

**PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.: AB1212

Project Name	AGRICULTURAL ACQUIS COHESION PROJECT
Region	EUROPE AND CENTRAL ASIA
Sector	General agriculture, fishing and forestry sector (100%)
Project ID	P091715
Borrower(s)	Government of Croatia
Implementing Agency	Ministry of Agriculture, Forestry and Water Management
Environment Category	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
Safeguard Classification	<input type="checkbox"/> S ₁ <input type="checkbox"/> S ₂ <input type="checkbox"/> S ₃ <input type="checkbox"/> S _F <input type="checkbox"/> TBD (to be determined)
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1. Key development issues and rationale for Bank involvement

Following negotiation of a Stabilization and Association Agreement with the EU in 2002, Croatian accession to the EU was confirmed in April 2004. Accordingly, the Government of Croatia is actively working to comply with EU requirements and obligations as laid down in the *acquis communautaire*. Towards this, the Government faces substantial challenges, particularly in the agricultural and rural sectors, that have been deeply affected by the tumultuous years of the past decade where war and diplomatic isolation from Western Europe inhibited structural adjustment and agricultural growth.

Agriculture plays a significant role in the Croatian economy, contributing about 8.3% of GDP in 2001, which is above the CEEC average. With approximately 42 percent of the country's total population of 4.5 million people living in rural areas, the sector is directly or indirectly an important source of livelihood for a significant section of the Croatian society. Rural Development programs, aimed at increasing production, diversifying output, conserving natural resources (land, capital, technology, etc.), creating or improving infrastructure, promoting markets and increasing the incomes of the rural population, have resulted in a variety of ongoing programs throughout the country. However, government interventions have been largely discretionary and ad hoc, resulting in an uneven impact on the rural population. In the area of food safety, food quality and consumer confidence continue to be an issue as food safety regulations and quality standards do not match EU standards. Croatian producers lack information on the EU sanitary standards as well as the training, skills, technologies and services needed to meet the relevant hygiene, environmental, animal welfare, etc. requirements that are the key pre-conditions for their future uninhibited access to European markets. Also, as the southern border of Croatia, including its ports, become new frontier land of the EU and new entry points into the EU, specific investments in border inspection ports will have to be undertaken to ensure that plant and plant products as well as animal and animal products coming into the EU meet EU requirements.

The Government of Croatia is committed to meeting its accession obligations and the key policy decisions for alignment with EU have already been made. In that context, a number of forward-looking steps towards improving its agricultural and rural sectors have been initiated. For example, it recently

passed a Food Law that establishes an independent Food Safety Agency. Some other efforts already undertaken, or being undertaken by the Ministry of Agriculture, Forestry and Water Management (MAFWM) include: (i) the establishment of a Farm Registry and Payment Agency; (ii) development of a bovine animal identification system; (iii) an Agricultural Information Center; (iv) restructuring of the ministry to meet EU accession management demands; and (v) progressively realigning its commodity support measures with the CAP. These measures were primarily either undertaken, or catalyzed, by the World-Bank-financed Farmers Support Services Project (FSSP) that assisted the government in its start-up efforts towards meeting the EU *acquis* in the agriculture and rural sectors. Also, with CARDS support, the MAFWM is systematically approximating its laws and regulations with EC rules and directives and strengthening its border sanitary and phytosanitary inspection.

Compliance efforts with the EU *acquis* in agriculture and rural development provide an excellent opportunity to the Croatian government to streamline the various piecemeal, ad hoc policies and programs currently being implemented by the different branches of the Government. Experiences of the former candidate countries in this arena will help the government to better define priorities and put in place appropriate, revised or new measures using a transparent, consultative approach (whereby relevant stakeholders at the local, regional and central levels are actively involved) and in accordance with EU environmental safeguards. Croatia is being supported in its accession efforts, both directly and indirectly, through a range of financial instruments. These include the EU financed CARDS, PHARE and SAPARD programs, limited bilateral assistance and the World Bank-financed Real Property Registration and Cadastre Project, Social and Economic Recovery projects and proposed Programmatic Adjustment Loan.

Although substantial progress is underway to meet EU obligations, there remains a significant unfinished agenda. MAFWM needs substantial support to accelerate its *acquis* alignment, implement its food safety and SPS agendas and facilitate the SAPARD-driven rural development program. For example, the funds that have historically supported SAPARD preparation in accession countries are not available to Croatia and the timeframe for its implementation is less than half of that afforded to past SAPARD beneficiaries. The Government has requested World Bank assistance to fill specific gaps that will contribute to MAFWM's overall preparedness to fulfill the implementation requirements for EU accession. The Bank is well positioned to assist the Government in these efforts because of the experience gained through several operations in the agricultural sector in Croatia, in particular the Farmers Support Services Project. Also, there is much available experience on EU *acquis* compliance to draw from, in both EU member countries as well as EU candidate countries that are ahead of Croatia. Several well-tested "models" exist; the urgent need now is to assist the government in adapting these models to the unique challenges of Croatia. For this, the country needs additional technical and financial assistance and has requested the Bank for such support.

2. Proposed objective(s)

The primary objective of the project would be to develop sustainable systems and capacities within the Government of Croatia to enable the country to capture benefits in the agricultural sector accruing from accession to the European Union and meet EU *acquis* requirements. These outcomes are envisaged to be achieved through: (i) implementation of EU *acquis* in rural development; (ii) empowerment of MAFWM management and administration; (iii) ensuring safe food and SPS conditions; and (iv) efficient project management. The ultimate development outcomes of project interventions include: (i) improved competitiveness and access to markets resulting from the modernized food safety services; (ii) increased capacity for absorption of competitiveness enhancing investments in farm and agribusiness enterprises;

and (iii) improved rural livelihoods due to the strengthened public capacity for planning and execution of rural development programs.

3. Preliminary description

The project will include the following components:

Implementation of the EU Acquis in Rural Development. This component would support the establishment of an independent SAPARD agency implementing at least four of the EU SAPARD programs. The output of this investment would be the accreditation of the SAPARD Agency, capacity to apply and receive SAPARD funds as well as implement SAPARD programs. Key activities under this component would include: (i) support for the establishment of an accredited, independent and adequately staffed SAPARD agency with the necessary control, implementation, payment, accounting, internal audit, monitoring and information technology systems and capacities to rapidly and effectively implement the SAPARD program, using transparent, consultative mechanisms to include all relevant stakeholders and in accordance with EU environmental safeguards; (ii) a capacity building program for the SAPARD Program Management Authority (MAFWM Department for Sustainable Rural Development) and establishment and empowerment of a Monitoring Committee including economic and social partners; (iii) establishing a SAPARD pre-financing facility to fund government contribution to approved SAPARD activities; (iv) a program to train private and public sector SAPARD facilitators in financial evaluation and management, community organization, good agricultural practices, environment management and other SAPARD related grant preparation requirements, such as development of business plans by farmers and other investors for improving access to commercial credit. This program will also include development and implementation of a public outreach strategy to inform the potential public and private sector SAPARD beneficiaries.

Empowerment of MAFWM Administration and Management. This component would address gaps in the MAFWM management, administration, information technology, staffing and institutional structure that are conditional to EU accession. The output would be a more cohesive, better informed and organized MAFWM management and administration team, prepared for the challenge of EU accession. Investments under this component would include training programs for MAFWM management staff, development of a comprehensive information management system for MAFWE, including the development of communications strategy to better inform and engage key agriculture stakeholders in the accession process; support for policy analysis and development in the fields of land management and markets, farm accounting data network, monitoring and evaluation, structural and market intervention financing, WTO integration and EU policy approximation; and programs targeting skill gaps among young MAFWE staff specific to MAFWM's EU accession efforts, and new graduates recruited into MAFWM.

Ensuring Safe Food and Sanitary and Phytosanitary Conditions. This component would support the establishment of the Croatian Food Safety Agency (CFSA) and create the necessary conditions for Croatian compliance with EU sanitary and phytosanitary requirements. The output would be safe, internationally-marketable agriculture and livestock products, overseen by a cost-effective, stakeholder-responsive inspection system. The key activities to be developed under this component include: (i) support for the establishment of the Croatian Food Safety Agency (CFSA), with particular reference to the medium-term development of a consolidated, transparent, efficient, risk-based food inspection service; (ii) establishment of internationally accredited national veterinary and plant health reference laboratories; (iii) development of competent, regionally structured and interactive veterinary and phytosanitary inspection services; (iv) establishment of a veterinary epidemiology department within the

MAFWM; and (v) support to the food industry in responding to the more stringent sanitary demands of the EU acquis. Investments under this component would include civil works, strengthening staff capacity, information campaign to ensure buy-in by stakeholders and the general public, information management, and provision of equipment.

Efficient Project Management. A small Project Implementation Unit (PIU) within the MAFWM Department for Policy, EU and International Relations would be set up to manage the project. It would be staffed with a Project Manager, Financial Controller, a Procurement Officer and an administration/secretarial support person. The output of the PIU would be to mainstream project implementation functions within the MAFWM by gradually transferring component management to responsible MAFWM departments and institutions. This will ensure project sustainability.

4. Safeguard policies that might apply

The safeguard policy, OP/BP 4.01-Environmental Assessment, will be triggered as the project will undertake some civil works under component 3 with regard to the establishment of the food safety agency and related reference laboratories and departments. Also, some GEF-funded environmentally-friendly agricultural practices, such as nutrient management, may be undertaken by the project under component 1 if GEF funds become available. The project will undertake an assessment of the potential environmental impacts of the civil works as well as promotion of environmentally sustainable agricultural practices. Accordingly, an Environmental Management Plan (EMP) will be developed consisting of a set of mitigation, monitoring, and institutional measures to be taken during implementation to eliminate any adverse environmental and social and health impacts, offset them, or reduce them to acceptable levels.

5. Tentative financing

Source:	(USM)*
BORROWER	11.60
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	32.35
OTHER DONORS (EU, BILATERALS, ETC.)	2.55
Total	46.50

* The Government of Croatia has requested project costs to be determined in Euros. Accordingly, the corresponding Euro amounts for the above, at the current exchange rate of US\$1.293 = EURO 1, are as follows: Borrower: □9 million; Bank □25 million; Other donors: □2 million; Total: □36 million.

6. Contact point

Contact: Aleksandar Nacev

Title: Sr Operations Officer

Tel: (202) 473-0522

Fax: (202) 614-0337

Email: Anacev@worldbank.org