings organized	Output indicator	Training days on OP management issues for operating structure	Number	0	Contractors' periodical reports; Operation monitoring sheet	Annually	32	122	122
	Sectoral Monitoring Committee meetings organised	Output indicator	Sectoral Monitoring Committee meetings	Number	0	Sectoral annual implementation report	Annually	10	14	18

Objective	Indicator	Type of indicator	Definition	Unit	Baseline value (2007)	Source	Frequency of reviewing	Target (2012)	Target (2014)	Target (2016)
	Information and publicity activities realised	Output indicator	Publicity events (press conferences, seminars, TV/radio broadcast); Publications (brochures, newsletter)	Number	0	Sectoral annual implementation report	Annually	10	16	26
	Project pipeline prepared	Output indicator	Project applications with complete documentation	Number	0	Contractors' periodical reports; Operation monitoring sheet	Annually	0	11	13

Objective	Indicator	Type of indicator	Definition	Unit	Baseline value (2007)	Source	Frequency of reviewing	Target (2012)	Target (2014)	Target (2016)
To support national structures in the preparation of Operational Programmes for structural funds	Programming documents prepared	Output indicator	Operational programmes for structural funds in the area of regional competitiveness and Operational programme funding regional development needs	Number	0	Contractors' periodical reports; Operation monitoring sheet	Annually	1	3	3
	Strategy prepared		Regional Smart Specialisation Strategy	Number	0	Contractors' periodical reports; Operation monitoring sheet	Annually	0	1	1

3.3.3 Expected impacts

Priority axis 3 will contribute to the successful management of the RCOP and the efficient absorption of the allocated funds.

3.3.4 Indicative list of operations

The objectives of TA priority will be achieved through financing operations related to:

- Administration (OS' staff remuneration);
- Management, monitoring and relevant evaluation of the OP;
- Appraisal and selection of operations;
- Supporting the implementation of the operations;
- Information and publicity at programme level and creation and maintenance of information desks;
- Dissemination of funding opportunities and projects' good practices;
- Monitoring Committees' meetings;
- Operation of working groups, committees and commissions;
- Procurement of equipment;
- Audits;
- Elaboration of background studies and support for the preparation of the next programming period.

The Technical Assistance funds are also to help to obtain and maintain the necessary, sufficiently knowledgeable human resources, to ensure their professional growth and conditions for their mutual interoperation and, last but not least, to provide them with the necessary technical background for high-quality decision making.

Therefore, through the mentioned interventions/operations, funds will also be allocated to the **development of administrative capacity** in public bodies involved in the management of the Programme. It is widely accepted that the general administrative procedures connected with the use of EU funds are complex in nature and that they require high levels of expertise in a wide range of areas. Therefore, activities financed are related to:

- Provision of trainings, seminars and working meetings for the employees responsible for the preparation, management, monitoring, implementation, evaluation, audit and control of selected operations and the OP as well as technical and operational setups for such events;
- Retention of trained staff (including the cost of salaries and social security contributions).

Special attention is given to training activities for potential beneficiaries in all aspects of EU project preparation and management in order to develop regional capacities which will ensure the absorption of available funds successfully without extensive institutional support.

The TA priority is also targeting the preparations of strategic documents and projects for the current (2007-2013 perspective) as well as for the next programming period (2014-2020 perspective). More specifically, operations under this priority will support the elaboration of sectoral analyses and studies, methodologies, reports and other programming documents. Another important component of this intervention area is identification of the relevant project pipeline and project preparation with the objective of achieving a high level of absorption levels through the implementation of mature projects compliant with OP strategy.

The management of the operations will be ensured by the Managing Authority of the OP.

3.3.5. Indicative list of potential beneficiaries

Beneficiaries of the operations related to administration (OS' staff remuneration) and management, monitoring and evaluation of the OP are the Managing Authority and Intermediate Bodies.

All other envisaged operations will be targeted towards all bodies within management and control system of the RCOP 2007 - 2013.

3.4 Complementarity and demarcation

3.4.1. Coordination with Community Programmes

It is important that activities which can be financed under RCOP don't overlap with financial support available under Community Programmes. As all double financing and most co-financing of the same project by different EU funds is prohibited, the correct approach is to combine the resources of the Structural Funds, and Community Programmes.

Community programmes represent an integrated set of activities adopted by the European Union for the purpose of promoting cooperation among the member states in different areas linked by common EU policies. The countries that are in the process of accession may participate in Community programmes, thus giving them the opportunity to familiarise themselves with EU working methods and helping their integration into the Union's sectoral policies.

Croatia participates in the following Community programmes related to the interventions of the present RCOP:

1. Competitiveness and Innovation Framework Programme (CIP)

The Competitiveness and Innovation Framework Programme aims to foster the competitiveness of European enterprises and has a total budget of over EUR 3.6 billion for the period 2007-2013. Specific CIP programmes promote innovation (including eco-innovation), foster business support services in the regions and better access to finance, with small and medium-sized enterprises (SMEs) as the main target, encourage a better take-up and use of information and communications technologies (ICT), help to develop the information society and promote the increased use of renewable energies and energy efficiency.

Entrepreneurship and Innovation Programme (EIP) covers:

- financing facilities - access to sources of financing for SME;
- business support networks - a network of regional centres;
- innovation projects (concerning sectors, clusters, networks, technology transfer, services), including eco-innovations;
- analyses, development and coordination of policies encouraging entrepreneurship and innovation.

ICT Policy Support Programme (ICT PSP) supports actions stimulating innovation and competitiveness through the wider uptake and best use of ICT by citizens, governments and businesses.

Croatia also participates in Intelligent Energy - Europe Programme (IEE) of the CIP, but the RCOP does not address issues related to this programme.

2. The Seventh Framework Programme for research, technological development and demonstration activities (FP7)

The 7th Research Framework Programme (see Annex 1) with a total budget of over EUR 50 billion for the period 2007-2013 is the main instrument at EU level specifically targeted at supporting research and development. It provides funding to co-finance research, technological development and demonstration projects based on competitive calls and independent peer review of project proposals. Support is available for collaborative and individual research projects as well as for the development of research skills and capacity. As a programme designed for the achievement of the broadest objectives of the European Union's research and technological development policy, FP7 is divided into four categories, called specific programmes:

- **Cooperation:** Support for international cooperation in research, aiming to strengthen the competitiveness of European production;
- **Ideas:** Support for frontier research in the form of financing multidisciplinary projects of individual teams;
- **People:** Support for researchers' further training, mobility and professional development;
- **Capacities:** Support for the enhancement and optimum use of research and innovation capacities throughout Europe.

In addition to these four categories, funds are also allocated to the Joint Research Centre for nuclear activities.

Croatia has participated in the FP6 programme in which the majority of interventions financed included information and communications technologies, medicine and biotechnology, food biotechnology, construction, microelectronics and physics.

Croatia is actively participating in the FP7 programme. Activities under Priority axis 2 aim at improving Croatia's capacities for participation in this Framework and other related programmes in the coming period.

3. Culture Programme (2007-2013)

The Culture Programme aims to achieve three main objectives:

- to promote the cross-border mobility of those working in the cultural sector;
- to encourage trans-national circulation of cultural and artistic output;
- to foster intercultural dialogue.

Applicants from Croatia have been awarded several projects¹⁰⁸ through this programme.

¹⁰⁸ Source: http://eacea.ec.europa.eu/culture/index_en.php

The interventions financed through this programme are of a soft nature, therefore no overlap with the interventions of this RCOP are expected, since the RCOP targets improvements of the cultural infrastructure.

3.4.2. Complementarity with other OPs

The RCOP is complementary to other operational programmes that are influencing areas of support for regional development and competitiveness.

The table below provides areas of complementarity between the RCOP and other Operational Programmes¹⁰⁹.

Specifically, complementarities with HRDOP and TOP are identified. The table presents in which sectors there is synergy and which specific areas are affected.

¹⁰⁹ These analytical tables are included in the present working document for consultation purposes. They should be replaced by a concise text in the final version of the OP.

Table 21: COMPLEMENTARITY WITH OP HUMAN RESOURCES DEVELOPMENT

Issues	RCOP		HRDOP		Justification
	Priority	Operations	Priority	Operations	
SME	Priority axis 2: Enhancing the competitiveness of the Croatian economy	The RCOP will include providing direct support to already established SMEs from both industry and services sectors either by co-financing investments into innovative technologies, new product development, higher quality production etc., instalment of modern technology and other equipment, construction, modernisation, and promotional activities i.e. mainly their tangible assets and will provide assistance in raising their general skills only to a limited extent, necessary to accompany usage of new equipment for instance, and indirectly by providing assistance to the BSIs, as well as to SMEs in tourism for investments maximising the use of natural, cultural and man-made resources for tourism development, focusing again mainly on their intangible assets and on already functioning SMEs.	Priority 1: Enhancing access to employment and sustainable inclusion in the labour market Operation Supporting the entrepreneurship development and improving SMEs and crafts competitiveness	Main operations are focused on raising the general level of entrepreneurial skills that are necessary to raise the adaptability of SMEs and crafts.	The OPHRD is dedicated to providing training in basic SME skills and general entrepreneurial competence, especially in where employees are facing the threat of unemployment due to inadequate knowledge and skills. It is further expected that start-ups will be supported too, primarily as means of supporting self-employment. The RCOP is clearly oriented toward only those SMEs that are already established and operating and will also focus on financing consultancy services to SMEs, also as means of developing this services market sector in Croatia.
R&D	Priority axis 2: Enhancing the competitiveness of the Croatian economy	The interventions shall be focused on strengthening capacities of public higher education institutions and public research organisations (HEI and PRO) for technology transfer activities, commercialization of research results and enhanced science-industry collaboration (especially collaboration with SMEs), primarily by investing into the necessary HEI & PRO infrastructure and equipment. Support will be also provided to the development of R&D infrastructure projects that will have an additional important role in bringing the HEI & PRO closer to the economic and market needs as a direct facilitator of university-industry cooperation.	Priority 3: Enhancing human capital in education and in research and development Operation Development of human potential in research and innovation	Activities supporting human capital in the R&D sector will give prominence to the career development of junior and young researchers and professionals, as well as on securing necessary preconditions for performance of high-quality and highly competitive research.	The OPHRD will focus primarily on providing research grants for junior and young researchers and thus enable better development of human potential in R&D. Use of infrastructure supported by the RCOP is a precondition.

Table 22: COMPLEMENTARTIY AND DEMARCATION WITH IPA Rural Development (IPARD) 2007-2013

Issues	RCOP		IPARD		Justification
	Priority	Interventions	Measure 302	Interventions	
SMEs in tourism	Priority axis 2: Enhancing the competitiveness of the Croatian economy	The RCOP will include providing direct support to SMEs in tourism for investments maximising the use of natural, cultural and man-made resources for tourism development to already existing and functioning SMEs in the sector.	<i>Diversification and development of rural economic activities</i>	Diversification and development of rural activities like farm tourism and traditional crafts in rural areas. The measure is targeted at farmers and enterprises in the range of micro businesses, enlisted in the Registry of agricultural holdings in rural areas only.	***Exact demarcations are currently still being defined, since IPARD is to continue until the beginning of 2014 (which was not previously expected)***

3.4.3. Complementarities with the International Financing Institutions (IFI)

The above review shows that some complementarities will be achieved between grants and loans of international financial institutions and the RCOP. These complementarities are expected mainly in the R&D and SME sectors. In these cases, financial support will be considered the continuation, addition, supplement or development of a direction started with the assistance of the IFI.

The World Bank (WB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB) have had an impressive history in Croatia during the last two decades. They have been extensively engaged in providing financial support, technical assistance, policy advice and analytical services to Croatia since the independence of the country.

The World Bank

Specifically, by 2009 the World Bank had granted projects and programmes in Croatia for a total amount of EUR 1.87 billion. At present, the World Bank, in cooperation with the Ministry of Finance, is financing programmes under the Country Partnership Strategy (CPS) for Croatia (FY 2009-2012).

The RCOP will interact with the World Bank in its efforts to support Croatia regarding the Ministry of Science, Education and Sports (MSES) through the Second Science and Technology Project (STP II) and Project Preparation Advance (PPA) with the following objectives to: (i) improve the capacity of Croatia's R&D and innovation institutions to implement Europe 2020 Strategy for increased investments in R&D through efficient absorption of EU funds, and (ii) develop a pipeline of public and private R&D projects, including research groups, that could qualify for financing through EU structural funds.

The European Bank for Reconstruction and Development

The EBRD supports privatisation, foreign direct investment, property and tourism, the financial sector, the regional expansion of local companies, and municipal and environmental infrastructure. During the period 1994-2009 it invested approximately EUR 2 billion in all sectors of the Croatian economy.

At present, the EBRD works closely with the Croatian authorities and the business community to support the country's preparation for EU accession. The focus of the EBRD's current strategy is on investment in the sectors listed below, with the highest priority being given to regional support for Croatian corporations, commercial finance of national and municipal infrastructure, SME finance and tourism. In the *infrastructure and environment* sector, at the local level, the EBRD works with a number of large and medium-sized municipalities to develop their infrastructure projects for prospective IPA co-financing.

In the *financial sector*, the EBRD will pursue SME finance with the support of the EU under the EU/EBRD SME Finance Facility. The Bank will further develop financing for leasing companies and other non-bank financial institutions, such as factoring companies. In 2009, the EBRD Board approved a long-term loan of EUR 50 million EUR to Privredna Banka Zagreb for a SME credit line and, through a regional project for UniCredit Group, an additional EUR 50 million for Zagrebačka Banka for the same purpose. The EBRD plans to provide a syndicated loan to the Croatian Bank for Reconstruction and Development for SME financing. The RCOP will coordinate with the EBRD in terms of purpose and content of financial support, especially on micro-credits and bank guarantees. Coordination is also needed in terms of the purpose and content of financial support for SME in tourism.

The EBRD is currently focusing on the privatisation and restructuring of state-owned companies and on supporting further expansion and modernisation of Croatian companies in the regions. The RCOP will be able to support the modernisation of companies only after their privatization.

The European Investment Bank

With the aim of increasing the access of SME to long-term financing, the EIB cooperates closely with well-established financial institutions with market expertise in Croatia, providing services to small and medium-sized companies via a well-developed network of branches. In the period 2001-2009, EIB granted loans in Croatia in a total amount of EUR 1.7 billion. The EIB also plans to further increase its support for SME. Therefore, the RCOP needs to collaborate with the Bank in terms of the content and rules of state aid and economic competition.

The Council of Europe Development Bank

By 2006, the CEDB had implemented projects in the total amount of EUR 325.6 million. Its focus has been on health care, education and housing (especially for refugees), job creation, SME, and the restoration of war-damaged sites of cultural and historical importance.

Coordination between the RCOP and the CEDB in terms of the content and rules of state aid and economic competition is needed in the fields of SME support and in other programmes of the Council in the labour market sector.

SECTION 4: IMPLEMENTATION

This chapter describes the system of implementation of the OPRK 2007 - 2013 in accordance with the provisions laid down in Council Regulation (EC) No. 1083/2006. The content of this chapter includes basic information allowing an understanding of the main implementation features of the OP. The need to establish an institutional framework arising from negotiations on Croatian accession to the European Union in Chapter 22 - Regional policy and coordination of structural instruments, within which one (out of seven) benchmarks for the provisional closure of negotiations in this chapter referred to the establishment of an institutional structure for the implementation of EU cohesion policy.

Following the parliamentary elections, in December 2011 the Croatian Parliament adopted the Law on the State Administration System (Official Journal 150/11) and the Law on Organization and Scope of the Ministries and Other Central State Administration Bodies (Official Journal 150/11, 22/12), based on which the Central State Office for Development Strategy and Coordination of EU Funds (CODEF) was closed and the Ministry of Regional Development and EU Funds (MRDEUF) took over its functions and the staff. MRDEUF performs the administrative and other tasks related to, inter alia, coordination of all activities pertaining to the harmonization with the European Union in the area of regional policy and management of Structural Funds.

In course of the on-going preparations for the absorption of the SCF instruments in the Republic of Croatia, the new Law on the Institutional Framework for the use of EU structural instruments in the Republic of Croatia was adopted by the Parliament in July 2012¹¹⁰, repealing the Government Decision on the strategic documents and institutional framework for the use of EU structural instruments in the Republic of Croatia from October 2010¹¹¹. This Law defines the functions and responsibilities assigned to the bodies within the SCF management and control system in the Republic of Croatia. Based on the Law, a new Decree on the bodies in the management and control system for use of European Union structural instruments in the Republic of Croatia¹¹² was adopted by the Croatian Government in August 2012. This Decree determines jurisdiction of individual bodies for the 2007-2013 Programming Period, horizontally at the level of the entire System, as well as on the level of the operational programmes and their Priority axis or Measures, depending on the specificities of individual operational programme.

¹¹⁰ Law on the Institutional Framework for the use of EU structural instruments in the Republic of Croatia (Official Journal 78/2012, dated 13 July 2012)

¹¹¹ Government Decision on the strategic documents and institutional framework for the use of EU structural instruments in the Republic of Croatia (OJ 116/2010)

¹¹² Decree on the bodies in the management and control system for use of European Union structural instruments in the Republic of Croatia (OJ 97/2012)

4.1 Management

The institutional system for implementation of structural instruments is stipulated in the Law on the establishment of institutional framework for the use of European Union structural instruments in the Republic of Croatia (herein the Law) for the implementation of Operational Programmes of the 2007-2013 Programming Period, as well as responsibilities of the bodies in the management and control system which are stipulated in the Decree on the bodies in the management and control system for use of European Union structural instruments in the Republic of Croatia (the Decree).

Overall responsibility

The overall responsibility for the correct and efficient implementation of the commitments embodied in the documents concerning the Structural Funds and the Cohesion Fund is ensured by the Government of the Republic of Croatia.

Based on the Law, and under the provisions of the Decree the following individuals /bodies have been designated /established:

- Coordinating Body within the System is Ministry of Regional Development and EU Funds
- Certifying Authority within the System is Ministry of Finance, which is in addition also responsible for payments and monitoring of irregularities within the System.
- Audit Authority within the System is Agency for the Audit of European Union Programmes Implementation System

The Ministry of Regional Development and EU Funds is designated to perform the role of central Coordinating Body for the National Strategic Reference Framework (NSRF). It shall ensure strategic coherence across the EU and national policies, and complementary use of national and EU financial resources in pursuing national development goals. Furthermore it shall coordinate and support the programming, setting up the System, adopting the rules, developing an integrated Management Information System (MIS), monitoring and evaluation of Cohesion policy funding and assist with horizontal issues in EU funds management, thus ensuring absorption of EU assistance in cooperation with all relevant state institutions.

The Ministry of Finance is designated to perform the functions of Certifying Authority for all OPs, in line with the requirements of Article 59 of General Regulation No. 1083/2006.

The Agency for the Audit of EU Programmes' Implementation System has been designated the Audit Authority for all OPs, in line with the requirements of Article 59 of General Regulation No. 1083/2006. The Audit Authority is operationally independent from the Managing Authorities and of the Certifying Authority.

Managing Authority of the OPRK 2007- 2013

Management and implementation of the OPRK 2007 - 2013 is performed in accordance with the provisions of Council Regulation (EC) No. 1083/2006 and Commission Regulation (EC) No. 1828/2006, amended by (EC) 846/2009.

The function of Managing Authority for the OPRK 2007-2013 is performed by the Ministry of Regional Development and EU Funds, (Directorate for the Management of Operational Programmes). In respect of the requirements of Article 60 of Council Regulation (EC) No. 1083/2006, the Managing Authority is responsible for managing and implementing the RCOP in accordance with the principles of sound financial management and clear separation of functions.

The responsibilities and functions of the Managing Authority (MA) are the following:

- a) ensuring that operations are selected for funding in accordance with the criteria applicable to the Operational Programme and that they comply with applicable national and European Union rules for the whole of their implementation period;
- b) verifying that the co-financed products and services are delivered and that the expenditure declared by the beneficiaries for projects has actually been incurred and complies with national and European Union rules; verifications on-the-spot of individual projects may be carried out on a sample basis in accordance with the rules to be adopted by the Commission;
- c) ensuring that there is a system for recording and storing in computerised form accounting records for each operation under the Operational Programme and that the data on implementation necessary for financial management, monitoring, verifications, audits and evaluation are collected;
- d) ensuring that beneficiaries and other bodies involved in the implementation of projects maintain either a separate accounting system or an adequate accounting code for all transactions relating to the project without prejudice to national accounting rules;
- e) ensuring that the evaluations of Operational Programmes are carried out;
- f) setting up procedures to ensure that all documents regarding expenditure and audits required to ensure an adequate audit trail;
- g) ensuring that the Certifying Authority receives all necessary information on the procedures and verifications carried out in relation to expenditure for the purpose of certification;
- h) establishing the Monitoring Committee for Operational Programme in agreement with the Coordinating Body and ensures its proper functioning;

- i) guiding the work of the monitoring committee and providing it with the documents required to permit the quality of the implementation of the Operational Programme to be monitored in the light of its specific goals;
- j) drawing up and, after approval by the monitoring committee, submitting to the Commission the annual and final reports on implementation;
- k) implementing the information and visibility measures as defined in the communication plan prepared by Coordinating Body and ensuring compliance with the information and publicity requirements;
- l) providing the Commission with information to allow it to appraise major projects;
- m) providing to the Intermediate Bodies the instructions for the performance of the delegated tasks and supervising them on risk-assessment basis ;
- n) monitoring the progress of implementation of the Operational Programme and conducts annual examination;
- o) monitoring the implementation of n+3 rule and takes necessary measures to avoid de-commitment;
- p) coordinating preparation of and endorsing plans for implementation of Operational Programme priorities and approves measures in line with the same (could be changed by approval of Programme complement);
- q) organising and chairing annual review meetings with the Commission on the progress of the implementation of the Operational Programme;
- r) carrying out the evaluations as defined in the evaluation plans;
- s) contributing to the preparation of description of the System;
- t) preparing internal written procedures for performance of its functions following the Rules approved by the Coordinating Body;
- u) entering relevant data in MIS and ensuring exchange of data with the Commission through the SFC2007;
- v) storing the documents and records of the performance of functions to ensure adequate audit trail.

Within the MA, the requirements for segregation of functions of selection and approval of projects and management verifications will be fully respected. Internally, the tasks of implementation and monitoring of projects will be separated from the control tasks.

Intermediate Bodies

The functions of the Managing Authority set out in Article 60 of Council Regulation (EC) No. 1083/2006 provide a suitable framework for allocating the functions of the Managing

Authority between the Managing Authority and the Intermediate Bodies. In line with articles 2.6 and 59.2 of Council Regulation (EC) No. 1083/2006, the Managing Authority delegates implementation of designated RCOP 2007-2013 priority axes to the Intermediate Bodies.

According to the Decree, the line ministries were designated the Intermediate Bodies level 1, responsible for Priority Axes in RCOP 2007-2013, and its composed of the following bodies:

- Ministry of Regional Development
- Ministry of Entrepreneurship and Crafts;
- Ministry of Science, Education and Sports; and
- Ministry of Economy.

The intermediate bodies designated for the OPRK 2007-2013 are as presented in Table 23.

Table 23: Intermediate bodies designated for the OPRK 2007-2013

Intermediate Body level 1	Priority axis
Ministry of Regional Development and EU Funds; Sector for Regional Development Policy (MRRFEU)	1. <i>Development and upgrading of the regional infrastructure and raising the attractiveness of regions</i>
Ministry of Entrepreneurship and Crafts(MEC) Ministry of Science, Education and Sports (MSES)	2. <i>Enhancing Competitiveness of Croatian Economy</i>
Ministry of Economy (ME)	3. <i>Technical Assistance</i>
Intermediate Body level 2	
Central Finance and Contracting Agency	Priority axis 1,2 and 3

Intermediate Body level 1, under the responsibility of the Managing Authority, performs the following delegated functions related to the selection of projects for funding:

- a) implementing information and visibility measures as defined in the communication plan prepared by the Coordinating Body, with special attention on the measures intended for the beneficiaries;
- b) implementing guidance measures to ensure that the beneficiaries understand their entitlements and responsibilities regarding the provision of funding;
- c) planning and launching the selection of projects in the form of open calls for proposals or restricted calls for proposals and carrying out the process of project selection;

- d) in cooperation with Intermediate Body level 2, preparing guidelines/instructions for applicants for the assessment and appraisal of projects;
- e) ensuring assessment of compliance of the projects with the selection criteria approved by the Operational Programme Monitoring;
- f) selects projects for funding and submits the selected projects to the Intermediate Body level 2 for appraisal of compliance of the projects with the eligibility rules;
- g) preparing internal written procedures for performance of its functions following the Rules approved by the Coordinating Body;
- h) entering relevant data in MIS;
- i) stores the documents and records of the performance of functions to ensuring adequate audit trail
- j) drafting the selection criteria for the respective priority or measure and submits the same to the Managing Authority for verification;
- k) initiating and developing strategic projects which contribute to the achievement of the priority goals of the Operational Programme;
- l) preparing and improving the sector specific parts of NSRF and Operational Programme;
- m) defining measures for implementation of Operational Programme priorities and develops conditions and plans for their implementation;
- n) carrying out the evaluations of Operational Programme as defined in the evaluation plans;
- o) preparing forecasts of the absorption of Funds and financial commitments to projects;
- p) monitoring the implementation of the Operational Programme priorities and measures as well as reporting on the same to the Managing Authority;
- q) preparing and submitting to the Managing Authority information on major projects;
- r) planning and managing budget allocations from the Funds and national resources and ensuring national co-financing for projects;
- s) concluding the grant agreement with the beneficiary and the Intermediate Body level 2;
- t) preparing and submitting to the authority responsible for payment requests for transfer of public funding to beneficiary and ensuring the wholeness of payments of public contribution;
- u) ensuring the recovery of the amounts unduly paid and keeping records of the amounts recoverable or recovered;

- v) providing to the Certifying Authority and to the body responsible for payments the information on the amounts recoverable and recovered.

Intermediate Body level 2 is Central Finance and Contracting Agency and it performs delegated functions under the responsibility of the Managing Authority to the OPRK 2007 - 2013.

- a) implementing information and visibility measures as defined in the communication plan prepared by the Coordinating Body, with special attention on the measures intended for beneficiaries;
- b) implementing guidance measures to ensure that beneficiaries understand their entitlements and responsibilities regarding the provision of funding;
- c) monitoring the proper implementation of the information and visibility measures by the beneficiaries;
- d) assisting Intermediate Body level 1 in preparation of guidelines for applicants, especially those parts setting specific requirements for appraisal of compliance of projects with the eligibility rules;
- e) appraising compliance of the projects with the eligibility rules and providing to the Intermediate Body level 1 the findings and opinion on the same;
- f) providing administrative assistance to the Intermediate Body level 1 in the assessment of the projects in case of open calls for proposals;
- g) concluding grant agreements with the beneficiaries and Intermediate Body level 1;
- h) verifying deliverables and eligibility of expenditure of the projects and performing administrative and on-the-spot checks;
- i) providing to the line ministry/institution which committed financing and to the Managing Authority the information on expenditure verified;
- j) monitoring the progress of the projects and informs the Intermediate Body level 1 on the same;
- k) investigating the suspicion on irregularities and reports them to the Intermediate Body level 1;
- l) ensuring that beneficiaries use separate accounting system for projects;
- m) preparing internal written procedures for performance of its functions following the Rules approved by the Coordinating Body;
- n) entering relevant data in MIS;
- o) storing the documents and records of the performance of functions to ensure adequate audit trail.

For tasks delegated to the Intermediate Bodies, the Managing Authority retains overall responsibility for ensuring that they are properly conducted. Therefore, the MA should, in its supervisory capacity, obtain assurance that the tasks have been properly carried out by performing quality checks on verifications made by the Intermediate Bodies.

In order to avoid risks arising where an intermediate body is also the beneficiary of an operation, segregation of functions will be ensured by assigning the relating tasks of the beneficiary to a separate unit and verification checks will be carried out by the MA.

Beneficiaries

Potential beneficiaries of the operations envisaged under the OPRK 2007 - 2013 may be, *inter alia*, SMEs, higher education institutions, research organisations, local and regional self-government units (municipalities, towns, counties), public bodies or associations, public companies, regional/local tourism boards or NGOs (regional/local associations).

Beneficiaries will be mainly responsible for:

- a) development of the application for the provision of assistance;
- b) proper implementation of the operation/project;
- c) reporting to the IB (or to the MA if no IB is involved in the particular operations/measures) on the financial and physical progress of the operation/project;
- d) compliance with publicity and information requirements in accordance with EU rules and with the Communication Plan (at the operation/project level).

The beneficiaries shall be responsible for ensuring that the expenditure they declare for co-financing is legal and regular and complies with all applicable Community and national rules. For providing this assurance, the beneficiaries shall have in place their own internal control procedures.

In submitting the payment claims for expenditure eligible for co-financing, beneficiaries shall substantiate the incurred expenditures and their compliance with the requirements contained in the financing decision on the funds to be allocated within the assistance. All payment claims must be supported by confirmed invoices and other documents of equal probative value.

The beneficiaries must keep project dossiers providing adequate audit trails. Guidelines for beneficiaries will include detailed provisions for audit trails.

The beneficiaries must make the documents on projects available at any time for inspections carried out by authorized persons or entities. The documents shall be archived in compliance with applicable regulations.

Main principles with regard to the selection and approval of operations:

In the overall process of implementation of the OPRK 2007 - 2013, the Managing Authority bears the overall responsibility for project selection and contracting procedures under the programme. It develops the core project eligibility and selection criteria, in consultation with the relevant ministries, and submits them for approval to the Monitoring Committee. The Managing Authority guarantees the transparency, objectivity and efficiency of the selection procedure, and thus the quality of selected projects.

The projects of OPRK 2007-2013 shall be selected for funding by using the following types of selection procedure:

- a call for proposals, carried out by an intermediate body;
- a direct grant award procedure, where the beneficiary shall be explicitly indicated under the respective priority axis and the area of support.

4.2 Monitoring and Evaluation

3.2.1. Monitoring of implementation

As endorsed by Article 66 of the General Regulation, Managing Authority and Monitoring Committee shall ensure high quality of the implemented operational programme.

General monitoring of the programme will be performed by Managing Authority, which will collect information from responsible institutions and the Structural Funds Management Information System (SF MIS). Monitoring is carried out under the partnership principle and relevant institutions, as well as representatives of social, economic and regional partners, will also be involved in the monitoring of programme implementation through Monitoring Committee arrangements. Each institution will nominate one full member for the MC and one substitute member, with high decision-making power. Effort will be made that the composition of the RCOP Monitoring Committee reflects the requirements of gender balance.

Prior to the date on which Regulation (EC) No 1083/2006 enters into force in the Republic of Croatia and prior to the date of notification of the decision approving OP Regional Competitiveness (hereinafter: RCOP), the Monitoring Committee will function in capacity of the “shadow” MC, serving as a panel of stakeholders and interested parties with aim of timely preparation of OP “Regional Competitiveness” implementation.

The composition of the Monitoring Committee, its duties and responsibilities, will be confirmed within three months after the decision approving the OP, according to Article 63 of Council Regulation No. 1083/2006.

Membership of the RCOP Monitoring Committee will comprise representatives of the RCOP Managing Authority, representatives of the Coordinating Authority, the Certifying Authority, Audit Authority, all Intermediate Bodies, social partners (employers’ associations, trade union confederations), and relevant NGOs, including representatives of

national and regional organizations interested in active participation in OP implementation.

Representatives of the European Commission shall participate in an advisory capacity in the Monitoring Committee; when appropriate, delegates of the European Investment Bank and European Investment Fund or other financing institutions will also be invited.

Pursuant to Articles 64. of Council Regulation (EC) No 1083/2006 which states that the monitoring committee shall be chaired by a representative of the Member State or the Managing Authority, The Chair of the Monitoring Committee RCOP is state official in the rank of the Deputy Minister in the Ministry of Regional Development and EU funds (MA). The Chair will designate the Vice-chair, at least in rank of senior civil servant.

The MC will draw up and adopt its own rules of procedure within the national institutional, legal and financial framework. The MA of the RCOP will provide the Secretariat of the Monitoring Committee.

Monitoring indicators

The preconditions for monitoring and evaluation of quality and success of the operational programme will consist of:

- financial indicators of the programme, which will form the basis for the evaluation of the speed of absorption of funds, implementation of the rule N+2/N+3 and the need to revise or specify the operational programme;
- physical indicators of the operational programme, according to which the level of success of implementation of the quantitative programme objectives will be established;

3.2.2. Evaluation

The common goal of evaluation within the EU Cohesion Policy is to improve the quality, efficiency and coherency of the EU Structural Funds and the strategy of operational programmes and their implementation so as to increase the value added of interventions financed by the EU Funds. Evaluation of the EU structural assistance is an important integral part of the decision-making process used for the improvement of management of the EU financed programmes.

In accordance with Council Regulation (EC) No. 1083/2006, articles 47-49, laying down general provisions on EU structural assistance, evaluation shall be carried out before the programming period (ex ante evaluation), during the programming period (ongoing evaluation) and upon its completion (ex-post evaluation).

Ongoing evaluation will be carried out during the entire period of the implementation of the operational programme, by analysing and evaluating the progress made towards achieving the targets and result indicators, by establishing the efficiency and effectiveness of the use of investments. Evaluations shall be initiated upon the need, having identified the problems related to the implementation of the programme or the part of the programme or where collection of additional data during the evaluation is required. In accordance with the

provisions of the Regulation, evaluations will be carried out when substantial deviations from the goals initially set will be identified.

The national institutional framework for evaluation comprises 2 levels:

- an overall coordination level, ensured by the Coordinating Authority;
- a functional level ensured by the MA.

During the 2007-2013 programming period the Coordinating body will be responsible for coordination of the evaluation of operational programmes. The Coordinating body has prepared the Evaluation strategy which contains EU structural assistance evaluation goals, objectives as well as organisation and management of the EU structural assistance evaluation. Based on the Strategy, annual evaluation plans will be developed by the Managing Authority and Intermediate bodies in accordance with the overall Evaluation Plan. The annual evaluation plan will be presented to the Monitoring Committee for the approval.

The on-going evaluations will be financed from the technical assistance budget.

The Coordinating body will develop Evaluation Procedures Manual describing follow-up mechanism for tracking implementation of the evaluation recommendations to be applied by the MA.

Information on evaluation results will be provided to the Monitoring Committee, the European Commission, and other responsible institutions. Also, evaluation reports will be available to all stakeholders and general public.

The evaluation results shall be made publicly available through an easily identifiable and accessible means of communication.

4.3 Certification of expenditure (Certifying Authority)

The National Fund at the Ministry of Finance is designated to perform the functions of Certifying Authority for all OPs. In line with the provisions of Article 61 of General Regulation No. 1083/2006, the National Fund acting as the Certifying Authority shall perform the following functions and be responsible for:

- a) drawing up and submitting to the Commission certified statements of expenditure and applications for payment;
- b) certifying the expenditure;
- c) ensuring for the purposes of certification the receipt of adequate information from the Managing Authority on the procedures and verifications carried out in relation to expenditure included in statements of expenditure; taking account for certification purposes of the results of all audits carried out by and under the responsibility of the Audit Authority;
- d) maintaining accounting records in electronic form of expenditure declared to the Commission;
- e) keeping an account of amounts recoverable and of amounts withdrawn following cancellation of all or part of the contribution for a project;
- f) providing the Commission with the provisional forecast of the applications for payments;

- f) providing the Commission with the statement on withdrawn and recovered amounts, pending recoveries and irrecoverable amounts, opening and managing separate national treasury bank account for the Funds;
- g) transferring to the beneficiaries the public contribution according to the payment request from the Intermediate Body level 1;
- h) managing and accounting amounts received and amounts paid from the bank accounts according to the national legislation;
- i) ensuring adjustment of national legislation to interconnect planning and using of public finance with the planning and use of the Funds;
- j) conducting calculation and verification of additionally as well as gathering and providing Coordinating Body with all relevant information;
- k) providing guidance for detection, investigation and correction of irregularities and guidance for performing preventive measures, monitoring procedures related to irregularities, as well as ensuring communication and exchange of practices among institutions;
- l) reporting to the Commission about the irregularities;
- m) with the ex-ante approval of the Coordinating Body, preparing Rules governing procedures of bodies in the System related to:
 - 1. eligibility of expenditure,
 - 2. audit trail,
 - 3. project verifications in terms of fulfilment of contractual obligations,
 - 4. payments,
 - 5. certification,
 - 6. recoveries,
 - 7. irregularities;
- n) monitoring the application of the Rules, as well as ensuring exchange of practices and communication among the bodies in the System;
- o) preparing internal written procedures for performance of its functions and tasks;
- p) entering relevant data in MIS and ensuring exchange of data with the Commission through the SFC 2007;
- q) storing the documents and records of the performance of functions to ensuring adequate audit trail.

The Certifying Authority does not intend to delegate its functions to other bodies.

4.4 Audit

The Government of Croatia has designated the Agency for the Audit of European Union Programmes' Implementation System (ARPA) to perform the functions of the Audit Authority in accordance with Article 62 of Council Regulation No. 1083/2006. ARPA was established by the Regulation on the Establishment of the Agency for the Audit of European Union Programmes' Implementation System adopted by the Government of the Republic of Croatia on 20 June 2008. Audit Authority is a national body functionally independent from the Managing Authority and the Certifying Authority responsible for external audit of the proper and efficient functioning of the System.

The tasks of the Audit Authority are set as follows:

- a) ensuring that audits are carried out to verify the effective functioning of the management and control System ;
- b) ensuring the execution of audits of operations on the basis of an appropriate sample in order to verify expenditure declared;
- c) preparing and submitting to the Commission audit strategy;
- d) preparing and submitting to the Commission annual control report and final control report;
- e) issues an opinion as to whether the System is functioning properly and effectively in order to provide reasonable assurance that statements of expenditure presented to the Commission are accurate and there is a reasonable belief that the subject transactions are legal and regular;
- f) where applicable, submits to the Commission a declaration for (partial) closure assessing the legality and regularity of the expenditure concerned
- g) prepares internal written procedures for performance of its functions
- h) during audits takes into account internationally accepted audit standards
- i) enters relevant data in MIS and ensures exchange of data with the Commission through the SCF2007
- j) stores documents and record of the performance of functions to ensure adequate audit trail
- k) performs compliance assessment of the System for each Operational Programme and prepares a report setting out the results of the assessment and giving an opinion on the compliance of the System with relevant EU Regulation

The Audit Authority does not intend to delegate its functions to other bodies.

4.5. Financial Flows

The main procedures for mobilization and circulation of financial flows in order to ensure their transparency while implementing this operational programme are presented below. It is important to emphasize that the system described herein is common for all EU structural assistance administered in Croatia according to the Convergence objective; therefore, it will be equally applied to all operational programmes under the aforementioned objective. The following two essential aspects of the financial flow system may be distinguished: a) co-financing of actions by EU structural assistance and national funds; b) the cycle of movement of EU funds to final beneficiaries.

The national co-financing of EU structural assistance will be ensured from the resources of the state budget, other national public contribution, municipal budgets, and final beneficiaries' own funds. Taking into consideration the possibility envisaged in the Regulation, private funds will comprise a part of national co-financing.

The potential of the national co-financing of EU structural assistance will be ensured by the integrated planning of EU structural assistance in the State budget. The State budget preparation and provision for EU structural assistance and national co-financing is ensured in accordance with the applicable Instruction for preparation of State budget of Republic of Croatia for certain period (issued by the State Treasury of the Ministry of Finance), and forms part of overall procedure related to preparation of the State budget. As a rule, the funds from EU structural assistance designated for allocation to a particular economic sector will be included into the annual budget of a relevant budget user- Intermediate body 1 (usually - a relevant ministry), responsible for co-ordination of the state policy in this area, by integrating these funds into budget appropriations.

The European Commission will transfer EU structural assistance funds to a separate bank account opened specially for each fund with the Croatian National Bank and administered by the State Treasury of the Ministry of Finance. These funds will be transferred to the single treasury account, which is located in the Croatian National Bank. These funds will be transferred to final beneficiaries through the State Treasury Financial Information System (STFIS). STFIS is designed to process all transactions relating to all phases of the budgetary cycle. All budget users are connected into a single financial - information system- STFIS through which State treasury may conduct transactions. Final beneficiaries will submit payment applications to the Intermediate body 2 that will verify the eligibility of expenditure declared by the final beneficiaries to be financed from EU structural assistance funds, following the procedure established in the common rules adopted by Coordinating Body (MRDEUF) and following relevant instructions of the Managing Authority.

After setting the amounts specified in payment applications eligible for financing from EU structural assistance funds, the budget user- Intermediary body , will prepare the requests for payment (RfPs) to the State treasury for the amounts to be proceeded in STFIS. After preparation of the RfP in STFIS, the process of verification and validation of the RfP will take place following the general procedure for payment of the State budget funds. After receipt of a proper RfP for a particular State budget appropriation item, under which expenditure of EU structural assistance is planned, the State Treasury of the Ministry of

Finance will transfer the amount of EU structural assistance funds specified in the RfP from a single treasury account directly to the final beneficiary.

Thus, transparency of the cycle of movement of EU funds down to final beneficiaries shall be ensured by the mentioned several key measures:

- After EU structural assistance is integrated into the State budget, during its payment the general control measures for payment of the State budget funds shall be applied;
- EU funds, using STFIS, will be transferred directly to final beneficiaries, thus enhancing the performance of the audit trail principle, also allowing to implement the principle laid down in the Regulation, stating that EU funds have to reach the final beneficiary as soon as possible, in a most effective manner;
- The system will ensure that in all cases EU funds for final beneficiaries will be transferred only after verification and validation of amounts eligible for financing from EU structural assistance funds by the procedure established by the Coordinating Body (MRDEUF) and instructions of the Managing Authority.

STFIS will also ensure that all interest accrued on EU structural assistance transferred to Croatia in advance will be designated for the implementation of this operational programme as public national co-financing.

Flowchart of financial flows is presented in the Annex 7.

4.6 Information and publicity

Information and publicity actions of the RCOP will be included in the Communication Action Plan (CAP) prepared in accordance with Commission Regulation (EC) No. 1828/2006 and they aim to:

- raise public awareness on EU Cohesion Policy and on the opportunities offered by the Structural Funds and Cohesion Fund in Croatia;
- highlight the role played by the European Union in co-financing RCOP activities, in supporting Croatia's economic competitiveness, in fostering economic development and reducing regional disparities;
- raise public awareness of the RCOP and its objectives, priority axes and mechanisms;
- inform potential beneficiaries on the conditions of eligibility for financing under RCOP, the procedures for examining applications for funding and the timeframe foreseen, the criteria for selecting the operations to be financed, and the contacts at the national, regional or local level providing information on the RCOP;
- disseminate information on approved and financed projects as well as on the results achieved and best practices;
- ensure access to information for all target groups;

- ensure maximum comprehensibility of the information provided to the public on the Funds' allocation and management.

The following target groups have been identified for the information and communication actions of the RCOP:

- a) the general public;
- b) the (potential) beneficiaries;
- c) opinion leaders and the media, with particular reference to: leading economic and financial newspapers, leading TV and radio stations; key local media;
- d) the “partners for communication”, i.e., all those bodies that can help the Managing Authority and Intermediate Bodies to disseminate information widely.

Beneficiaries will be informed about their responsibilities, such as: informing the public about the assistance obtained from the Structural Funds and the Cohesion Fund, displaying billboards, permanent explanatory plaques and the emblem of the European Union referred to in Art. 8 of Commission Regulation (EC) No. 1828/2006, complying with the technical characteristics of information and publicity measures referred to in Art. 9 of Commission Regulation (EC) No. 1828/2006.

The beneficiaries shall also be informed that their projects are part of a priority axis in an Operational Programme co-financed by the ERDF and that their names, the name of the operations and the amount of public funding that is allocated to the operations will be published.

The tasks of the RCOP Monitoring Committee with relation to information and publicity issues include adopting the Communication Plan and monitoring its implementation. Communication and publicity measures will be subject to evaluations made by the MA RCOP and by the RCOP Monitoring Committee.

The NSRF Coordinating Authority shall ensure the coordination of communication activities among institutions engaged in information and publicity activities for all the OPs across the Structural Funds system.

The Managing Authority and Intermediate Bodies share tasks and support each other in:

- informing potential beneficiaries about eligibility criteria, selection procedures, evaluation criteria, operations selected for financing, and budgets;
- advising beneficiaries on issues related to publicity measures;
- informing the general public about the projects implemented;
- offering all useful information for drafting the surveys and reports referred to in Art. 4 of Commission Regulation (EC) No. 1828/2006 to be presented by the Managing Authority to the Monitoring Committee and to the European Commission.

Operations envisaged under the CAP are specified in the Technical Assistance priority axis of the OP.

4.7 Management Information System (MIS)

In view of accumulation, summarising and presenting the data of the ERDF, ESF and Cohesion funds, Croatia uses a single Management Information System (MIS). The scope of the Management Information System is twofold and its purpose is to manage operational programmes and projects, as well as to serve as financial control mechanism to enable the smooth processing of payments.

The MIS ensures that all the data, necessary for financial management, monitoring, supervision, audit and evaluation are collected and secured as required by the General and Implementation Regulations.

MIS provides a possibility to monitor the operational data and financial information on:

- implementation of separate projects, financed from Structural Funds and Cohesion Fund;
- progress of implementation of separate operational programmes;
- general progress of implementation of the assistance under the Convergence Objective;
- verifications of results, detected irregularities, and audit.

MIS facilitates implementation of the following functions:

1. Management: placement of the data on financial plans and indicators of operational programmes into computer system, forecasts and monitoring of financial plans and indicators, supervision of obligations and execution of payment plans, control of the N+2/N+3 rule.

2. Administration: project registration, administration of agreements, forecasts on projects implementation and supervision of their execution, registration of verification results, control of eligibility of expenditure and payment. This function also includes the provision of accumulated data enabling for an easy identification of project implementation and payments problems.

3. Accountability: provision of information on progress of projects, elaboration of summaries for reports, provision of information on the expenditure, collection of information necessary for execution of control, audit, evaluations, submission of reports to the Commission via electronic media (for audit purposes, pursuant to the requirements of Regulation (EC) No 1083/2006)

The system allows for a multi-user group environment with distinct roles and tasks.

MIS is managed centrally by the Coordinating Body (MRDEUF) and developed in co-operation with other institutions; managing authorities, responsible ministries (Intermediate body 1), agencies (Intermediate body 2), certifying and audit authority. The system issues numbers of standard and customised reports to meet the needs of the various data groups, both on an ad hoc and/or regular basis. It is envisaged that data placement commence in July 2013.

This system ensures the data transmission between Managing Authority and the European Commission (as foreseen in Article 60 (c) of Regulation (EC) No 1083/2006).

SECTION 5: FINANCIAL TABLES

This section is currently potentially pending further revision

5.1 Annual commitment

Table 24: Financing plan of the RCOP detailing the IPA and ERDF annual allocations, in EUR

	Total IPA / ERDF (3)=(1)+(2)
2007	11,050,250
2008	11,600,000
2009	12,699,500
2010	14,200,000
2011	14,400,000
2012	10,348,000
2013	101,400,000
TOTAL	175,697,750

5.2 Total financial allocation

The following table demonstrates the financial plan of the RCOP for the programming period 2007-2013. It presents the amount of the total financial allocation of each fund in the operational programme, the national counterpart and the rate of reimbursement by Priority axis.

Table 25: Financial plan of the programming period detailing financial allocations from IPA and ERDF, national co-financing and co-financing rates for priorities under the RCOP, in EUR

Priority Axis	Fund	Community funding	National counterpart	Breakdown of the national counterpart		Total funding	Co-financing rate	For information	
				National public funding	National private funding			EIB	Other funding
		(a)	(b)=(c)+(d)	(c)	(d)	(e)=(a)+(b)	(f)= (a)/(e)		
Priority axis 1: Development and upgrading of the regional infrastructure and enhancement of the attractiveness of regions	IPA / ERDF	59,823,499	8,939,143	8,939,143	0	68,762,642	87%		
Priority axis 2: Enhancing the competitiveness of the Croatian economy	IPA / ERDF	104,886,899	33,122,178	20,722,978	12,399,200	138,009,077	76%		
Priority axis 3: Technical Assistance	IPA / ERDF	10,987,352	578,281	578,281	0	11,565,633	95%		
Total	IPA / ERDF	175,697,750	42,639,602	30,240,402	12,399,200	218,337,352	80.5%		

5.3 Categorisation of expenditure and Lisbon earmarking

This chapter will be completed with final calculations when the final draft of the OP and appropriate allocations have been confirmed.

The RCOP contains the breakdown of funds allocation by categories in accordance with the provisions of Article 37(1)(d) of Council Regulation No. 1083/2006 and Commission Regulation No. 1828/2006. The categorization represents the ex ante estimate on the use of funds under the RCOP; the categories considered are the codes by dimension (priority theme, form of finance and territory type, as they are listed in Annex II of Commission Regulation No. 1828/2006.

<i>Dimension 1</i> <i>Priority Theme</i>		<i>Dimension 2</i> <i>Form of Finance</i>		<i>Dimension 3</i> <i>Territory</i>	
<i>Code *</i>	<i>Amount **</i>	<i>Code *</i>	<i>Amount **</i>	<i>Code ***</i>	<i>Amount **</i>
<i>01</i>		<i>01</i>		<i>00</i>	
<i>02</i>					
<i>03</i>					
<i>04</i>					
<i>05</i>					
<i>06</i>					
<i>08</i>					
<i>09</i>					
<i>15</i>					
<i>57</i>					
<i>59</i>					
<i>60</i>					
<i>81</i>					
<i>85</i>					
<i>86</i>					
<i>TOTAL OP</i>		<i>TOTAL OP</i>		<i>TOTAL OP</i>	

* The categories are coded for each dimension using the standard classification.

** Estimated amount of the Community contribution for each category.

*** The entire territory of Croatia is applicable to receive assistance through the RCOP.

ANNEXES

Annex 1 - Composition of the RCOP drafting group

INSTITUTION	PERSON APPOINTED
Trade and Investment Promotion Agency	Mladen Lovrenčić
Croatian Agency for Regional Development	Željka Kovačić
Croatian Agency for Small Entrepreneurship	Zrinka Solić
Croatian Post and Electronic Communications Agency	Marijan Borovac
Croatian Employment Service	Darko Oračić
Croatian Employment Service	Marina Nekić
Croatian Employment Service	Mladen Vojković
Croatian Employment Service	Tatjana Tihomirović
Ministry of Tourism	Tomislav Vukovac
Ministry of Tourism	Branka Škarić
Ministry of Tourism	Davor Njirić
Ministry of Economy	Darko Bandula
Ministry of Entrepreneurship and Crafts	Suzana Vračević
Ministry of Entrepreneurship and Crafts	Bruno Radojica
Ministry of Entrepreneurship and Crafts	Jasminka Keser
Ministry of Economy, Labour and Entrepreneurship - Directorate for Crafts	Adrijano Šafran
Ministry of Economy, Labour and Entrepreneurship - Directorate for Crafts	Danijela Žagar
Ministry of Economy, Labour and Entrepreneurship - Directorate for Economic Diplomacy, Export and Investment	
Ministry of Entrepreneurship and Crafts	Ljiljana Zajc
Ministry of Economy	Marija Rajaković
Ministry of Entrepreneurship and Crafts	Sanja Fišer
Ministry of Entrepreneurship and Crafts	Neven Kos
Ministry of Economy	Ivana Gorički
Ministry of Economy, Labour and Entrepreneurship Directorate for Regional Competitiveness OP	Nataša Filipović
Ministry of Economy, Labour and Entrepreneurship Directorate for Regional Competitiveness OP	Sanja Mudrić
Ministry of Economy	Marija Rajaković
Ministry of Economy	Darinka Vedrina
Ministry of Culture	Silvija Modrušan
Ministry of Culture	Mirna Sabljak
Ministry of Culture	Tamara Ganoci-Frisch
Ministry of the Sea, Transport and Infrastructure	Anto Marić
Ministry of Regional Development, Forestry and Water Management	Robert Lacić
Ministry of Regional Development, Forestry and Water	Gabrijela Krasić

INSTITUTION	PERSON APPOINTED
Management	
Ministry of Health and Social Welfare	Ana Klofutar
Ministry of Health and Social Welfare	Sanja Predavec
Ministry of Health and Social Welfare	Velibor Drakulić
Ministry of Health and Social Welfare	Antoaneta Bilić
Ministry of Science, Education and Sports	Ivana Žorž
Ministry of Science, Education and Sports	Hrvoje Meštrić
Ministry of Science, Education and Sports	Ivana Crnić Duplančić
Ministry of Science, Education and Sports	Stipe Mamić
Ministry of Science, Education and Sports	Petra Palej
Business Innovation Centre of Croatia	Ivana Žorž
Business Innovation Centre of Croatia	Ivo Friganović
Business Innovation Centre of Croatia	Ivana Nagy
Business Innovation Centre of Croatia	Ante Mamić
Central State Administrative Office for e-Croatia	Ivana Andrijašević
Central State Administrative Office for e-Croatia	Tomislav Vračić
Ministry of Regional Development and EU Funds	Ana Krvarić
Ministry of Regional Development and EU Funds	Iva Šeler
Croatian National Tourist Board	Igor Borojevic

List of institutions participating in the consultation process

- The Croatian Bank for Reconstruction and Development
- The Croatian Chamber of Commerce
- The Croatian Chamber of Trade and Crafts
- The Croatian National Tourist Board
- The Croatian Employers Association
- The Croatian County Association
- The Croatian Institute of Technology
- Croatian Exporters
- The Croatian Alliance of Co-operatives
- The Ruđer Bošković Institute
- KRUG - The Association of Business Women in Croatia
- The National Foundation for Science, Higher Education and Technological Development of the Republic of Croatia
- The National Competitiveness Council
- The National Council for Science
- The Rector's Conference of Croatian Universities
- The Union of Independent Trade Unions of Croatia
- The Alliance of the Croatian Towns Association and the Croatian Municipalities Association
- The Croatian Association of Towns
- The Croatian Association of Municipalities
- The Croatian Association of Innovators
- The Croatian Office for Social Partnership
- The National Innovation System Council
- The Government Office for Cooperation with NGOs
- The Institute for International Relations
- The 20 Counties of the Republic of Croatia and the City of Zagreb

Representatives of participating organisations in the consultation process expressed themselves during the discussion and provided their comments in written form, as was reflected in the current version of the RCOP.

Annex 2 - Statistical tables

Table 1. Gross Value Added in million HRK

Year	Gross Value Added (basic prices)
2003	191,455
2004	209,382
2005	226,184
2006	246,056
2007	270,436
2008	295,430
2009	290,093

Source: Central Bureau of statistics, Monthly Statistical Report 3/2009, 7/2009 & 8/2010

Table 2. Structure of gross value added per economic sector

Year	Primary sector (% of GVA)	Secondary (% of GVA)	Tertiary (% of GVA)
2000	8.4	23.4	68.2
2001	8.4	22.8	68.8
2002	8.2	21.9	69.9
2003	6.8	21.4	71.8
2004	7.2	21.8	71.0
2005	6.5	20.9	72.6
2006	6.3	20.6	73.1
2007	6.1	20.4	73.5
2008	6.4	20.2	73.4

Source: Central Bureau of Statistics

Table 3. Industrial sector by activity groups, 2007

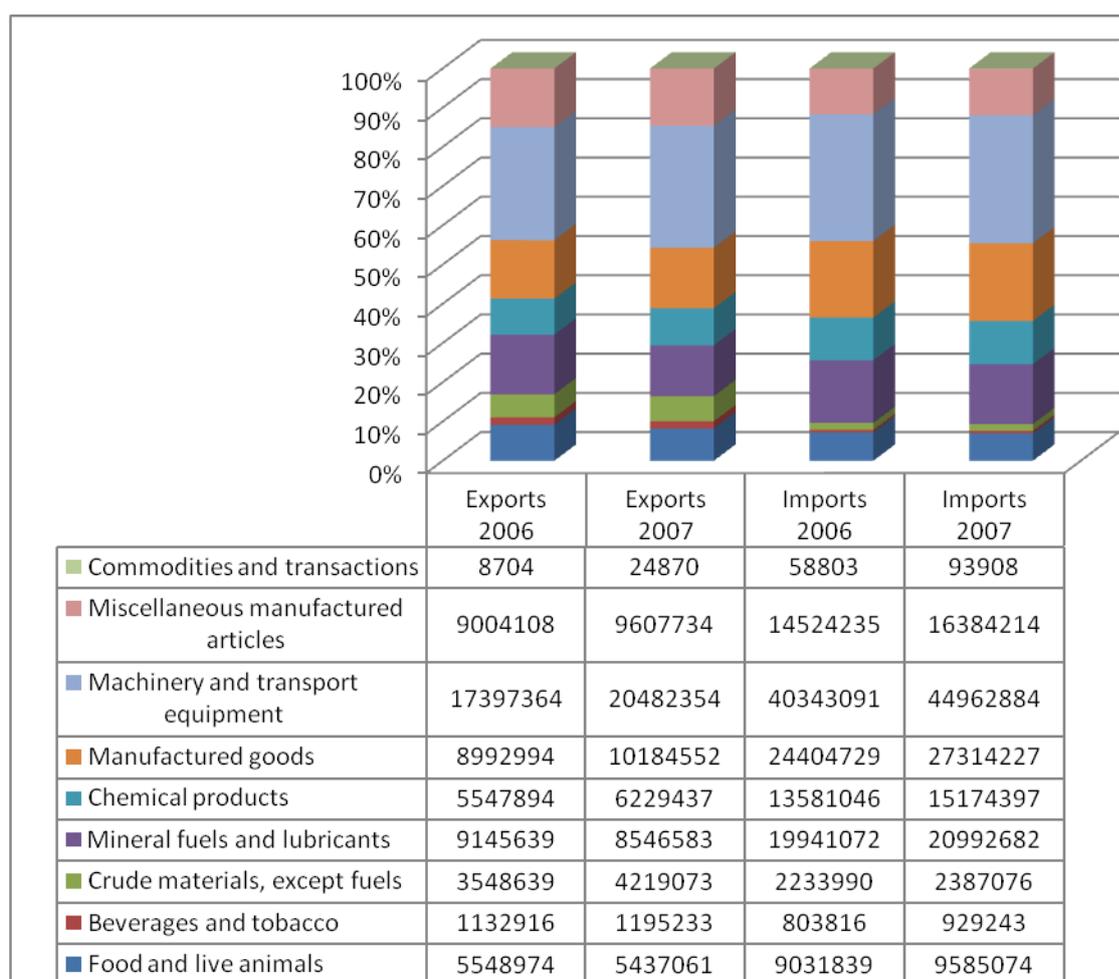
Industrial sector by activity groups	Number of enterprises	Income of products sold (thousand kuna)	Gross Value Added (thousand kuna)	Number of Employed	Labour productivity (GVA in kuna per person employed)
Mining and quarrying	61	3,075,923	1,297,858	5,584	232,424
Manufacturing	3,309	144,078,434	44,142,004	252,942	174,514
Electricity, gas and water supply	125	15,323,883	6,283,936	25,302	248,357
Total industry	3,495	162,478,240	51,723,798	283,828	182,36

Source: Central Bureau of statistics, Statistical Yearbook 2009

Table 4. Exports-Imports structure ,000 HRK

	Exports		Imports	
	2007	2008	2007	2008
Food and live animals	5,437,061	5,250,578	9,585,074	10,672,273
Beverages and tobacco	1,195,233	1,212,302	929,243	957,206
Crude materials, except fuels	4,219,073	4,212,627	2,387,076	3,087,604
Mineral fuels and lubricants	8,546,583	8,826,038	20,992,682	26,416,058
Animal and vegetable oils and fats	116,479	174,935	335,731	575,211
Chemical products	6,229,437	6,821,206	15,174,397	15,915,428
Manufactured goods	10,184,552	10,589,297	27,314,227	27,958,454
Machinery and transport equipment	20,482,354	23,185,146	44,962,884	48,699,015
Miscellaneous manufactured articles	9,607,734	8,920,213	16,384,214	16,021,586
Commodities and transactions	24,870	12,479	93,908	51,197
TOTAL	66,043,374	69,204,821	138,159,436	150,354,032

Source: Central Bureau of statistics, Statistical Yearbook 2009



Source: Central Bureau of statistics, Statistical Yearbook 2008

Table 5. Gross fixed capital formation (investments)

Year	Gross fixed capital formation (investments) in Croatia (million €)	As percentage of the GDP (%)	
		Croatia	EU-27
2003	7,573.3	25.0	19.4
2004	8,173.2	24.8	19.5
2005	8,905.2	24.7	19.9
2006	10,346.2	26.0	20.7
2007	11,381.6	26.2	21.2
2008	13,229.9	27.8	21.1
2009	11,360.4	25.4	19.0
2010	9929.0	21.6	18.6

Source: EUROSTAT

Table 6. Market Integration - Foreign Direct Investment (FDI) intensity - Average value of inward and outward FDI flows divided by GDP, %

Year	2004	2005	2006	2007	2008	2009
Croatia	1.7	2.2	3.6	4.4	3.5	3.3
EU-27	0.9	1.7	2.3	4.0	2.3	2.3

Source: EUROSTAT

Table 7. Labour productivity per person employed - GDP in Purchasing Power Standards (PPS) per person employed relative to EU-27 (EU-27 = 100) (estimated figures)

Year	Labour productivity per person employed relative to EU-27 (= 100)	
	Croatia	Euro area (15 countries)
2002	66.6	111.9
2003	68.6	111.2
2004	69.5	110.1
2005	70.4	110.3
2006	72.1	110.1
2007	74.5	110.1
2008	76.1	109.5
2009	78.1	109.5

Source: EUROSTAT

Table 8. Average monthly paid off net and gross earning per person in paid employment in legal entities, according to NKD 2007 activity sections, April - June 2010

Sectors	Average monthly paid off net (HRK)	Average monthly paid off gross (HRK)
Agriculture, forestry and fishing	4,606	6,369
Mining and quarrying	6,912	10,214
Manufacturing	4,646	6,609
Electricity, gas, steam and air conditioning supply	6,728	9,803
Water supply; sewerage, waste management and remediation activities	5,204	7,322
Construction	4,426	6,237
Wholesale and retail trade	4,532	6,522
Transportation and storage	6,031	8,679
Accommodation and food service activities	4,512	6,412
Information and communication	7,478	11,491
Financial and insurance activities	7,858	12,310
Real estate activities	5,378	7,792
Professional, scientific and technical activities	6,792	10,500
Administrative and support service activities	3,621	4,984
Public administration and defence; compulsory social security	6,078	8,664
Education	5,272	7,543
Human health and social work activities	6,113	8,947
Arts, entertainment and recreation	5,420	7,831
Other service activities	5,266	7,642
TOTAL	5,313	7,677

Source: Central Bureau of statistics, Monthly Statistical Report 8/2010

Table 9. Number of entrepreneurs in Croatia

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009
Small	54,213	60,562	54,213	65,327	67,760	76,588	81,468	80,199	81,426
Medium	2,203	2,279	2,597	2,692	2,969	1,480	1,589	1,350	1,390
Crafts	91,066	96,605	98,419	101,052	102,081	101,846	101,442	99,054	96,909
Cooperatives	286	347	414	539	694	885	1,019	1,032	1,125
Total SMEs	147,768	159,793	155,643	169,610	173,504	180,799	185,518	181,635	180,850
Large	571	720	889	962	1,074	441	475	444	436
Total enterprises	148,339	160,513	156,532	170,572	174,578	181,240	185,993	182,079	181,286
Share of SMEs in total enterprises	99.62%	99.55%	99.43%	99.44%	99.38%	99.76%	99.74%	99.76%	99.76%

Source: Ministry of Economy, Labour and Entrepreneurship

Table 10. Structure of legal entities %, by types of legal constitutional formation, activity. Situation as on 31 December, 2008

	Trade companies		Enterprises / cooperatives	
	registered	active	registered	active
Agriculture, hunting and forestry	1.8	1.7	3.1	11.9
Fishing	0.2	0.2	0.4	0.6
Mining and quarrying	0.3	0.3	0.1	0.2
Manufacturing	12.3	12.7	10.4	14.1
Electricity, gas and water supply	0.3	0.3	0.0	0.0
Construction	10.9	11.3	6.0	7.6
Wholesale and retail trade	35.2	32.4	57.6	37.0
Hotels and restaurants	5.8	5.7	3.6	2.9
Transport, storage and communication	5.4	5.4	5.6	4.8
Financial intermediation	0.8	0.8	0.9	2.1
Real estate	22.8	24.9	10.4	15.9
Education	0.5	0.6	0.4	0.6
Health and social work	0.4	0.4	0.1	0.4
Other community, social and personal service activities	3.2	3.4	1.4	1.8

Source: Central Bureau of statistics, Statistical Yearbook 2009

Table 11. Employment in high- and medium-high-technology manufacturing sectors, share of total employment, %

	2002	2003	2004	2005	2006	2007	2008
EU-27	7.23	6.95	6.76	6.59	6.6	6.7	n/a
Croatia	4.66	4.24	4.7	4.03	4.7	4.51	4.62

Source: EUROSTAT

Table 12. Employment in knowledge-intensive service sectors, share of total employment, %

	2002	2003	2004	2005	2006	2007	2008
EU-27	31.43	32.00	32.20	32.47	32.80	32.96	n/a
Croatia	21.69	20.81	21.11	21.55	23.03	23.43	23.27

Source: EUROSTAT

Table 13. Gross domestic expenditures on Research and Development per sectors (in thousand HRK)

	2001	2002	2003	2004	2005	2006	2007	2008
All sectors total	1,780,379	2,006,307	2,209,274	2,586,686	2,311,712	2,179,160	2,553,530	3,073,965
Business sector	739,868	855,902	864,196	1,077,390	953,523	799,891	1,037,832	1,361,423
Government sector	403,311	446,643	485,336	541,141	558,309	580,789	650,960	776,109
Universities	637,200	703,762	859,742	968,155	799,880	798,480	861,489	932,702
Non-profit sector	0	0	0	0	2,968	3,107	3,249	3,731

Source: Central Bureau of Statistics, Statistical Information 2010

Table 14. Gross domestic expenditure on R&D by source of funds (public, private) - Percentage %

Year	Croatia		EU-27		Euro area	
	Government sector	Business sector	Government sector	Business sector	Government sector	Business sector
2002	46.4	45.7	34.3	54.6	36.2	56.2
2003	55.9	42	35.1	54.1	36.4	55.9
2004	46.6	43	35.0	54.3	36.0	55.9
2005	58.1	34.3	34.4	54.2	35.3	56.3
2006	55.8	34.6	33.4	55.3	34.3	57.0
2007	50.4	35.5	33.0	55.2	34.1	56.8
2008	49.3	40.8	33.5	55.0	34.7	56.3

Source: EUROSTAT

Table 15. Gross domestic expenditure on R&D by sector (2007)

Gross domestic expenditures	Thousand kuna
Sectors - total	2,553,530
Life sciences	683,063
Engineering	914,478
Biomedicine and health	205,340
Biotechnical sciences	264,865
Social sciences	228,161
Humanities	257,623
Business sector	1,037,832
Life sciences	308,806
Engineering	601,828
Biomedicine and health	40,099
Biotechnical sciences	67,011
Social sciences	20,088
Government sector	650,960
Life sciences	289,208
Engineering	62,586
Biomedicine and health	54,951
Biotechnical sciences	47,383
Social sciences	111,338
Humanities	85,494
Non-profit sector	3,249
Humanities	3,249
Higher education	861,489
Life sciences	85,049
Engineering	250,064
Biomedicine and health	110,290
Biotechnical sciences	150,471
Social sciences	96,735
Humanities	168,880

Source: Central Bureau of Statistics, Statistical yearbook 2009

Table 16. Patent applications to the European Patent Office (EPO) -
Number of applications per million inhabitants

Year	2000	2001	2002	2003	2004	2005	2006
Croatia	3.5	4.7	8.3	9.0	6.8	7.4	7.1
EU-27	106.5	105.1	104.0	105.9	111.3	112.2	114.9
Euro area (15 countries)	136.5	136.0	134.2	136.7	144.2	145.3	149.0

Source: EUROSTAT

Table 17. High-tech exports-exports of high technology products as a share of total exports,
%

	2002	2003	2004	2005	2006	2007
EU-27	18.91	18.58	18.49	18.74	16.65	15.96
Croatia	8.96	8.99	9.59	7.96	6.8	6.61

Source: EUROSTAT

Table 18. GDP (PPS per inhabitant, % of the EU27) in NUTS 2 regions

Gross domestic product per capita in Purchasing Power standards (EU-27=100)							
	2003	2004	2005	2006	2007	2008	2009
Croatia	54	56	57	57	60	63	62
Continental	56	56	57	59	61	64	63
Adriatic	53	56	56	56	60	61	60

Source: EUROSTAT

Table 19. GDP per capita

Gross domestic product per capita (EURO)								
	2004	2005	2006	2007	2008	2009	2010	2011
Croatia	7,400	8,100	8,900	9,700	10,700	10.100	10.200	10.500
EU-27	21,700	22,500	23,700	25,000	25,000	23.500	24.500	25.200
Continental	7,500	8,200	9,100	9,900	10.900	10.300	n/a	
Adriatic	7,400	8,000	8,600	9,600	10.400	8.900		

Source: EUROSTAT

Table 20. Regional Gross Domestic Product per capita NUTS level 2 and 3 in year 2009

<i>Territorial statistical units NUTS level 2 and 3</i>	<i>Index (HR = 100)</i>
CONTINENTAL CROATIA	102.7.¹¹³
City of Zagreb	176.2
County of Zagreb	77.2
County of Krapina-Zagorje	65.0
County of Varaždin	87.4
County of Koprivnica-Križevci	92.7
County of Međimurje	82.6
County of Bjelovar-Bilogora	75.9
County of Virovitica-Posavina	63.3
County of Požega-Slavonia	61.6
County of Brod-Posavina	55.4
County of Osijek-Baranja	80.2
County of Vukovar-Sirmium	59.1
County of Karlovac	75.5
County of Sisak-Moslavina	82.3
ADRIATIC CROATIA	96.8
County of Primorje-Gorski Kotar	121.7
County of Lika-Senj	86.1
County of Zadar	83.0
County of Šibenik-Knin	71.6
County of Split-Dalmatia	78.7
County of Istria	126.7
County of Dubrovnik-Neretva	98.8

Source: CBS (First release no. 12.1.2. dated 14. March 2012.)

¹¹³ Data recalculated based on total population of counties in 2011

Table 21. Internal Migration (immigrated and emigrated population), per region, 2011

County	Immigrants		Emigrants		Net migration, 2011
	From another county	From abroad	Into another county	Abroad	
Zagreb county	4,214	520	3,469	400	865
Krapina-Zagorje	573	78	726	45	-120
Sisak-Moslavina	785	266	1,295	1,307	-1,551
Karlovac	565	122	732	541	-586
Varazdin	649	140	625	98	66
Koprivnica-Krizevci	481	73	616	83	-145
Bjelovar-Bilogora	600	104	1,026	449	-771
Primorje-Gorski Kotar	1,640	727	1,501	617	249
Lika-Senj	461	146	470	434	-297
Virovitica-Podravina	401	66	565	228	-326
Pozega-Slavonia	356	57	684	414	-685
Brod-Posavina	628	248	1240	325	-689
Zadar	1,643	563	931	533	742
Osijek-Baranja	1,193	401	1,537	611	-554
Sibenik-Knin	803	246	933	1016	-900
Vukovar-Srijem	726	311	1,504	772	-1,239
Split-Dalmatia	1,881	1,226	1,826	1,249	32
Istria	1,140	606	889	946	-89
Dubrovnik-Neretva	643	503	794	510	-158
Medimurje	249	88	363	122	-148
City of Zagreb	8,883	2,043	6,788	1,999	2139
NUTS 2 REGIONS					
Continental	20,303	4,517	21,170	7,394	-3,774
Adriatic	8,211	4,017	7,344	5,305	-421
CROATIA	28,514¹¹⁴	8,534	28,514	12,699	-4,165

Source: Central Bureau of statistics, First release No 7.1.2. - Migration of population of Republic of Croatia, 2011

¹¹⁴ Difference between the number of immigrants and emigrants refers to registrations/cancelled registrations of permanent residence at the end of calendar year.

Table 22. Tourist arrivals and overnight stays in tourist accommodation facilities (both in thousands)

Year	Tourist arrivals	Overnight stays
2006	10,385	53,007
2007	11,162	56,005
2008	11,261	57,103
2009	10,270	54,988
2010	10,604	56,416
2011	11,456	60,354

Source: Central Bureau of statistics, Monthly Statistical Report 1/2010 for data 2006 - 2008 and Monthly Statistical Report 8/2012 for data 2009-2011

Table 23: Tourist Traffic in 2011, by Counties

COUNTIES	ARRIVALS		INDEX	OVERNIGHTS		INDEX
	2010.	2011.	2011./10.	2010.	2011.	2011./10.
ZAGREB	34,569	34,367	99.4	62,198	66,502	106.9
KRAPINA-ZAGORJE	54,781	60,121	109.7	145,411	153,046	105.3
SISAK-MOSLAVINA	26,991	26,569	98.4	87,385	87,317	99.9
KARLOVAC	163,754	165,450	101.00	282,083	269,291	95.5
VARAŽDIN	38,518	38,555	100.1	116,601	118,597	101.7
KOPRIVNICA-KRIŽEVCI	12,093	13,531	111.9	20,075	25,351	126.3
BJELOVAR-BILOGORA	11,590	13,887	119.8	23,981	30,468	127.1
PRIMORJE-GORSKI KOTAR	2.151,118	2.360,214	109.7	10.938,291	11.741,692	107.3
LIKA-SENJ	403,960	425,675	105.4	1.618,941	1.697,107	104.8
VIROVITICA-PODRAVINA	12,991	13,625	104.9	34,323	32,917	95.9
POŽEGA-SLAVONIJA	9,014	9,729	107.9	18,786	23,627	125.8
BROD-POSAVINA	18,099	18,526	102.4	31,951	33,127	103.7
ZADAR	971,092	1.022,464	105.3	6.223,824	6.481,067	104.1
OSIJEK-BARANJA	71,749	77,697	108.3	159,261	173,892	109.2
ŠIBENIK-KNIN	634,614	650,059	102.4	3.783,823	3.975,122	105.1
VUKOVAR-SIRMIUM	36,582	36,682	100.3	68,383	62,394	91.2
SPLIT-DALMATIA	1.637,656	1.777,700	108.6	9.364,032	10.250,215	109.5
ISTRIA	2.627,918	2.895,686	110.2	17.731,881	19.095,401	107.7
DUBROVNIK-NERETVA	982,619	1.046,826	106.5	4.538,026	4.775,161	105.2
MEDIMURJE	38,302	37,369	97.6	81,526	78,856	96.7
CITY OF ZAGREB	666,106	730,945	109.7	1.085,597	1.183,125	109.0
TOTAL	10.604,116	11.456,677	108.0	56.416,379	60.354,275	107.0

Source : CBS Statistical Yearbook 2011 and First release No 4.4.2/11. -

Tourism - Cumulative data

Table 24: Tourist Traffic in the Inland Counties in 2011

COUNTIES	ARRIVALS		INDEX	OVERNIGHTS		INDEX
	2010.	2011.	2011./10.	2010.	2011.	2011./10.
ZAGREB	34,569	34,367	99.4	62,198	66,502	106.9
KRAPINA-ZAGORJE	54,781	60,121	109.7	145,411	153,046	105.3
SISAK-MOSLAVINA	26,991	26,569	98.4	87,385	87,317	99.9
KARLOVAC	163,754	165,450	101.00	282,083	269,291	95.5
VARAŽDIN	38,518	38,555	100.1	116,601	118,597	101.7
KOPRIVNICA-KRIŽEVCI	12,093	13,531	111.9	20,075	25,351	126.3
BJELOVAR-BILOGORA	11,590	13,887	119.8	23,981	30,468	127.1
VIROVITICA-PODRAVINA	12,991	13,625	104.9	34,323	32,917	95.9
POŽEGA-SLAVONIA	9,014	9,729	107.9	18,786	23,627	125.8
BROD-POSAVINA	18,099	18,526	102.4	31,951	33,127	103.7
OSIJEK-BARANJA	71,749	77,697	108.3	159,261	173,892	109.2
VUKOVAR-SIRMIUM	36,582	36,682	100.3	68,383	62,394	91.2
MEDIMURJE	38,302	37,369	97.6	81,526	78,856	96.7
CITY OF ZAGREB	666,106	730,945	109.7	1,085,597	1,183,125	109.0
INLAND, TOTAL	1,195,139	1.277.053	106.9	2,217,561	2.338.510	105.5
<i>Share in total tourist traffic</i>	11.3%	11.1%		3.9%	3.9%	

Source: CBS, same as above

Table 25. Total population having completed at least upper secondary education

Year	Total population having completed at least upper secondary education - ISCED level 3 (%) ¹¹⁵		
	Croatia	EU-27	Euro area (15 countries)
2002	70.4	65.8	61.0
2003	70.0	67.1	62.1
2004	71.2	68.4	63.5
2005	72.8	69.4	64.6
2006	74.1	70.0	65.0
2007	75.3	70.8	65.9
2008	75.9	71.5	66.7

Source: EUROSTAT

¹¹⁵ Population aged 25-64

Table 26: Enterprises in Liquidation, Duration, Total Number of Employees and the Accumulated Amount of Debt (.000 kuna) at December 31, 2011

Period of liquidation process	Number of insolvent business subjects	%	Number of employees in insolvent businesses	%	Total Value of Creditor's Claims	%
1 - 2 y	12.749	23,4	12.124	33,3	8.087.102	23,3
2 - 3 y	10.489	19,3	8.270	22,7	8.951.663	25,7
3 - 4 y	6.843	12,6	4.435	12,2	4.970.439	14,3
4 - 5 y	5.044	9,2	3.040	8,3	3.089.596	8,9
5 y and more	19.309	35,5	8.554	23,5	9.685.771	27,8
total	54.434	100,0	36.423	100,0	34.784.571	100,0

Source: FINA, *Outstanding liabilities of business subjects*

Table 27: Active Interest Rates: Short and Long-Term and Credit in Local and Foreign Currencies

Active Interest rates in HRK	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Short term without currency exposure	7,44	8,02	8,33	7,71	6,75	7,39	8,98	9,29	6,98	7,48
Long term without currency exposure	6,48	6,14	6,9	6,48	5,86	6,66	8,1	8,27	6,45	6,76
Short term with currency exposure	8,72	7	7,09	6,34	6,29	6,86	8,18	8,41	7,91	7,56
Long term with currency exposure	6,37	5,76	5,55	5,18	6,21	6,51	6,92	7,31	7,19	6,37
Consumer Prices - Inflation rate	1,7	1,8	2,1	3,3	3,2	2,9	6,1	2,4	1,1	2,3

Source: CNB *Annual Bulletin*

Table 28: Passive Interest Rates - Short and Long-term

Passive Interest rates in HRK	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Short term without currency exposure	2,86	4,69	4,13	3,23	2,69	5,48	5,64	2,04	1,41	1,89
Long term without currency exposure	3,23	2,82	3,30	3,49	3,11	6,45	6,85	2,07	3,03	2,78
Current account deposits with currency exposure in Euro	0,52	0,23	0,22	0,27	0,32	0,36	0,26	0,10	0,18	0,13
Short term saving deposits with currency exposure in Euro	2,89	2,29	2,46	2,63	4,24	5,10	4,13	2,64	1,63	2,37
Long term saving deposits with currency exposure in Euro	3,46	2,85	3,61	4,39	4,79	5,13	5,52	2,85	6,91	3,54
Consumer Prices - Inflation rate	1,7	1,8	2,1	3,3	3,2	2,9	6,1	2,4	1,1	2,3

Source: CNB *Annual Bulletin*

Table 29: The amount of FDI in Croatia in period of 1993 - 2011 (in millions of EUR)

Year	Amount	%
1993.	101,0	0,41
1994.	92,8	0,38
1995.	79,1	0,32
1996.	382,1	1,55
1997.	480,2	1,94
1998.	849,7	3,44
1999.	1.362,9	5,51
2000.	1.140,6	4,61
2001.	1.467,5	5,94
2002.	1.137,9	4,60
2003.	1.762,4	7,13
2004.	949,6	3,84
2005.	1.467,9	5,94
2006.	2.768,3	11,20
2007.	3.679,0	14,88
2008.	4.218,6	17,06
2009.	2.065,5	8,35
2010.	232,5	0,94
First half of 2011	485,3	1,96
Total	24.722,9	100,00

Source: HNB

Table 30: Share of FDI in GDP in Croatia in the period of 1995-2010 in % (FDI and GDP in millions of EUR)

Year	BDP	FDI	%
1995.	17,066	79.1	0.46
1996.	18,638	382.1	2.05
1997.	20,800	480.2	2.31
1998.	22,378	849.7	3.80
1999.	21,647	1,362.9	6.30
2000.	22,333	1,140.6	5.11
2001.	25,738	1,467.5	5.70
2002.	28,189	1,1379	4.04
2003.	30,265	1,762.4	5.82
2004.	33,009	949.6	2.88
2005.	36,034	1,467.8	4.07
2006.	39,745	2,764.8	6.97
2007.	43,390	3,651.3	8.42
2008.	4,543	4,218.6	8.87
2009.	44,781	2,415,5	5.39
2010.	45,917	297.5	0.65

Source: HNB

Annex 3 - Reconciliation of Croatian Strategies and RCOP operations

Priority Axis 1: Development and upgrading of the regional infrastructure and raising the attractiveness of regions

BUSINESS RELATED AND TOURISM INFRASTRUCTURE

TYPES OF INTERVENTION	STRATEGIC DOCUMENT	ADOPTED	LINKAGE TO THE TYPE OF INTERVENTION
Business-related infrastructure (industrial parks, business incubators, business zones, public utilities for these structures) brownfield preparation for new business development	Government's Programme for the Promotion of Small and Medium-Sized Enterprises, 2008-2012	April 2008	Construction of business zones Quality changes in business infrastructure and expert support to entrepreneurship
	National Programme for the Development of the Islands	February 1997	Providing conditions for investments, equal with the mainland
	Regional Index of Croatian Competition, 2010		Development of the entrepreneurial capacities of regions and counties
Tourism infrastructure (multifunctional city halls, Public facilities in spa resorts and other tourist destinations, marked tourist paths in mountains, public beaches, TIC, public parking & garages, cycle and thematic routes, and other infrastructure for services provided free of charge for tourists.	Nautical Tourism Development Strategy, 2009 -2019	December 2008	Increasing the capacities of yacht marinas and public ports, Construction of new marinas Increasing the level of communal infrastructure in the coastal zone and on the islands
	Strategy Report Croatian Tourism Development by 2010	September 2003	Construction of transit infrastructures, development of an integral and integrated offer of Croatia as a tourist destination Development of particular types of tourism (wellness, hunting, excursion, rural, etc.)
Cultural infrastructure relevant for the development of tourism (revitalisation and valorisation of cultural and historical heritage: castles, palaces, manor houses, fortresses, houses with traditional architecture, monuments of industrial heritage, etc.)	3-year strategic plan of the MoC (in preparation)	Under preparation	Revitalisation of cultural heritage and its operation and presentation as a tourist attraction

Priority axis 2: Enhancing Competitiveness of the Croatian Economy

SME

TYPES OF INTERVENTION	STRATEGIC DOCUMENT	ADOPTED	LINKAGE TO THE TYPE OF INTERVENTION
Direct financial non-returnable support of productive investments of SME through a grant scheme. All eligible industries and services (new technologies, equipment, production lines and related construction or	Government's Programme for the Promotion of Small and Medium-Sized Enterprises 2008-2012	April 2008	Strengthening the competitive ability of SME through increasing overall investment in SME, increasing the share of high-tech SME, supporting export growth

reconstruction) tourism and culture (construction or reconstruction of hotels, aqua parks, wellness centres, ski resorts, sports facilities, spa facilities, marinas and other commercial facilities). Support for innovative and new technologies, support for high value added competitive products, support for networking and cooperation - mainly by clusters, support for exports, innovation clusters, adoption of the environmental <i>acquis</i> , etc.	Strategy Report: Croatian Tourism Development by 2010	September 2003	Increasing the quality of accommodation facilities (mainly hotels but also other types of establishments) Development of particular types of tourism (wellness, hunting, excursion, rural, etc.) and reinforcement of continental year-round tourism
	Strategy of Government programmes 2013-2015	July 2012	Sustainable long-term development, increase of competitiveness and technology levels
Creating a favourable environment for FDI and local business investments, presentation of Croatian companies and products in international markets, supporting direct contacts between Croatian companies and their potential business partners from abroad. Analysis of sectoral policies for SME, promotion of specific groups of SME, start-ups, women, etc.	Industrial Policy of the Republic of Croatia (till 2013)	April 2008	Encourage the interaction between industry and the science community
	Croatian Export Offensive 2007-2010		Reinforce the position of the Croatian economy in international markets
	Government's Programme for the Promotion of Small and Medium-Sized Enterprises 2008-2012	April 2008	Creation of development conditions for more productive entrepreneurship; increase of investments in small enterprises, increase of exports and development of export clusters Increase the quality level of clusters, market-sustainable clusters
	Strategy of Government programmes 2013-2015	July 2012	Development of a comprehensive programme for the economic promotion of Croatia

R&D AND TECHNOLOGY TRANSFER

TYPES OF INTERVENTION	STRATEGIC DOCUMENT	ADOPTED	LINKAGE TO THE TYPE OF INTERVENTION
Technology development programmes, establishment of centres of research excellence, improving research & technological development infrastructures, strengthening technology transfer in fields of research, strengthening the infrastructure capacity for competitive R&D. Protection of intellectual property rights. Developing better conditions for the introduction of innovative technologies related to Croatian industries and reflecting objectives defined by the <i>Industrial Policy of the Republic of Croatia in Preparation for Accession to the EU</i> .	Science and Technology Policy of the Republic of Croatia, 2006-2010	May 2006	Creation of technological infrastructure to support SME based on knowledge and newly established technology-based companies Strengthening competitiveness, including: increasing the number of high-tech SME and crafts Improvement of the quality of the entrepreneurial infrastructure, including stimulating centres of excellence and academic entrepreneurship to link with SME
	Government's Programme for the Promotion of Small and Medium-Sized Enterprises, 2008-2012	April 2008	
	Regional Index of Croatian Competition	2007	
	Industrial Policy of the Republic of Croatia (till 2013) Industrial Policy of the Republic of Croatia (till 2013)	October 2007	Development of regions of knowledge Encouragement of interaction between industry and the science community
	Economic Recovery Programme	April 2010	Technological transition and strengthening competitiveness

Annex 4 - Quantification of the current situation in Croatian Economy using structural indicators

INDICATOR	UNIT	BASE VALUE	EU-27 AVERAGE VALUE	SOURCE/YEAR	TARGET 2015
GDP growth rate	%	-5.8	-4.2	EUROSTAT 2009	
GDP per capita in PPS (compared to the EU-27)	Number (EU-27=100)	63	100	EUROSTAT 2008	
High-tech exports	%	6.61	15.96	EUROSTAT 2007	
Labour productivity per worker (compared to the EU-27)	Number	78.1	100	EUROSTAT 2009	
Business investments (Gross fixed capital formation in the private sector, as % of GDP)	%	25.5	19.3	EUROSTAT 2009	
Inflation rate	%	2.4	1.0	EUROSTAT CBS 2009	
Unemployment rate	%	9.1	8.9	EUROSTAT 2009	

Annex 5 - Sectoral guidelines

Innovation

- CIP - Competitiveness and Innovation Programme, Draft Work Programme 2009, November 2008
- EC - Innovation in the National Strategic Reference Frameworks, Working Document of the DG Regio, October 2006

Research and Development

- Commission Communication COM (2002) 499 “More Research for Europe - Objective 3% of GDP”
- Commission Communication COM (2005)141 “Integrated Guidelines for Growth and Jobs 2005-2008”
- Proposal for a “Decision of the European Parliament and of the Council Establishing a Competitiveness and Innovation Framework Programme (2007-2013)” {SEC(2005) 433}
- Proposal for a “Competitiveness and Innovation Framework Programme (2007-2013)” with a specific “Entrepreneurship and Innovation Programme”

Small and medium-sized enterprises

- 2003/361/CE Decision on the Definition of SME

Economic competition

- Council Regulation (EC) 1/2003 on Implementation of the Rules of Economic Competition

Industrial policy

- Council Decision 96/413/EEC on Implementation of a Community Action Programme to Strengthen the Competitiveness of European Industry
- Commission Communication COM(2002) 714
“Industrial Policy in an Enlarged Europe”
- Commission Communication COM(2003) 704
“Some Key Issues in Europe's Competitiveness - Towards an Integrated Approach”
- Commission Communication COM(2004) 274
“Fostering Structural Change: an Industrial Policy for an Enlarged Europe”

Tourism

- Commission Communication COM (2007) 621
“Agenda for a Sustainable and Competitive European Tourism”
- Commission Communication COM (2006) 134
“A Renewed EU Tourism Policy - Towards a Stronger Partnership for European Tourism”
- Commission Communication COM (2003) 716
“Basic Orientation for the Sustainability of European Tourism”

Public procurement

- Treaty and EC Directives for the field of public procurement. This involves the principles of transparency, equal treatment, non-discrimination, mutual recognition and proportionality in maintaining the principles of economy in the allocation of financial resources.

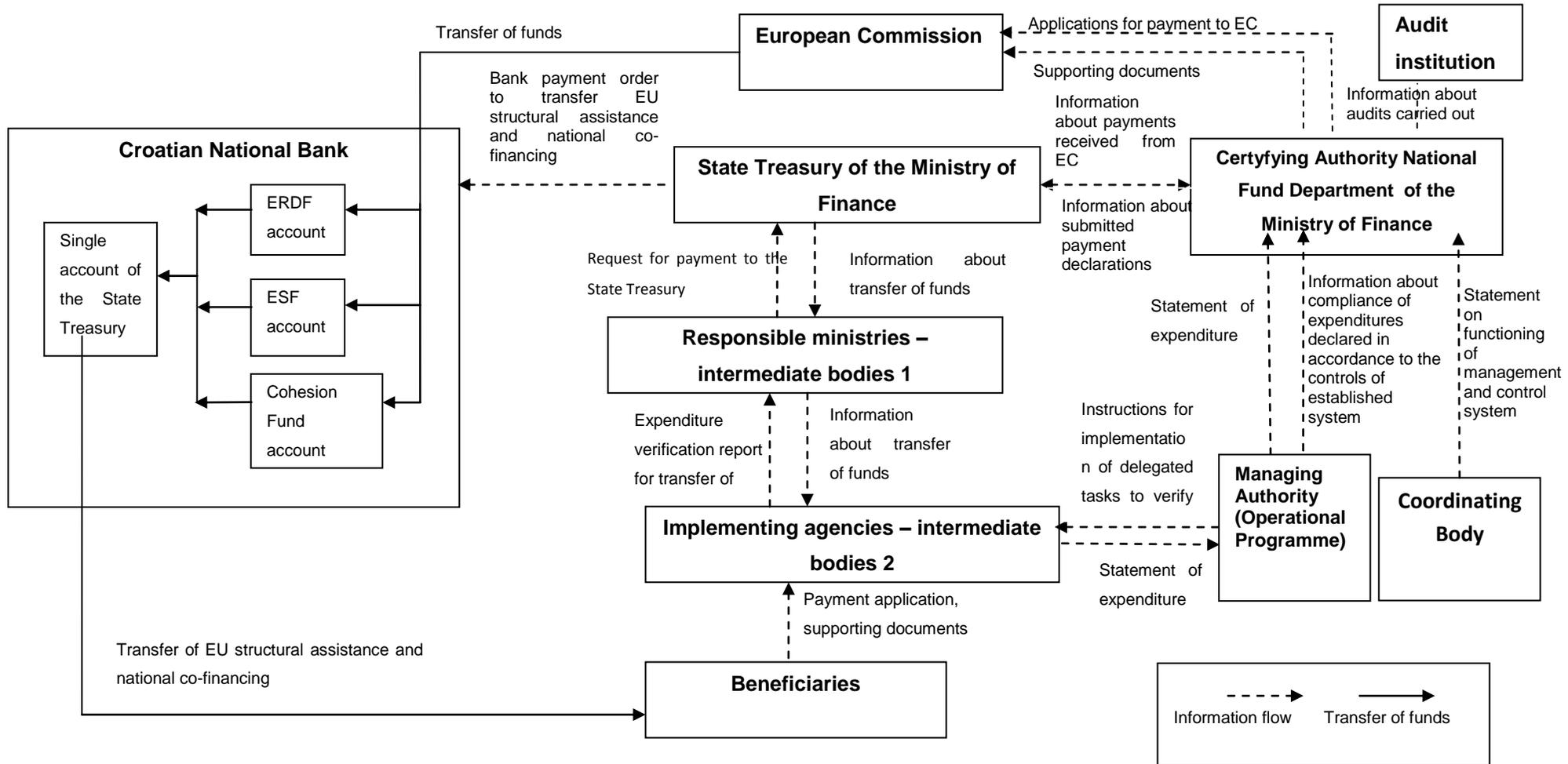
Protection and improvement of the environment

- EU Directive 2001/42/EC on the assessment of the effects of certain plans and programmes on the environment; this applies to the assessment of the strategic documents.

Annex 6 - Ex ante evaluation report

******The complete final ex ante evaluation report will be inserted into the text of the OP with the final draft, to ease the handling of the draft document at this stage. The report will however be communicated with the draft as a separate document at this point and the body of the text contains a summary of findings and recommendations.******

Annex 7 - Financial Flows



Annex 8 - Strategic Environmental Assessment (SEA)

Final results will be included in the final OP draft, please refer to the summary on the topic in Section 2.5 Ex ante evaluation