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Country programming and related matters

Draft country programme document for Croatia (2007-2011)

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I. Situation analysis

1. Since the mid-1990s, Croatia has established a record of solid economic growth and low inflation: real gross domestic product (GDP) growth averaged about 4.2 per cent annually, with inflation in the low single digits. GDP per capita has come closer to the euro area average, reducing the gap by about 1 percentage point annually. That record as well as progress in other areas led the Council of the European Union to grant candidate status to Croatia, and accession negotiations began on 3 October 2005. That was accompanied by a gradual worsening of macroeconomic conditions. Since the mid-1990s, domestic spending has outpaced savings, resulting in persistent current-account deficits, which reached 6.3 per cent in 2005. The trend in the external debt to GDP ratio is also of concern; it is currently very high and has grown from 62 per cent to 85 per cent between 2002 and 2006, which is more than double that of other emerging economies. As a result, and coupled with high state subsidies to agriculture and state enterprises, important socio-economic and recovery reforms and programmes have suffered.

2. Official unemployment dipped under 13 per cent in 2005, yet only 49 per cent of the labor force was actually employed or seeking employment and the number of long-term unemployed remains disproportionately high, especially among the young population. In 2004, nearly 1 in 5 Croatians lived in poverty. Poverty and social exclusion affects almost half of single-parent households, and a third of the elderly and unemployed. Development disparities across regions remain great, despite solid economic growth. The Areas of Special State Concern, heavily damaged during the 1991-1995 war, suffer most from underdevelopment. Many communities in those areas are remote, offering limited access to education and social services, employment opportunities and basic community infrastructure.

3. Environmental concerns are viewed by the European Union as the most complex and demanding in terms of capacity needs, volume of required investments and legislative harmonization. The World Bank and the European Union estimate that Croatia will need an additional 10 billion euros over the next 20 years to bring its environmental standards up to European Union levels.

4. In 2005, Croatia ranked 118th on the World Bank 'Doing Business Competitiveness Index', reflecting a cumbersome business environment, still rigid labor legislation, a large informal economic sector estimated at over 33 per cent of the national economy, and low levels of green-field foreign direct investment. While the Croatia-European Union screening and negotiation process is proceeding very well, there is a risk that the length of the process and national elections in 2007 may discourage more radical reforms. Two 'Croatias' have emerged in recent years – one relatively well off, vibrant and eurocentric, the other home to poor and socially excluded citizens, with a 3-to-6-fold disparity in GDP per capita and considerable gender distortion between them.

II. Past cooperation and lessons learned

5. The previous country programme focused on three thematic areas: (a) policy advocacy for human development and security; (b) capacity-building for good governance; and (c) environmental management. A large portion of programme efforts focused on economic revitalization in the areas of special state concern implemented largely through the United Nations Office for Project Services (UNOPS).

6. UNDP-supported interventions contributed to a number of important policy changes: New regional development policies and instruments; institutionalization of guarantee facilities for small and medium enterprise (SME) financing; and facilitation of a new national AIDS strategy (2006-2010). Good governance initiatives emphasized the incorporation of the Millennium Development Goals into government planning processes. Those led to the production of a Millennium Development Goal action plan and costing analysis, and the first Millennium Development Goal country progress report. In collaboration with the Global Environmental Facility (GEF) and other partners, UNDP initiated in 2005 a biodiversity protection programme in Croatia's coastal areas, and the promotion of energy efficiency measures to contribute to greenhouse gas reductions, and promote public-private partnerships. Policy advocacy was complemented by the capacity-building initiatives with the Ministry of Labour and Social Welfare, the National Association of Towns and Municipalities, the Croatian Agency for SMEs, the National Foundation for Civil Society Development, and four county governments. UNDP also promoted corporate social responsibility concepts with a view towards forging new business partnerships for development.

7. The previous programme generated a number of lessons: (a) support for the preparation of regional development plans should have been better documented and positioned as a model for decentralized planning and resource allocation; (b) priority-setting, and the monitoring and evaluation of UNDP support was not sufficient to demonstrate the agency's comparative advantages to the Government and donors, limiting impact; (c) the strategic nature of initiatives, mutual complementarity and focus have been somewhat lacking; (d) resource mobilization outside the European Community has been less proactive than desired. Those lessons have informed the new programme design, which will enhance the UNDP profile as a development agency delivering expertise around clear programmatic issues.

III. Proposed programme

8. The country programme will be implemented from 2007 to 2011, consistent with the period of the National Strategic Development Framework (2006-2013), which is currently in the final stages of development and consultations. Consultations with senior key officials in government and among the donor community indicate that the intended country programme results will make strategic contributions to the emerging National Strategic Development Framework and national Millennium Development Goals. UNDP-supported interventions are also fully aligned with the European Union accession strategy priorities, the ongoing initiatives of the United Nations Children's Fund (UNICEF country programme document, 2007-2011), UNFPA, the Office of the United Nations High Commissioner for Refugees (UNHCR) and the World Health Organization, as well as the Country Assistance Strategy of the World Bank. The programme was developed in a highly consultative manner, involving all relevant line ministries, the Central State Office for Development Strategy, local authorities, civil society partners and United Nations agencies over a six-month period. Croatia does not have a United Nations Development Assistance Framework, but the same consultative mechanism and methodology was used in developing the country programme document.

9. The expected outcomes of the country programme address five strategic national development goals as well as the increasing impetus in Croatia for an emerging donor role: (a) reducing social exclusion and aligning social policies with European standards and ratified United Nations and other international conventions, as well as conferences; (b) regional development, with an emphasis on socio-economic recovery in the areas of special state concern and underdeveloped areas; (c) the promotion of biodiversity

conservation and energy efficiency; (d) measures to improve the competitiveness of the business environment; and (d) transitional justice and human security.

10. UNDP will provide strategic support to the main development coordination body, the Central State Office for Development Strategy, and it will support the integration of the Millennium Development Goals into national development plans and sectoral strategies.

A. Social inclusion

11. The outcome of the programme will be more inclusive, strategic, social policies targeting vulnerable social groups with a human rights and gender approach. The current social welfare system is widely seen as expensive and inefficient. The programme will create opportunities for participatory social policymaking and will provide analytical tools for the development of social policies within the reform of the social sector. Efforts will be made to ensure that particularly vulnerable individuals and social groups at risk of exclusion are targeted. The programme outcome will contribute to the achievement of National Millennium Development Goal 1 – the reduction of relative poverty, and it will support the Government's efforts to meet key accession requirements of the European Union, in particular, the preparation of the Joint Inclusion Memorandum and actions and reforms emerging from the screening and accession negotiations process.

12. The programme has four strategic dimensions: (a) provision of gender- and age-disaggregated data at the subnational level, together with comprehensive analysis about social exclusion and quality of life in Croatia; (b) facilitation of transparent policy processes and identification of points for the social reform agenda together with targeted support to the Ministry of Health and Social Welfare; (c) awareness-raising and promotion of national dialogue about the scale and consequences of social exclusion; and (c) support to grass-roots initiatives that target the most vulnerable and isolated social groups, including an estimated 35,000 Roma, long-term unemployed youth, refugees, minorities and some 40,000 people living with disabilities and HIV/AIDS, many in institutional settings. Child poverty and children living with disabilities will be the subject of a joint effort by UNDP and UNICEF. The comprehensive data collection will include gender-disaggregated data at the local level. While Croatia occupies an enviable 14th place in the world in terms of gender participation in politics, business and governance, selected issues of representation, combating domestic violence and economic participation of women remain unresolved. The programme will also support the operations of the United Nations thematic group to help to further develop and disseminate sound HIV/AIDS policy. The capacity of the national AIDS authority will be strengthened, the national monitoring and evaluation system expanded.

13. The Ministry of Health and Social Welfare is the main implementing partner. It will ensure that lessons from the UNDP-supported programme are fed into national and sector policy development. Other key partners will include the Central Bureau of Statistics, and the Ministry of Family, Veterans and Intergenerational Solidarity and the Ministry of Economy, Labour and Entrepreneurship. Programme interventions will be coordinated with UNHCR, UNICEF, the Swedish International Development Cooperation Agency, the World Bank, the Open Society Institute (for mental health issues), and the Organization for Security and Cooperation in Europe (OSCE). The programme will contribute data and analysis to the local development programme, particularly support for returnees, minorities and socio-economic development in war-affected and underdeveloped areas. Links will also be made with the Business Competitiveness Programme to promote HIV/AIDS workplace policy as part of the corporate social responsibility efforts.

B. Local development

14. As the process of European integration progresses, aggregate economic growth may not necessarily benefit the poor or marginalized, particularly those living in war-affected and isolated communities. With the focus now on EU accession and legislative and reform requirements at the central level, Areas of special state concern may continue to fall behind. The risk has been pointed out in annual European Union progress reports for 2004 and 2005. UNDP will play a distinctive role to bridge that emerging gap by prioritizing assistance to economic development and investment, support to vulnerable groups, increased management and absorption capacity of local authorities and to improve livelihoods in communities. The programme outcome will contribute to the achievement of National Millennium Development Goal 1: the reduction of relative poverty. The programme aims to create conditions for socio-economic recovery in the ASSC and in other underdeveloped, especially island communities. Implementation will occur in targeted municipalities in three distinct geographical areas, which fall within the areas of special state concern. They are: (a) the Banovina-Kordun region; (b) Vukovar-Srijem county in the Danube region; and (c) the Lika and Dalmatian Hinterland region. At a later stage, selected Adriatic island communities will be targeted.

15. In each area, strategic interventions will include: (a) capacity strengthening of municipal and county authorities, especially in project cycle and financial management, absorption capacity, decentralized service delivery to citizens; (b) limited reconstruction of targeted basic community infrastructure, particularly related to the functioning of small remote communities, businesses and local markets; (c) improved delivery of social services, with an emphasis on the elderly, single mothers, returnees and other excluded groups; and (d) support for greater entrepreneurial activity and investment, mainly in agriculture, rural products and tourism and small-scale manufacturing. Gender concerns are being incorporated into programme planning especially in economic and governance (local representation level) priorities. The programmes are aligned to the regional operating plans and will utilize existing mechanisms where possible.

16. The implementing partner is the Ministry of Sea, Tourism, Transport and Development. The Central State Office for Development Strategy will play a key coordinating role. Partners in the Areas of Special State Concern are selected local authorities (counties, towns and municipalities). Other local partners will include local and national non-governmental organizations, local businesses and business chambers, the OSCE, and UNHCR. The programme will coordinate with the business competitiveness programme to accelerate enterprise development and public-private partnerships, and with the social inclusion programme to help to identify and target vulnerable groups.

C. Environmental governance

17. The environmental governance programme aims to ensure that natural resources are used in a sustainable manner and in compliance with Croatia's international obligations and agreements. European Union accession requirements are being detailed during the screening and negotiations process currently under way, which will outline the strategic directions and time frame for compliance. The programme will make a number of strategic contributions to the achievement of National Millennium Development Goal 7 for sustainable development. The programme has two outcomes related to climate change and biodiversity. The climate change outcome is a reduction of the institutional barriers that prevent the use of energy-efficient technologies and practices in the residential and service sectors. UNDP-supported interventions will contribute to national efforts to reach the Kyoto Protocol targets (ratification is expected in 2006) for reducing greenhouse gases.

The biodiversity outcome intends to support greening and sustainable conservation actions and practices among the key sectors driving coastal and island development in Croatia. In four selected Dalmatian counties, UNDP will work with operators in the tourism, agriculture and fisheries sectors to support sound integrated coastal development, encourage investment decisions that are made on the basis of biodiversity protection and sound and sustainable environmental criteria. Gender equality will be addressed through equal opportunity access with proactive targeting of women entrepreneurs. Environmental risk management and finance capacities of the banking sector will be engaged, in partnership with the Croatian Bank for Reconstruction and Development.

18. The implementing partners are the Ministry of Environment Protection, Physical Planning and Construction, and the Ministry of Economy, Labor and Entrepreneurship and HBOR. Expected donors are the GEF, the regional environmental funds of the European Commission, bilateral donors, and Government of Croatia. The programme will link with the business competitiveness programme to promote energy efficiency and biodiversity conservation as well as the local development programme for practical implementation on the ground.

D. Business competitiveness

19. The outcome of the programme is to have a measurably improved and more competitive investment and business environment and see the private sector tangibly involved in shaping national and regional economic development. Liberalization and competitiveness of the business climate is among the main negotiation points for Croatia to meet European Union accession criteria. UNDP will join with the World Bank and the European Commission in promoting those objectives. Corporate social responsibility is another means for achieving the Lisbon Agenda to make the European Union and Croatia highly competitive in the global marketplace. UNDP will support efforts to meet this challenge by raising awareness and building technical capacities of Croatian companies to implement corporate social responsibility practices and promote business-friendly policies. It is expected that five to seven key challenges identified by the Croatian Competitiveness Council will be addressed through UNDP-supported initiatives. Support to women entrepreneurs is a key priority within that process as experience shows that companies led by women entrepreneurs are usually better managed. The forum for those initiatives will be the local chapter of the Global Compact to be launched in fourth quarter 2006.

20. The implementing partner is the Ministry of Economy, Labour and Entrepreneurship. Other partners include local authorities, opinion leaders among the business community, the Croatian Employers' Association and Chamber of Economy, trade unions, and the National Competitiveness Council. Expected donors are the Governments of Norway and the United Kingdom, businesses and the Government of Croatia. As referenced above, the programme will link with the environmental governance programme, and the local development programme to promote the development of public-private partnerships and greater investment in the socio-economic revitalization of underdeveloped areas.

E. Transitional justice and human security

21. In close cooperation with UNDP offices across the western Balkans region, and with the UNDP Bratislava Regional Centre, the UNDP country office in Croatia will participate actively in selected initiatives that promote and enhance human security and the rule of law. The primary focuses will be three interlinked initiatives: (a) control of small arms and light weapons in line with European Union South Eastern and Eastern European Clearinghouse methodology; (b) transitional justice; and (c) anti-corruption initiatives. All

three focus areas are high on the European Union priority list and are preconditions for accession. Concrete proposals are being developed in that area together with the judicial authorities, but are not yet at a sufficiently mature stage to become part of the results and resources framework.

IV. Programme management, monitoring and evaluation

22. The country programme will be under the overall coordination of the Central State Office for Development Strategy, reporting directly to the Office of the Prime Minister. Implementation at the national, subnational and local levels will be carried out using a varied mix of partners, including national bodies, local and central authorities, civil society organizations, business entities and associations, and UNDP itself. National ownership and increase in local absorption capacity for pre- and post-accession funding within the decentralization reform are the top priority of the European Union, the international community, the Government and UNDP. Outcome evaluation is the main tool of assessment of development results.

23. A range of specific programme management mechanisms are anticipated. By the end of 2006, UNDP Croatia will be certified as a practitioner of the 'PRINCE 2' programme and project management methodology, a widely used international certification fully in line with management practices under the United Nations simplification and harmonization process. A National Programme Outcome Board will be established with the national counterpart, the Central Office for Development Strategy. Project-level interventions will benefit from oversight provided by project boards and quality control mechanisms, involving the participation of government partners, business and civil society representatives, and donors. In cooperation with the World Bank, the European Commission and other major multilateral and bilateral donors, UNDP will continue to advocate for, and support, greater donor and aid coordination by the Government of Croatia in line with principles of the Paris Declaration.

Annex. Results and resources framework for Croatia (2007-2011)

| National priority/goal: (1) Decentralization of the social assistance and social welfare system; (2) Deinstitutionalization and transition from state to mixed social assistance and social welfare system (Source: Croatia in the 21st Century, 2001-2005) National Millennium Development Goal 1. Eradicate relative poverty (Target: In the period between 2001 and 2015 reduce by half the number of people living in relative poverty) National Millennium Development Goal 6. Maintain HIV/AIDS infection rates in Croatia at the current level | | | | | |
|--|--|--|---|---|---|
| Programme component multi-year funding framework (MYFF) goals | Country programme outcomes, indicators, baselines (B) and targets (T) (tbd = to be determined) | Country programme outputs | Output indicators, baselines (B) and targets (T) (tbd-to be determined) | Role of partners | Indicative resources (in thousands of dollars) |
| Social inclusion <u>MYFF goals</u> 1. Achieving the Millennium Development Goals and reducing human poverty 2. Fostering democratic governance; 5. Responding to HIV/AIDS | 1. The Joint Inclusion Memorandum (JIM) and future social policies are developed with broad participation and target vulnerable social groups <u>Indicators:</u> - JIM-based on reliable and representative data and targets vulnerable groups - Percentage of beneficiaries served by community based services (B: set by baseline research; T: baseline + 20%) | 1.1 Social exclusion mapping completed and key indicators for monitoring social policies developed 1.2 Department for Social Welfare is better able to design social policies and strategies that respond to community needs 1.3 Action plan drafted for the de-institutionalization of services for state and non-state residential institutions. 1.4 Excluded groups supported through community-based services 1.5 Strengthened National AIDS Commission) and United Nations Thematic Group | - Social exclusion indicators and data tables - Number of draft social policy/strategy papers (B: 1; T: 3) - Number of stakeholder consultations (B: 2; T: 4) - Percentage of non-state stakeholders participating in consultations (B: 20 %; T: 50 %) - Draft Action Plan - Number of community-based initiatives supporting excluded individuals (B: set by baseline research ; T: baseline + 10) -Timely and effective implementation of National AIDS Strategy and Action Plan | - Ministry of Health and Social Welfare (linkage with national/sector strategy and policy) - Government Office for Minorities (in-kind contributions, co-funding), - Local authorities (co-funding), - NGO: Association for the Promotion of Inclusion (technical expertise) - NGO: Association of Roma in Sisak Moslavina county (in-kind contributions) | Regular 500 Other 2 400 |
| National priority/ goal: (1) National strategy for regional development; (2) 9.8 Public administration reform programme of the Government of the Republic of Croatia, 2003-2007; (3) Framework programme for decentralization National Millennium Development Goal 1. Eradicate relative poverty (Target: In the period between 2001 and 2015 reduce by half the number of people living in relative poverty) | | | | | |
| Local development <u>MYFF goals;</u> 1. Achieving the Millennium Development Goals and reducing human poverty 2. Fostering democratic governance 4. Crisis prevention | 2. Socio-economic recovery in Areas of Special State Concern (ASSC) and underdeveloped regions of Croatia <u>Indicators</u> - Decreased depopulation trends in the programme areas by 10 % - Decreased unemployment rates in programme areas by 4 percentage points | 2.1 In targeted municipalities in three ASSCs: • Key community support structures improved • Limited infrastructure reconstructed; • Business development services provided • 2.2 Local authorities are better able to plan and implement local development policies and deliver targeted services 2.3 European Centre for Cross-sector | - Number of municipalities offering new community services (B: 0; T: 25) - Number of small-scale infrastructure projects completed (B: 0; T: 20) - Number of businesses receiving new services and making applications for further investment (B: 0; T: tbd) - Number of municipal plans (B: 0; T: 13) | - Ministry of Sea, Tourism, Transport and Development - Counties, municipalities, local NGOs - Croatian Institute for Local Self-government - National Foundation for Civil Society Development - Institute for International Relations - European Citizens Action Service | Regular 800 Other 15 000 |



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| and recovery | | Partnerships offers high- quality, competitive training programmes | - Number of projects prepared (B: 0; T: 18) - Building refurbished/equipped - Governance structure established - Number of training programmes delivered (B: 0; T: tdb) | - European Institute for Public Administration | |
| National priority/goal: (1) Improved energy efficiency (Energy sector development strategy, National Environment Action Plan) (2) National legislation to incorporate measures for conservation and improvement of overall biological diversity into all economic activities using biological resources (National biodiversity strategy action plan) National Millennium Development Goal 7: Ensuring environmental sustainability | | | | | |
| Environmental governance MYFF goal | 3. Institutional barriers that prevent the use of energy efficient technologies and practices in the residential and | 3.1 Communication campaigns conducted about the energy efficient technologies and benefits 3.2 Guidelines and action plan to meet European Union standards and labeling for energy efficient | - Number of campaigns conducted (B: 0; T: 3) - Guidelines and action plan for Croatian standards and labeling | - Ministry of Environment Protection, Physical Planning and Construction | Regular 397 Other 18 700 |
| 3. Energy and environment for sustainable development | service sectors are reduced <u>Indicators</u> - Level of public awareness of energy efficient technologies and benefits - Household appliances energy efficient unit consumption level (B: work in progress (tdb); T: 20 % improvement by year 2011) - Number of loan applications for energy efficient projects in the service sector (B: 0; T: 10) 4. In four Dalmatian counties, investment decisions among operators in tourism, agriculture and fisheries sectors are made on the basis of biodiversity and environmental criteria <u>Indicators</u> - Number of/volume of loans for biodiversity-friendly initiatives (B: 0; T: increase by 60 % in year 2011) - Number of local or national government regulations supporting biodiversity (B: 0; T: 2 new measures in agriculture, tourism, fisheries, | appliances (energy efficient standards and labels) drafted 3.3 A partial guarantee fund designed to leverage financing for energy efficient investments 3.4 A pipeline of energy efficient investment proposals prepared with the service sector 3.5 Key staff of Croatian Bank for Reconstruction and Development are able to apply environmental risk management and environmental lending practices 4.1 In targeted coastal areas, local operators are able to offer biodiversity-friendly products and to protect critical micro eco-systems 4.2 National communication campaign about biodiversity-friendly products and services conducted 4.3 Targeted banks are able to design credit products for biodiversity-friendly investment 4.4 A tax-incentives model for biodiversity-friendly products is drafted. 4.5 County planning officials incorporate biodiversity criteria into approval processes 4.6 A coherent Croatian marine biodiversity strategy drafted | - Fund designed and promoted - Number and quality of bankable proposals (B: 0; T: 10) - Guidelines and action plan for applying environmental risk management and environmental lending practices - The revenue from biodiversity - friendly investments in the 4 demonstration landscapes (B: 0; T: USD 500.000) - Number/type of campaigns conducted (B: 0; T: 4) - Number of banks fully participating in biodiversity-friendly loan schemes (B: 0; T: 1 in year 4, 3 by end of project) - Draft tax incentive model - Number of approval processes/ guidelines revised (B: 0; T: 3) - Draft strategy, regulations | - Ministry of Culture - State Institute for Nature Protection - Ministry of Economy, Labour and Entrepreneurship - Ministry of Sea, Transport, Tourism and Development - Croatian Bank for Reconstruction and Development - 4 Dalmatian counties | |

| | | | | | |
|---|--|--|---|---|--|
| | banks) | | | | |
| National priority/goal: Creation of the most competitive market based on knowledge economy and social cohesion by 2010 (European Union Lisbon Agenda) | | | | | |
| National Millennium Development Goal 8. Global partnership for development | | | | | |
| Business competitiveness <u>MYFF goals</u> 1. Achieving the MDGs and reducing human poverty | 5. The private sector is tangibly involved in sustainable development <u>Indicators</u> - Number of private-public partnership projects implemented B: 1; T: 5 | 5.1 Targeted companies are able to plan, implement and promote corporate social responsibility practices 5.2 Preconditions for successful PPPs are met with key private sector actors and selected local authorities are able to devise PPP strategies 5.3 Implementation of the competitiveness agenda is actively promoted | - Number of corporate social responsibility strategies/ documents B: 1; T: 25 Number of cross-sectoral partnerships identified/ initiated B: 2; T: 10 - Number of public consultations conducted B: 1; T: 10 | - Ministry of Economy, Labour and Entrepreneurship - Croatian Employers Association - National Competitiveness Council -Business | Regular 200 Other 1 500 |
| Total, regular resources | | | | | 1 897 |
| Total, other resourced | | | | | 37 600 |
| Grand total | | | | | 39 497 |