



**DIRECTORATE-GENERAL FOR EXTERNAL POLICIES
POLICY DEPARTMENT**



**Analysis of the 2009
annual programme for
Croatia
under the Pre-accession
Instrument (IPA) in the
context of the 2009
enlargement package**

AFET

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES OF THE UNION

DIRECTORATE B

POLICY DEPARTMENT

STANDARD BRIEFING

**ANALYSIS OF THE 2009 ANNUAL PROGRAMME
FOR CROATIA**

**UNDER THE INSTRUMENT FOR PRE-ACCESSION
ASSISTANCE (IPA)**

IN THE CONTEXT OF THE 2009 ENLARGEMENT PACKAGE

Abstract

This briefing analyses the 2009 Annual Programme for Croatia and its coherence with EU strategic objectives and policy goals. It is based mainly on the Commission communication on the enlargement strategy for 2009, the 2009 Annual Programme for Croatia, the Croatia 2009 Progress Report and the 2009-2011 Multi-annual Indicative Planning Document for Croatia. The briefing discusses challenges and actions under the political criteria, with specific attention to human rights and minority issues, economic criteria and compliance with the *acquis*.

Generally, projects planned under IPA 2009 are in line with the EU policy objectives as set within the enlargement package. The main challenges that could adversely affect the implementation of the programme are the economic crisis and the gap between the adoption and the implementation of the programme. It is recommended that further EU activity in Croatia should also target the Parliament and provide more help for economic reforms.

This study was requested by the European Parliament's Committee on Foreign Affairs.

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EXECUTIVE SUMMARY

Scope of the briefing:

This briefing analyses the 2009 Annual Programme for Croatia, taking into account the Commission communication on the enlargement strategy for 2009, the Croatia 2009 Progress Report and the latest Multi-annual Indicative Planning Document (MIPD) for Croatia (2009-2011).

Croatia has, as a candidate country, access to all five IPA components. IPA regulations require annual/multiannual programmes, depending on the particular component. This briefing, in line with the specifications, focuses on the 2009 Annual Programme which covers IPA component I.

IPA Component I funding for Croatia is € 45.6 million, which represents 30% of the total IPA allocation for 2009 (€ 151.2 million). Separate financing decisions of € 42.10 million and € 2.5 million cover the national programme for Croatia under the IPA-Transition Assistance and Institution Building Component for 2009 and preparatory measures for the participation of Croatia in the Lifelong Learning and Youth in Action Programmes respectively.

Main findings:

Generally, the objectives stipulated in the 2009 Annual Programme for Croatia are coherent with EU strategic objectives and policy goals. The main challenges that could adversely affect the implementation of the programme are the economic crisis, the time lag between the adoption and implementation of the programme and the sometimes different perceptions of priorities by the EU and Croatia. These challenges are not sufficiently tackled by the national programme.

Political criteria: A general coherence between overall policy objectives and concrete programmes has been achieved. The programme for Croatia under the IPA-Transition Assistance and Institution Building Component for 2009 allocates € 7.76 million (18.4% of the national programme) for political criteria (25.6% including a flexible funding facility). The legal framework is generally in place, but implementation is incomplete. As regards minorities and human rights, the main challenge lies in the implementation of a generally adequate legal framework. Thus, projects aimed at addressing overall shortcomings of the public administration bodies that are in charge to implement the legislation might also improve respect for minorities and human rights.

Shortcomings in this priority axis relate primarily to the efficiency of the judiciary and reform of public administration. Projects foreseen by the national programme can contribute to the efficiency of the judiciary. However, there is no project programmed to support administrative procedures or to reform the public administration bodies that are charged with positive action. In order to enable implementation, new legislation should be prepared, completely aligned with the *acquis*. In the preparatory phase parliamentary process should be accorded more relevance.

Increased participation of Civil Society Organisations (CSOs) in the policy cycle will strengthen the quality of democracy and facilitate public support for the enlargement policy.

Economic criteria: Croatia is a functioning market economy, hit by the economic crisis, which has had a serious impact on employment and the social situation. Croatian economic policy making is often based on ad hoc decisions and Croatia lacks a medium-term and structural reform strategy. The Croatia 2009 Progress Report identified a number of challenges related to overall EU policy goals which fall into areas of possible support identified by MIPD. Two projects selected under the annual programme (6.2% of the national programme) are coherent with the MIPD; but do not respond to new priorities identified by the EU enlargement strategy (e.g. climate change) and those main challenges emerging as result of the economic crisis. Thus, support for economic criteria should increase. A flexible facility should also support

the addressing of specific economic needs and help should be provided in areas such as labour market reform, health care financing and social benefit reform.

Ability to assume the obligations of membership: Almost half of the Community support for IPA-Transition Assistance and Institution Building Component (48.8% or 55.6% including a flexible facility) is allocated to the ability to assume the obligations of membership. The projects programmed reflect the fact that Croatia is approaching the final stage of negotiations, which implies that it is well advanced in meeting the established criteria and conditions. However, the support foreseen under 2009 Annual Programme is not fully in line with the needs identified in the Progress Report. There are no programmes planned to tackle deficits in the chapters in which negotiations are yet to be opened (Competition Policy, Fisheries, Foreign, Security and Defence Policy). This gap reflects weaknesses with respect to the absorption and administrative capacities of public administration bodies; projects programmed in previous years that also reflect current needs have not yet been implemented.

The separate programme Life-long Learning and Youth is designed under the 4th priority axis "Supporting Programmes" of the MIPD for Croatia. The programme should reinforce Croatia's institutional capacity for the management of EC funds and thus contribute to its ability to assume the obligations of membership.

Main conclusions:

- Most of the funding (55.6%) foreseen by the national programme is aimed at supporting the ability to assume the obligations of membership. A significant share (25.6%) addresses political criteria.
- Key priorities of the national programme do not sufficiently address economic issues, in particular medium-term economic reform, including economic restructuring and related employment and social issues.
- Administrative capacity and timeliness of implementation still represent a significant challenge to the efficiency of support. The gap between planning and implementation makes sequencing of reforms more difficult. Overall weaknesses in mid-term planning as well as the economic crisis further complicate the programming.

Recommendations:

Based on the above, it is recommended that future EU activity in Croatia should:

- Support capacities for project implementation.
- Systematically target effective administrative procedures and public administration reform in order to facilitate implementation of the *acquis*.
- Support parliamentary processes in order to increase the capacity for legal harmonisation, improve quality of the debate, increase the sense of the ownership of the *acquis* and prepare for the role the Parliament will have within the EU.
- Provide more support for meeting economic criteria and address the main challenges emerging from the economic crisis. Potential areas of support include labour market reform, healthcare financing and social benefit reform.
- Target development of medium term structural reform strategy containing projects sequenced in such a way as to enhance the impact and sustainability of interventions.

- A flexible facility should be also available to address emerging needs within the economic criteria priority axis.
- Respond to new priorities identified by EU policy (climate change and energy efficiency).

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1. INTRODUCTION

The specification (EP/EXPO/B/AFET/FWC/2009-01/Lot1/01) requires the briefing to:

- Analyse the coherence of the annual programme with the EU overall policy objectives as further specified in the pre-accession process in general and for Croatia in particular;
- Assess the pertinence of the elements of analysis included in the action programme and their potential to respond to conditions/needs identified in Croatia;
- Provide, on the basis of the above, recommendations concerning the adjustments that could be made to planning and implementing future EU activity in Croatia.

In responding to the task, the national programme for Croatia under the IPA -Transition Assistance and Institution Building Component for 2009 and selected projects were analysed in the context of the Croatia 2009 Progress Report, the Enlargement Strategy and the 2009-2011 Multi-annual Indicative Planning Document for Croatia. The briefing is divided into political, economic and *acquis*-related sections and follows the structure used in the Progress Report.

Each section starts with an overview of the situation in Croatia. With respect to political criteria, specific attention is given to human rights and minority issues. Next, key elements of the national programme for Croatia are presented. Analysis, assessment and recommendations as required by the specifications follow.

Assistance allocated under IPA 2009 component I for Croatia is € 45.6 million, which represents 30% of the total IPA allocation for 2009 (€ 151.2 million). Separate financing decisions of € 42.1 million and € 2.5 million cover the national programme for Croatia under the IPA-Transition Assistance and Institution Building Component for 2009 and preparatory measures for the participation of Croatia in the Lifelong Learning and Youth in Action Programmes respectively. The remaining € 1 million will support activities in Nuclear Safety and Radiation Protection, which will be coordinated and implemented under the relevant IPA 2009 Multi-Beneficiary Programme.

Within the national programme for Croatia under the IPA-Transition Assistance and Institution Building Component for 2009, € 7.76 million (18.4%) is allocated for political criteria (25.6% including a flexible facility), € 2.63 million (6.2%) for economic criteria and 20.56 million (48.8%) for ability to assume the obligations of membership (55.6% including a flexible facility).

Assistance allocated under Component II - Cross Border Cooperation for 2009 is €15.9 million (10.5% of the IPA 2009 envelope for Croatia), under Component III Regional Development € 49.7 million (32.9% of the IPA 2009 envelope for Croatia), under Component IV Human Resources 14.2 million (9.4%) and under Component V Rural Development € 25.8 million (17% of the IPA assistance).

2. POLITICAL CRITERIA

2.1 Political situation in Croatia

The Enlargement Strategy identified four main challenges currently affecting the enlargement process. Three of them directly relate to the ability to meet the political criteria: the rule of law, regional cooperation and bilateral issues, while the fourth, the economic crisis, strongly affects the pace of all reforms, making it significant for meeting the political criteria.

Democracy and the rule of law

Parliament and the Government are generally stable, despite differences in the coalition.

A major challenge related to the rule of law is the fight against corruption, a key issue for a functioning democracy. Anti-corruption efforts have produced initial results, and the investigation of high-level corruption has started; nevertheless, political accountability for corruption is lacking. The areas that require particular attention include the judiciary, the financing of political parties and transparency in public administration and government.

The independence and efficiency of the judiciary need strengthening, as do the professional skills, knowledge, competence and efficiency of public administration. Despite some progress and analyses, reform of the central state administration is slow and incomplete. The decentralisation strategy has not been adopted due to a lack of engagement at the political level. The reform of the public administration has not received sufficient political attention. There are serious shortcomings related to the financing of political parties and candidates, and these re-emerged during local and presidential elections.

In addition to a professional and de-politicized civil service and judiciary, for successful integration it is necessary that the decision-makers are fully aware of the challenges and opportunities that EU membership offers. Parliamentary debates might have an important role in this respect, but the parliamentary procedure provides for summary procedure for a law that is being adjusted to the *acquis* and limits the debate.

Regional issues and international obligations

Croatia has continued to participate in regional initiatives and to cooperate with the ICTY. Actions have been undertaken to investigate the fate of missing documents required by the court. Steps towards addressing the regional impunity gap have been made. Good neighbourly relations prevail. A major challenge is to address the border issue with Slovenia.

Human rights and minority issues

Croatia has ratified most of the UN and Council of Europe core instruments. The judgements of the European Court of Human Rights reveal that the most challenging issues regarding implementation of human rights conventions relate to the right to a fair trial and the length of the proceedings. In particular cases, remedies provided in the domestic legal system are not effective. The main obstacles to the promotion and enforcement of human rights are the overall shortcomings in the administration of justice.

Civil and political rights are reasonably well respected. Freedom of expression is provided by law, but remains an issue of concern, primarily related to undue political pressure on journalists and editors. The economic crisis has increased pressure on the media, and owners tend to intervene in editorial decisions. Journalists working on cases of corruption and organised crime increasingly face threats.

Legal provisions on fundamental and minority rights are in general adequate. The position of minorities continues to improve. The eight minority MPs are in the governing coalition; the government supports the Serb minority weekly paper in general distribution; there are improvements in the pre-school education of the Roma minority. Implementation of the constitutional law on the rights of national minorities remains incomplete, which particularly relates to minority employment in the state administration and judiciary. The employment situation is unlikely to improve because the Government issued a decision that bans new hiring in the administration, a measure aimed at limiting public spending and designed to respond to the economic crisis.

2.2 Action Plan

With respect to political criteria (1st heading of the Multi-annual Indicative Planning Document for Croatia 2009-2011) priorities relate to:

- the judiciary (including the fight against organised crime), public administration reform, the fight against corruption, de-mining, promoting respect for and protection of minorities and the return of refugees and
- civil society (developing, implementing and monitoring public and acquis-related policies and raising awareness of the challenges of EU accession).

Possible areas of support under MIPD include reform of public administration, covering the streamlining of administrative procedures, the improvement of human resources management and support for the decentralisation process. In the judicial system, support was planned for reducing the case backlog, rationalising and modernising the courts and enhancing their independence, accountability and professionalism. In the area of the fight against corruption and organised crime the focus is on procedures in enforcement and inter-ministerial coordination.

Treatment of Serb and Roma minorities is at the focus of the human rights priorities. Support for civil society is aimed at promoting legitimacy, transparency, effectiveness, plurality and the accountability of public administration, raising awareness of the challenges of EU accession and the implementation of the *acquis*.

Five projects of the national programme for Croatia 2009 are grouped under political criteria priority axis. Two of them will address democracy and human rights ("Capacity Building in the Field of the Fight against Sexual Exploitation and the Sexual Abuse of Children, and on Police Assistance to Vulnerable Crime Victims" and "Establishing a Comprehensive System for Anti-discrimination Protection"). Two projects deal with the judiciary and fundamental rights. One aims at developing a training system for judicial advisers and future judges and state attorneys, and the other at improving the functioning and management of misdemeanour courts with a view to reducing the backlog and the length of judicial procedures. The project "Civil Society Facility Enhancing the Sustainability and the Development of Civil Society Organisations as Proactive Social Actors in the Implementation of the EU *Acquis*" will aim to strengthen the role of CSOs at the local level in the fields of democratisation, human rights and refugee return, as well as promoting an innovative social services delivery programme.

In addition, 27% of the budget of the supporting programmes in 2009 (4th heading of the MIPD 2009-2011) will support meeting political criteria in the fields of the fight against corruption and organized crime, the judiciary, minority rights, refugee return and public administration reform. Under the Facility for Project Preparation and Reinforcement of Administrative Capacity, € 3.33 million is allocated for addressing specific needs identified in the course of negotiating process and preparing a projects pipeline for further funding.

2.3 Assessment

Multi-annual planning documents are generally coherent with overall EU policy objectives and reflect the needs identified by the Progress Report. Planned projects fall into identified priority areas: democracy and human rights; judiciary and fundamental rights; civil society and supporting programmes. Support programmes aimed at strengthening capacity and law enforcement skills to meet the political criteria represent 18.4% of the total IPA contribution. This corresponds to the needs identified, as the analysis of key priorities activities reveals that an adequate legal framework is generally in place, although implementation is incomplete.

The major challenge affecting the integration process is the border issue with Slovenia. The EU has supported the political agreement between the two parties, but there is no targeted program capable of contributing to an effective solution of this outstanding issue.

The Parliament, public administration and the judiciary have the key role in carrying through the regulations.

The projects foreseen for financing tackle serious challenges related to the judiciary, such as length of proceedings and enforcement of decisions. The weakness of the public reform is tackled by the conditionality that obliges the National IPA Coordinator to ensure that effective mechanisms for cooperation and coordination between ministries or agencies are in place and to review implementation progress. Conditionality might be effective in implementing IPA funds, but instead of case-by-case solutions, which depend primarily on the personal capacity of the IPA coordinator, the organisation of public administration should enable sustainable and effective project implementation involving more than one public administration body. However, the planned programmes of the Government for the period 2010-2012 do not include comprehensive public administration reform or any substantial improvement of administrative procedures. This clearly shows that public administration reform is not considered a priority in Croatia. Thus, in addition to public administration, the judiciary and opinion makers, further EU activity should also target decision makers. Support should target procedures in Parliament that will enhance its capacity for legal harmonisation and the monitoring of negotiation, improve parliamentary debates to strengthen parliamentary control over the executive and by doing so improve the quality of democracy.

3 ECONOMIC CRITERIA

3.1 Economic situation in Croatia

Croatia is a functioning market economy. It should be able to cope with competitive pressure within the EU provided that it further implements its comprehensive reform programme.

The main economic challenge that the enlargement policy can help tackle is the economic crisis. Croatia's economy has been in recession since the first half of 2009 and unemployment is increasing. Macroeconomic stability has been preserved by a prudent monetary policy. The enlargement strategy identifies emphasis over the medium term on more efficient and effective public spending and on investment as being crucial for sound fiscal policy. In reaction to the mounting fiscal deficit, some adjustments were adopted in successive budget revisions and revealed weaknesses in budgetary planning. Adjustments also included the suspension of measures within labour market reform aimed at improving the flexibility of labour markets (such as higher replacement rates for the unemployed in the first three months). The banking sector remained stable. A high level of external indebtedness and large short-term repayment obligations are the key vulnerabilities of the economy. Economic restructuring and privatisation are slow. The government's economic policy has sometimes lacked a clear medium-term orientation. Also, measures to improve the business climate (including those relating to political criteria, such as the fight against corruption) are necessary.

3.2 Action plan

The strategic objective of MIPD is further to improve Croatia's alignment with economic criteria. Possible areas of support include *public finance and statistics* covering assistance to enhance fiscal transparency, assistance to improve the public debt management, complete the change of budget reporting, implement prudent fiscal, monetary and financial sector policies, continuing developing statistics. In the area of *health care financing and social benefit reform* EC assistance should complement actions funded by international financial institutions. Assistance on the labour market could help improving incentive structures and flexibility and support active *labour market* policies in order to mitigate the social impact of privatization - primarily the closure of shipyards. The support for land administration should contribute to improvement in the efficiency and effectiveness of the *land administration service* and the security of the real estate property market.

The institutional framework for privatisation, restructuring loss-making state owned enterprises and the railway system, measures for speeding up market entry and exit (improvement of bankruptcy procedures to speed up market exit) are at the focus of support in the *economic environment* sphere. The last area of possible support relates to *economic revival by preserving the cultural heritage* aimed at the rehabilitation of historic sites to transform them into attractive cultural sites.

The national programme allocates funding for two projects (total € 2.63 million). One relates to short term and energy statistics (€ 800,000) and the other to economic revival by preserving the cultural heritage (€1.83 million). There are no projects aimed at alleviating the impact of the economic crisis or projects to support stalled labour market reforms. No flexible facility is available. Despite the fact that the enlargement strategy states that the pre-accession instrument should, among key priorities, also address climate change, particularly energy efficiency projects, such projects are not programmed under the IPA national programme.

3.3 Assessment

EU assistance for the economic criteria is limited (6.2% of the national programme). The two projects selected are generally coherent with MIPD. However, assistance does not fully correspond with EU policy, primarily the new priorities identified by the enlargement strategy related to climate change. Neither do programmed projects respond to the national priorities identified by Progress Report, needs emerging as a result of the economic crisis (e.g. suspended implementation of labour market reform) and the main shortcomings of Croatian economic policy, such as lack of medium term and structural reform strategy. Thus, support for meeting economic criteria should increase and should address areas such as labour market reform, health care financing and social benefit reform. A flexible facility should be also available to address emerging needs.

4 ABILITY TO ASSUME OBLIGATIONS OF MEMBERSHIP

4.1 Current situation

Croatia has reached an advanced level of alignment with the EU. Seventeen negotiating chapters are provisionally closed. The adoption and implementation of the full *acquis communautaire* in these chapters is well advanced. Croatia has to meet 40 closing benchmarks in 11 chapters. In these chapters the level of alignment is reasonable. The most challenging chapters are still to be opened: Competition Policy and the Judiciary and Fundamental Rights. Alignment with EU rules in the chapter Competition Policy is acceptable while in the chapter Judiciary and Fundamental Rights significant challenges remain. Slovenia is blocking negotiations in three chapters (Foreign, Security and Defence Policy, Environment and Fisheries) in which the level of preparation is good.

The Progress Report identifies the overall level of preparation in each chapter, evaluates progress and identifies the needs for continuing efforts. Progress has been reported in all chapters, mainly in terms of legislative alignment. In chapters that are not yet provisionally closed, progress has ranged from reported (Agriculture and Rural Development, Financial Control) to significant (Competition Policy). In most of the chapters that are not yet provisionally closed progress has been good (Free Movement of Goods, Public Procurement, Fisheries, Taxation, Justice, Freedom and Security, Environment, Foreign, Security and Defence Policy and Financial and Budgetary Provisions). Some progress was reported in four chapters (Free Movement of Capital, Transport Policy, Regional Policy and Coordination of Structural Instruments, Judiciary and Fundamental Rights). From the perspective of legislative alignment the most challenging is the chapter on Financial Control, as consolidation of the State Audit Office's functional and financial independence needs to be anchored in the Constitution.

In many cases administrative capacity is weak and enforcement uneven. The need to enhance administrative capacity for the purpose of the implementation and enforcement of legislation is identified as being among most challenging issues in all chapters that have not yet been provisionally closed.

In the area of competition policy significant progress and a reasonable level of alignment have been achieved. Sustained efforts are required to complete the restructuring of the shipyards. The restructuring of the shipyard industry is politically very sensitive, especially in a time of crisis, as there is a danger of loss in terms of production, export and employment.

Particular vigilance is required in Judiciary and Fundamental Rights as regards freedom of expression and threats against journalists. Challenges regarding judicial independence and efficiency as well as implementation of minority rights have yet to be tackled.

Blocked chapters (Fisheries, Environment and Foreign, Security and Defence Policy) are politically and legislatively complex with costly investments, but preparations are advancing well. More than three closing benchmarks in opened chapters suggest that further efforts are needed for the *acquis* to be adopted and implemented (Free Movement of Goods, Transport Policy, Regional Policy and Coordination of Structural Instruments, Justice, Freedom and Security, Financial Control).

4.2 Action plan

The strategic objective of the 2009-2011 MIPD is to reinforce Croatia's institutional capacity via supporting institutional capacity building for *acquis* transposition and implementation programmes for the management of EC funds and project preparation. The projects selected for financing under the national programme (55.6% of available funds) reflect the fact that Croatia is approaching the final stage of negotiations, implying that it is well advanced in meeting the established criteria. Eleven projects are selected, primarily aimed at consolidation of commitments and implementation of already transposed legislation in the following eight chapters:

- Chapter 1 Free Movement of Goods
- Chapter 2 Free Movement of Workers
- Chapter 12 Food Safety, Veterinary and Phytosanitary Policy
- Chapter 14 Transport Policy
- Chapter 16 Taxation
- Chapter 24 Justice, Freedom and Security
- Chapter 27 Environment
- Chapter 28 Consumer and Health Protection

Depending on the project, the IPA contribution ranges from € 950,000 to € 6.44 million. Most of the support targets alignment in *Chapter 27 Environment* (3 projects, IPA contribution € 5.3 million) and *Chapter 12 Food Safety, Veterinary and Phytosanitary Policy* (1 project, IPA contribution € 6.44 million).

4.3 Assessment

Assistance is generally in line with EU policy and supports the development of implementation capacity, but reflects the current situation in Croatia to a lesser extent. Thus, projects programmed are not fully in line with MIPD, which states that IPA assistance will continue to support institutional capacity building for *acquis* transposition and implementation according to the priorities identified in the Accession Partnership, the screening reports and subsequent negotiations in the different chapters of the *acquis*.

The national programme supports sustained efforts in the chapter Free Movement of Workers, which is provisionally closed, while the tasks necessary to open/close negotiations in some of the chapters have not received sufficient attention. The national programme does not tackle needs regarding Chapter 8 Competition Policy, Chapter 23 Judiciary and Fundamental Rights, Chapter 13 Fisheries or Chapter 31 Foreign, Security and Defence Policy, which are amongst most challenging areas. Differences between identified needs and projects programmed reflect weaknesses as regards the absorption and administrative capacities of public administration bodies; projects programmed in previous years that also reflect current needs have not yet been implemented. On the one hand, this discrepancy should be tackled by strengthening the capacities for project implementation. On the other hand, better programming of the assistance can be achieved through developing a medium term structural reform strategy containing projects sequenced in such a way as to enhance the impact and sustainability of interventions.

5 CONCLUSIONS

Croatia is approaching the final stage of negotiations. It is well advanced in meeting the established criteria and conditions and has made progress in most areas. The reform effort needs to be sustained, but the economic crisis has slowed down the overall pace of reform.

Generally, the objectives stipulated in 2009 Annual Programme for Croatia are coherent with the EU strategic objectives and policy goals, but in some areas priorities do not reflect the current situation in the country. The main challenges that could adversely affect the implementation of programme are the economic crisis, the gap between the programming and the implementation of the programmes and insufficient attention to different perceptions of priorities in the EU and Croatia (such as the need for comprehensive public administration reform).

Most of the funding (55.6%) foreseen by the National Programme is aimed at supporting the ability to assume the obligations of membership. A significant share (25.6%) addresses political criteria. Foreseen funding for supporting programmes represents 12.6% of the National Programme, while economic issues funding is limited (6.2% of the National Programme).

As regards political criteria, the major challenge affecting the integration process is the border issue with Slovenia. The EU has supported the political agreement between the two parties, but there is no targeted programme capable of contributing to an effective solution of this outstanding issue. Other challenges under this priority relate to the implementation of a generally adequate legal framework. The projects selected for funding within the priority axis political criteria cover democracy and human rights, the judiciary and fundamental rights and civil society, while the shortcomings of the public administration are tackled by IPA conditionality; this obliges the National IPA Coordinator to ensure that effective mechanisms for cooperation and coordination between ministries or agencies are in place while requiring that it review implementation progress. The relevance of the parliamentary process for the quality of democracy is not tackled. Generally, selected projects are largely coherent with overall policy objectives as specified in the pre-accession process.

Croatia is considered a functioning market economy and accordingly the national programme provides very limited support for economic issues. However, the economic situation is deteriorating and the economic crisis is identified as one of the key challenges that might have a significant impact on the pace of the reforms and a serious socio-economic impact. Still, there is no single project aimed at alleviating the consequences of the crisis. The two selected programmes, despite the fact that they are coherent with MIPD, do not respond to the *current* situation in Croatia or the main challenges (e.g. the economic crisis) and priorities (e.g. climate change) identified by the enlargement strategy.

Support for the ability to assume the obligations of membership is coherent with overall EU policy goals, but to a lesser extent reflects the current situation in Croatia. The projects selected for funding within this

priority axis seem to rank low in the needs identified in the Progress Report and subsequent negotiations in the different chapters of the *acquis*. The tasks necessary to open/close negotiations in some of the chapters have not received sufficient attention. This shortcoming reflects the weaknesses of absorption and administrative capacities in Croatia; projects programmed in previous years that also reflect current needs have not yet been implemented.

Based on the above, the following recommendations can be formulated:

- Capacities for project implementation should be strengthened.
- Further EU support should systematically target effective administrative procedures and public administration reform.
- Parliamentary processes should also be supported so as to increase the capacity for legal harmonisation, improve the quality of the debate, increase the sense of the ownership of the *acquis* and prepare for the role the Parliament will have within the EU.
- Support for meeting economic criteria should increase and address the main challenges emerging from the economic crisis. Potential areas of support include labour market reform, healthcare financing and social benefit reform.
- Support should also target development of medium term structural reform strategy containing projects sequenced in such a way as to enhance the impact and sustainability of interventions.
- Support should tackle the main shortcomings of Croatian economic policy making and assist in the development of a mid-term strategy.
- A flexible facility should be also available to address emerging needs within the economic criteria priority axis.
- Support should respond to new priorities identified by EU policy (climate change and energy efficiency)

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