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1. Building the effective donor coordination capacities at the central level

The Republic of Croatia does not have one single overarching donor structure in terms of one state institution that coordinates all assistance that Croatia receives. However, a permanent **Government Coordination Group** was set up in June 2004, chaired by deputy prime minister. It included the Ministers of Finance, Foreign Affairs and European Integration and the State Secretary of CODEF. The main task of the GCG is facilitation of the coordination of overall assistance received by the Republic of Croatia, more precisely - review of the programming documents before adoption.

Moreover, Croatian Parliament adopted in 2006 a Law on the System of Managing EU pre-accession assistance programmes and other programmes and projects financed by other bilateral donors and international loans that represent the firm legislative framework for management and reporting on external aid.

In the context of the preparations for the management of the EU Structural Instruments, in June 2008, the Government of Croatia brought the **Decision on strategic and institutional framework for utilization of EU Structural Instruments in Croatia** (OG 77/2008). The Decision defines:

- Structural Instruments available to Croatia upon accession
- Strategic documents to be prepared in cooperation with European Commission services (National Strategic Reference Framework, Operational Programmes)
- National authorities responsible for overall coordination of the Structural Instruments, certification of expenditure and audit
- National authorities responsible for preparation and management of individual strategic documents (Operational Programmes)

The Croatian donor coordination responsibilities are divided among three key institutions and so far this structure showed to be efficient in the management of different external aid providers.

The Ministry of Foreign Affairs and the European Integrations is responsible for the bilateral assistance received both by EU and non-EU countries with the exception of Netherlands assistance program MATRA that has been coordinated by the Central State Office for Development Strategy and Coordination of EU funds (CODEF).

Besides, abovementioned MATRA programme and UNDP assistance **CODEF** is the key institution when it comes to coordination of the EU pre-accession funds. Moreover, the Head of the CODEF, State Secretary, is at the same time appointed as EU National Aid Coordinator (covering CARDS, Phare, ISPA and SAPARD programmes, as well as EU Community Programmes) and National IPA Coordinator responsible for efficient and effective overall coordination of the IPA assistance in Croatia.

Ministry of Finance, more precisely its Directorate for international cooperation and... is in behalf of the Republic of Croatia responsible for coordination of cooperation with International Financial Institutions (IFIs). Also, in the context of the EU preaccession funds, the Ministry of Finance State Secretary has been appointed as National Authorising Officer for EU financed programmes and is responsible for management and approval of all payments made by the National Fund.

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Despite of clear division of responsibilities this three key institution have been involved into the close cooperation especially when it comes to the assistance that is jointly directed to the EU accession driven programmes /projects.

On the operational level, the representatives of the three key institutions are organizing their meetings in order to exchange information and plans rather on the ad-hoc, thematic bases rather than that it is part of the regular procedure. One such meeting has been held in July 2008, where it was decided that the focal points will be nominated in the each institution on the operative level in order to increase the exchange of information and with the main objective to work more closely on the improvement of donor coordination. Unfortunately, official appointments still have not took place and the reason for that was that some of the institutions in the mine time were going through internal reorganisation.

More frequent and regular meetings among the key players in the donors coordination business in Croatia on the operative level stays as one of the priorities in the process of managing external aid providers in Croatia in forthcoming period. Therefore, the Croatian authorities are hoping that the Donor Conference in Tirana will give some new perspective and the useful solutions with regards to more effective, efficient and sustainable donor coordination.

Croatia has recently started its transformation from a recipient to a donor country. As the first step regarding the institutional arrangements, the **Interdepartmental Working Group for Development Policy Assessment and Advancement** was set up in 2006, where most of state administration bodies as well as private sector and NGOs are represented. Furthermore, in the Ministry of Foreign Affairs and European Integration, which is the coordinating body for development cooperation and external humanitarian assistance in Croatia, the **Department for International Development Cooperation** was set up. The Department participates in formulation of the Croatian development policy and the ways of its implementation, taking into consideration its compatibility with the development cooperation policy of the EU and the UN Millennium Development Goals.

In regard to the legal framework for development cooperation, the **Law on Development Cooperation and External Humanitarian Assistance** was adopted by the Parliament in December 2008 and the **National Strategy for Development Cooperation of the Republic of Croatia for the period 2009 to 2014** was adopted in February 2009.

Our focus will remain on the countries in the region, primarily Bosnia-Herzegovina but we will do our best to offer assistance to the countries most in need as well. We remain fully engaged in the regional processes aimed at improving cooperation and securing democracy, protecting human rights and minorities, and achieving higher levels of economic and social development.

2. Translation of the national development and EU integration strategy into the sectoral action plans

The basis for programming of EU financial assistance in Croatia is defined by the Accession Partnership, as well as the Multi Indicative Planning Document (MIPD) for Croatia for the years 2007-2009, 2008-2010, 2009-2011 etc. The National Programme for the Accession of Croatia into EU is prepared on annual basis and is in line with the Accession Partnership. The Ministry of

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Foreign Affairs and European Integration is responsible for monitoring of the implementation of the National Programme.

CODEF is responsible for implementation of the **Strategic Development Framework (SDF) 2006-2013** that defines national development goals and is fully aligned with the EU requirements. This role ensures that the proposals to be financed by EU assistance are in line with national priorities and the priorities of EU accession.

SDF is a document that provides an integral vision and an overview of priorities for the economic development of the Republic of Croatia in the period from 2006 to 2013. The text defines the strategic goal, priority areas for action as well as instruments and activities necessary for their achievement.

Strategic Development Framework builds upon the existing **sectoral strategies** in the sectors in which they have been prepared; majority of them are accompanied with the respective action plan. These include:

1. National Employment Action Plan for the period of 2005 to 2008
2. Education Sector Development Plan 2005-2010
3. Adult Learning Strategy and Action Plan
4. Science and Technology Policy of the Republic of Croatia 2006-2010
5. Programme for the Construction and Maintenance of Public Roads for the period of 2005-2008
6. Strategic Goals of Development of Croatian Tourism by 2010
7. Waste Management Strategy of the Republic of Croatia
8. National Strategy for Regional Development, draft
9. Pre-Accession Economic Programme 2006-2008
10. National Health Development Strategy 2006-2011
11. Enterprise Support Programme 2004-2008
12. Programme of Development of Entrepreneurial Zones 2004-2007
13. Public Administration Reform Strategy in the Republic of Croatia
14. National Programme for the Suppression of Corruption
15. Judicial Reform Strategy
16. Broadband Strategy
17. National Broadband Implementation Action Plan of the Strategy for the Development of Broadband Internet Access in the Republic of Croatia

Republic of Croatia is currently developing its **National Strategic Reference Framework** – key national strategic document for future usage of structural instruments. It is expected that the first draft of the NSRF should be prepared until May/June 2009 and should represent a basis for further development of particular Operative Programmes (OPs).

3. Establishing effective donor coordination mechanisms at sector level based on a comprehensive sector strategy

Special attention has been given to the prevention of possible overlapping of financing projects by different donors in terms of the strengthening of the sectoral aid coordination approach.

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The documents (strategies, annual plans etc.) that have been adopted by Government are obliged to pass the procedure of consulting among all relevant stakeholders including Government coordination and so called working groups prior to the formal adoption/approval from the side of the Government. This is the way of ensuring the broader sustainability of the project outcomes.

Besides regular Government procedure that requires that all possible stakeholders have to give their written opinion in relation to the documents that are passing through Government procedures such at the beginning of each programming cycle previously for Phare programme and nowadays for the first component of the IPA programme all potential beneficiary institutions have to submit to the NIPAC the so called **Sectoral Analysis containing an overview of the past and the current assistance in the sector** received both from EU and non-EU sources.

The Senior Programme Officials (SPOs), highly ranked officials in each beneficiary institutions are guarantee for data provided, and they are responsible for submitting the bi-annual monitoring reports to the respective sectoral monitoring sub-committee (covering all decentralised projects financed by CARDS, Phare and IPA TAIB programme) in which they are obliged also to cover the issue of the external aid received.

CODEF's Deputy State Secretary is the Strategic Coordinator for IPA Components III and IV (Regional Development and Human Resources Development). One of the objectives of the two Components is the preparation of Croatia for the implementation and management of the Community's cohesion policy, especially the ESF and ERDF.

In the framework of the preparation of the EU accession and the management of the EU funds post-accession, the CODEF is responsible for the **coordination of the preparation of the National Strategic Reference Framework (NSRF)** in accordance with the SF regulatory provisions and the European Commission (EC) guidelines and **supervises the preparation of the sectoral Operational Programmes** by the line Ministries. The above tasks are carried out in co-operation with other bodies of state administration, non-governmental sector and the European Commission services.

In order to enhance sectoral approach towards planning and usage of EU funds, the European Commission Delegation in Croatia recently initialise organizing the sectoral meeting between the representatives of the Croatian institutions and the representatives of the donors in particular sector. It is expected from the lead institutions within particular sector to be more proactive in planning and coordinating donors assistance, especially when it comes to a planning of big investment projects and overall preparation for Structural Funds.

4. Integrating external assistance into internal budgetary procedures

External assistance is integrated into budgetary procedures and defined by the Budget Law (OG 87/08). According to the instructions for preparing the State Budget, final beneficiaries/external aid users, have to plan positions for activities financed from external aid for the upcoming budgetary period. The Budget is prepared for the period of 3 years and addressess all external aid needs and necessary strategies which are complied with the EU accession process. Therefore, all external aid is planed and seen in the budget activities positions.

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In 2008 decentralized management for IPA was accredited for Croatia. National Fund acts as a paying authority and is a part of the State Treasury in the Ministry of Finance. All the planned activities and amounts that need to be financed from the EU financed preaccession funds are planned on clear budget positions, both financing from the EU budget and co-financing. National Fund receives amounts cleared for payment first from the beneficiaries co-financing side and than from the EU budget. External aid coming from IFI's are integrated fully into internal budgetary procedures in a similar way.

5. Adopting and implementing Public Finance/Expenditure management reform plan taking into account the specific objective of the accreditation to EU Decentralised management

Croatia is already gained substantial experience under the **Decentralised Implementation System (DIS)** that was formally introduced through EC decision in February 2006, as mentioned above. Nowadays, Croatian authorities are under the substantial preparation for the **Extended Decentralisation Implementation System (EDIS)**. In that respect, the document called the Roadmap to EDIS that sets out the requirements and benchmarks to be met by Croatia in order to achieve decentralised management without ex-ante controls by the Commission has been sent to the EC services for consultation on the beginning of March 2009.

For decentralised management of funds of the programme Croatia has established an adequate institutional set up and developed a system with internal rules of procedure and personal responsibilities. Implementing agreements and operational agreements have been signed, defining the roles and responsibilities within the system: between the NAO and the Head of the Operating Structure and among bodies and responsible persons within the Operating Structure. Manuals of procedures were developed for each body within the system, with clear description of all processes and procedures and with audit trails developed

Also, the control system has been set up on several levels, and all stakeholders have been included within and are actively involved in preparation, implementation and monitoring processes.

Several mechanisms of control have been set up: Internal Audit, External Audit (Audit Authority) Irregularity officers, Risk coordinators, the procedures have been drawn as well as a system for monitoring IPA projects/operative programmes.

Staff retention is the problem is similar and still present not only in candidate countries but also in many new member states. In order to resolve this problem Croatian authorities are currently preparing number of measures including the new Law on Salaries in Civil Service that is in Parliamentary procedure and that should enable more merit-based promotion within the service.

The **Public Internal Financial Control Act** adopted by the Croatian Parliament in December 2006 (OG 141/06). This Act sets a detailed framework for the establishment and development of internal audit and the system of financial management and control (FMC), and determines the methodology, standards, relationships and responsibilities within the internal financial control system. It also determines the competence of the Ministry of Finance and other bodies in the implementation of the **Public Internal Financial Control System (PIFC)**.

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At the beginning of March 2007, the Government of the Republic of Croatia appointed the Internal Financial Control Council which is an advisory body to the Minister of Finance, who is at the same time the Chairman of the Council. The Council's members are certain ministers or heads of state bodies, the Auditor General and certain heads of internal audit units. One of the tasks of the Council, carried out in April 2007, is to discuss the annual consolidated report on the public internal financial control system.

Functionally independent internal audit units have been set up in all ministries. In accordance with the criteria laid down in the Ordinance on internal audit of budget users (OG 150/05), other budgetary users, such as budget funds and institutes, and the City of Zagreb, have also set up internal audit units. Financial management and control has been established in all organisational units and at all levels of budgetary users, and it encompasses all budget funds, including EU funds and other funding. Heads of budgetary users are responsible for financial management and control and internal audit.

In July 2007, budget users adopted action plans for the establishment and further development of financial management and control systems, specifying the activities, responsible authorities as well as the deadlines necessary for the development of this system.

In March 2007, heads of budget users appointed the persons in charge of financial management and control, and the persons responsible for dealing with irregularities, to which all employees can report any related events. Likewise, the procedure to be followed pursuant to the provisions of Article 36 of the Public Internal Financial Control Act has been stipulated.

The Government of the Republic of Croatia adopted a new **Development Strategy of Internal Financial Control System for local and regional self-government units** in November 2007. An integral part of the Strategy is an Action Plan defining the new activities, their implementation deadlines and competent authorities.

The Central Harmonisation Unit of Ministry of Finance is in a process of assisting in establishing and determining the normative setup of the appropriate organisation of the internal financial control system in each ministry, in other state administration bodies, and in units of local and regional self-government.

Raising leader awareness of the need to establish and develop a comprehensive financial management and control system will be the focus of attention in the forthcoming period, because, if this system is well-established, then the main objective of the successful management and fulfilment of the tasks of budget users will also be accomplished.