

Document of
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Report No: 34939-HR

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF EUR 25.5 MILLION
(US\$ 30.14 MILLION EQUIVALENT)
TO

REPUBLIC OF CROATIA

FOR AN

AGRICULTURAL ACQUIS COHESION PROJECT

January 23, 2006

Environmentally and Socially Sustainable Development Unit
South Central Europe Country Unit
Europe and Central Asia Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective June 20, 2005)

Currency Unit = Kuna (Kuna)
6.02 Kuna = US\$ 1
EUR 0.846 = US\$ 1

FISCAL YEAR

January 1 - December 31

ABBREVIATIONS AND ACRONYMS

AIC	Agricultural Information Center
CAEI	Croatian Agricultural Extension Institute
CAP	Common Agricultural Policy
CARDS	Community Assistance for Reconstruction, Development and Stabilization
CEEC	Central and Eastern European Countries
CFA	Croatia Food Agency
CISS	Croatian Institute for Seeds and Seedlings
CSREP	Croatia Social and Economic Recovery Program
DHRGA	Department of Human Resources and General Affairs (MAFWM)
DMSS	Directorate of Marketing and Structural Support (MAFWM)
DPEUIC	Department for Policy, European Union and International Cooperation (MAFWM)
DSDRA	Department of Sustainable Development of Rural Areas (MAFWM)
EC	European Commission
EU	European Union
FADN	Farm Accountancy Data Network
FDI	Foreign Direct Investment
FMR	Financial Management Report
FSC	Facility Steering Committee
FSSP	Farmer Support Services Project
HAMAG	Croatian Agency for SME Development
GIS	Geographic Information System
GMO	Genetically Modified Organism
GoC	Government of Croatia
HACCP	Hazard Analysis and Critical Control Point Analysis
IACS	Integrated Administration and Control System
IPA	Instrument for Pre-Accession Assistance
ISTA	International Seed Testing Association
IT	Information Technology
MA	Managing Authority (SAPARD)
MAFWM	Ministry of Agriculture, Forestry and Water Management
MC	Monitoring Committee (SAPARD)
M&E	Monitoring and Evaluation
MoF	Ministry of Finance
MoHSW	Ministry of Health and Social Welfare
MFI	Micro-Finance Institution
MIS	Management Information System
NARDP	National Agricultural and Rural Development Plan
NBC	National Bank of Croatia
NUTS	Nomenclature of Territorial Units for Statistics

PA	Payment Agency
PAL	Programmatic Adjustment Loan
PCFG	Post-conflict Fund Grant
PIU	Project Implementation Unit
PPF	Project Preparation Facility
PFI	Participating Financial Institutions
PN	Payment Note
PPI	Plant Protection Institute
PSC	Project Steering Committee
PY	Project Year
SAPARD	Special Accession Program for Agriculture & Rural Development
SERP	Social and Economic Recovery Program
SME	Small and Medium Enterprise
SWAp	Sector Wide Approach
TAL	Technical Assistance Loan
TISSUP	MAFWM Market Information Center
USAID	United States Agency for International Development
VD	Veterinary Directorate (MAFWM)
VI	Veterinary Institute
WTO	World Trade Organization

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CROATIA

AGRICULTURAL ACQUIS COHESION PROJECT

PROJECT APPRAISAL DOCUMENT

EUROPE AND CENTRAL ASIA

ECSSD

Date: December 1, 2005	Team Leader: Aleksandar Nacev		
Country Director: Anand K. Seth	Sectors: General agriculture, fishing and forestry sector (100%)		
Sector Manager: Benoit Paul Blarel	Themes: Rural policies and institutions (P); Trade facilitation and market access (S); Rural services and infrastructure (S)		
Project ID: P091715	Environmental screening category: Partial Assessment		
Lending Instrument: Specific Investment Loan	Safeguard screening category: Limited impact		
Project Financing Data			
<input checked="" type="checkbox"/> Loan <input type="checkbox"/> Credit <input type="checkbox"/> Grant <input type="checkbox"/> Guarantee <input type="checkbox"/> Other:			
For Loans/Credits/Others: Total Bank financing EUR 25.5 million (US\$30.14 million) Proposed Terms: Fixed Spread, 15 Year Maturity, 5 Year Grace Period			
Financing Plan (US\$m)			
Source	Local	Foreign	Total
BORROWER	12.68	0.94	13.62
Netherlands Government	2.50	2.25	4.75
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	15.83	14.31	30.14
Total:	31.01	17.50	48.51
Borrower: Republic of Croatia Responsible Agency: Ministry of Agriculture, Forestry and Water Management Av. Vukovar 78, 10000 Zagreb, Croatia Tel: +385 1 6106 111 Fax: +385 1 6109 201 office@mps.hr http://www.mps.hr/eng/ministarstvo/ Croatian Agency for SME Development (HAMAG) Prilaz Gjure Deželića 7, Zagreb, Croatia Tel: +385 1 488 10 00 Fax: 385 1 484 66 12 hamag@hamag.hr http://www.hamag.hr/			

Estimated disbursements (Bank FY/US\$m)									
FY	2006	2007	2008	2009	2010				
Annual	3.83	11.50	7.02	6.81	0.98				
Cumulative	3.83	15.33	22.35	29.16	30.14				
Project implementation period: Start April 30, 2006 End: April 30, 2010 Expected effectiveness date: April 30, 2006 Expected closing date: October 31, 2010									
Does the project depart from the CAS in content or other significant respects? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>Ref. PAD A.3</i>									
Does the project require any exceptions from Bank policies? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>Ref. PAD D.7</i>									
Have these been approved by Bank management? <input type="checkbox"/> Yes <input type="checkbox"/> No									
Is approval for any policy exception sought from the Board? <input type="checkbox"/> Yes <input type="checkbox"/> No									
Does the project include any critical risks rated "substantial" or "high"? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>Ref. PAD C.5</i>									
Does the project meet the Regional criteria for readiness for implementation? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>Ref. PAD D.7</i>									
Project development objective <i>Ref. PAD B.2, Technical Annex 3</i> The objective of the proposed project is to develop sustainable systems and capacities within the MAFWM to ensure timely compliance with EU acquis conditions in the rural sector.									
Project description [<i>one-sentence summary of each component</i>] <i>Ref. PAD B.3.a, Technical Annex 4</i> Component 1: Strengthen Capacity for Absorbing EU Financial Assistance in Agriculture. The output of this investment would be increased capacity, during pre-accession, to comprehensively implement the <i>acquis communautaire</i> concerning the EU Common Agricultural Policy (CAP). Component 2: Empowerment of MAFWM Administration and Management. This component would aim to establish an organized, cohesive and well-informed MAFWM management and administration team, with improved overall capacity to address the challenges of EU accession. Component 3: Ensuring Safe Food and Sanitary and Phytosanitary Conditions. This component would support the development of the Croatia Food Agency and create the necessary conditions for Croatian compliance with EU sanitary and phytosanitary requirements. Component 4: Project Management. A small project implementation team within the MAFWM Department for Policy, EU and International Relations would manage the project. The Project will also refinance the Project Preparation Facility, the objective of which is to assist with the preparation of the Project.									
Which safeguard policies are triggered, if any? <i>Ref. PAD D.6, Technical Annex 10</i> Environmental Assessment (OP/BP/GP 4.01)									
Significant, non-standard conditions, if any , for: <i>Ref. PAD C.7</i>									

Board presentation: None

Loan/credit effectiveness: None

Covenants applicable to project implementation:

- (a) Administrative Service Agreement, satisfactory to the Bank, has been duly executed by the Borrower and HAMAG.
- (b) The Operational Guidelines, acceptable to the Bank, have been approved by the FSC.
- (c) The Bank has been furnished with evidence satisfactory to the Bank that a Guarantee Agreement between HAMAG and a Participating Bank, acceptable to the Bank, has been duly authorized and executed in compliance with the provisions of the Loan Agreement and is valid and enforceable in accordance with its terms.

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AGRICULTURAL ACQUIS COHESION PROJECT
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A. STRATEGIC CONTEXT AND RATIONALE

1. Country and sector issues

Following negotiation of a Stabilization and Association Agreement with the EU in 2002, Croatian accession to the EU was confirmed in April 2004, with the principles, priorities and conditions for accession described in European Council Decision COM(2004) 275 on European Partnership with Croatia. Accordingly, the Government of Croatia is actively working to meet the requirements of the Decision, which will enable the country 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, *inter alia*, war and diplomatic isolation from Western Europe inhibited structural adjustment and agricultural growth.

Agriculture plays a significant role in the Croatian economy, contributing about 7.0% of GDP in 2002, which is above the Central and Eastern European Countries (CEEC) average. With approximately 42 percent of the country's total population of 4.5 million living in rural areas, the sector is directly or indirectly an important source of livelihood for a significant section of the Croatian society. Levels of employment in agriculture (7.2% in 2003), though decreasing, are still relatively high compared to the EU and the most advanced CEECs. Rural development programs, aimed at increasing productivity and diversifying output, conserving natural resources, creating or improving infrastructure, promoting markets and increasing the incomes of the rural population, have resulted in a variety of ongoing activities throughout the country. Government interventions, however, have been rather discretionary, resulting in mixed results, with an uneven impact on the rural population. In the area of food safety, food quality and consumer confidence continue to be an issue. At this stage, food safety regulations and quality standards do not match EU requirements and the Croatian food industry is generally unprepared for the competitive environment of the EU common market. 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. As the southern border of Croatia, including its ports, becomes the new frontier of the EU, specific investments in border inspection will be required to ensure that imported plants and animals, and their products, meet EU requirements.

The EC Decision for Croatian Partnership with the EU calls for the agriculture sector to, *inter alia*:

- (i) prepare a Rural Development Plan in order to receive SAPARD funds;
- (ii) strengthen the administrative structures needed to implement the Common Agricultural Policies (CAP) as well as the EU measures of Pillars I and II;
- (iii) reinforce the collection and processing of agricultural statistics in line with EU standards and methodology;
- (iv) develop a strategy to establish effective and financially sound paying bodies for the management and control of agricultural funds in line with EU requirements and international auditing standards;
- (v) strengthen capacity for the design, implementation, management, monitoring, control and evaluation of rural development programs;
- (vi) align the import regime for live animals and animal products as well as plant and plant products with international sanitary and phytosanitary (SPS) obligations and the EU *acquis*;
- (vii) establish an EU compliant farm registration and animal identifications systems; and
- (viii) modernize meat and dairy plants in order to meet EU hygiene and public health standards.

EU requirements in food safety include:

- (i) the enactment and enforcement of EU compliant food legislation (general rules for food hygiene and control, food labeling, food additives, food packaging and genetically modified foods),
- (ii) the establishment of sanitary and phytosanitary competent authorities and the harmonization of related laws;
- (iii) animal nutrition and welfare (standards on animal nutrition, regulation on food and feed controls, etc.); and
- (iv) the establishment of a competent authority for food safety.

The Government of Croatia is committed to meeting its accession obligations and the key policy decisions for EU alignment have already been made. In that context, a number of forward-looking steps towards improving its agricultural and rural sectors have been initiated. Croatia recently passed a Food Law that establishes an independent Croatia Food Agency (CFA). 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) the development of a bovine animal identification system;
- (iii) the establishment of an Agricultural Information Center;
- (iv) the on-going restructuring of the ministry to meet EU accession management demands;
- (v) the progressive realignment of its commodity support measures with the CAP.

These measures were primarily 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 Government. The EU compliance process will also 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), in accordance with EU environmental safeguards.

2. Rationale for Bank involvement

While the aforementioned reforms and on-going CARDS supported programs are accelerating the EU alignment process, much work remains to be done and there are significant funding gaps that will constrain progress if un-addressed. Croatia is being, or is to be, 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 World Bank-financed projects, including the Real Property Registration and Cadastre Project, Social and Economic Recovery projects and proposed Programmatic Adjustment Loan. Existing World Bank commitments will, in particular, support improved agricultural competitiveness together with the associated land reform, while medium term EU support will focus on aspects of rural development and legislation harmonization.

The EU accession timetable underscores the scale and urgency of the agenda Croatia must adopt for timely EU accession. Although a substantial endeavor is underway, there remains a significant unfinished and un-financed 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

and associated Payment Agency. The levels of EU funding 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 FSSP. There is also considerable experience available in building EU *acquis* compliance in both EU member and candidate countries. The urgent need now, is to assist the government in adapting this experience to the unique challenges of Croatia. For this, the country needs additional technical and financial assistance and has requested the Bank for such support.

3. Higher level objectives to which the project contributes

The proposed project is consistent with the Bank's November, 2004, Country Assistance Strategy (CAS) for Croatia, which is geared toward assisting the country to achieve its EU membership objective and provide an environment for private sector-led growth. The project also complements the Programmatic Adjustment Loan (PAL) "Improving the Business Climate" pillar by providing resources to help execute an agricultural competitiveness strategy, and the "Strengthening Public Sector Governance" pillar by supporting administrative reforms at the sectoral level.

The overarching objective of the project would be to enable Croatia's agricultural sector to capture benefits accruing from accession to the European Union. The primary expected outcomes of project interventions include: (i) increased transparency, accountability, innovation and participation in the design and implementation of MAFWM's rural development program; (ii) strengthened MAFWM management, technical and policy analysis and design capacity; and (iii) a leveled and more competitive milieu for national and international food producers and traders in Croatia's domestic and export markets. These outcomes are envisaged to be achieved through: (i) the implementation of the EU *acquis* in rural development; (ii) the empowerment of MAFWM management and administration; (iii) ensuring safe food and efficient and effective SPS conditions; and (iv) proficient project management.

Overall project impact would be measured in terms of: more transparent and consultative system for implementing rural development programs, a rapid increase of country's absorption capacity for SAPARD programs, a more efficient and affordable food safety system, improved access to the global and EU food market, and a strengthened MAFWM.

B. PROJECT DESCRIPTION

1. Lending instrument

The project will be financed by a Specific Investment Loan (SIL) of US\$30.14 million (EUR 25.5 million). A portion of the loan would be used to capitalize a pilot SAPARD pre-financing facility for SAPARD municipal measures to help enable lower income communities gain access to commercial capital for pre-financing investment needs.

2. Project development objective and key indicators

The objective of the proposed project is to develop sustainable systems and capacities within the MAFWM to ensure timely compliance with EU *acquis* conditions in the rural sector.

Key Indicators:

Outcome indicators:

The primary project outcome would be more transparent, participatory and market-oriented support to and regulation of agriculture and rural development in Croatia, implemented within the framework of the prevailing EU Common Agriculture Policy (CAP) and *acquis communautaire*. Key **outcome indicators** include:

- An innovative, transparent, participatory and environmentally sustainable rural investment program;
- staff capacity and management and information systems within MAFWM commensurate with the demands of EU integration;
- an EU compliant agricultural policy framework and capacity to inform key decision makers and stakeholders of likely impacts;
- an EU compliant food safety management system that allows availability of safe food to Croatia's residents;
- an EU and WTO compliant sanitary and phytosanitary systems that protect Croatia's human, animal and plant life and health;

Output Indicators:

- an effective, transparent SAPARD/IPA Managing Authority and Monitoring Committee;
- the number and diversity of the SAPARD and successor IPA grants financed;
- the number of trained MAFWM staff achieving the required competency outputs;
- an EU compliant Farm Accountancy Data Network (FADN), overseen by a National FADN Committee;
- an independent Payment Agency implementing an EU compliant, GIS-based Integrated Administration and Control System (IACS);
- integrated, user-friendly food safety, SPS, IACS, farm registry and Agriculture Information Center (AIC) databases supported by reliable, secure and fast information technology systems;
- an effective, transparent and accountable CFA and associated food safety risk assessment and management system;
- an effective, transparent and accountable sanitary and phytosanitary institutional framework and management system implemented through regional agricultural inspection centers;
- plant protection, veterinary and public health reference laboratories applying ISO17025 accredited testing methodologies.

3. Project components

The proposed project has four components. Detailed description of the components can be found in Annex 4.

Component 1: Strengthen Capacity for Absorbing EU Financial Assistance in Agriculture (estimated total cost: US\$18.55 million)

This component would support the establishment of a SAPARD program implementing three of the SAPARD rural development measures and a limited and carefully targeted number of sub-measures. The output of this investment would be increased capacity, during pre-accession, to comprehensively implement the *acquis communautaire* concerning the EU Common Agricultural Policy (CAP). This would be achieved by (a) establishing a SAPARD Managing Authority; (b) establishing a Payment Agency and IACS; and (c) establishing a pilot pre-financing facility for SAPARD municipal measures.

(a) **SAPARD Managing Authority.** The project would finance the establishment of a SAPARD Managing Authority within the MAFWM Department for Sustainable Development of Rural Areas (DSDRA). It would also establish and empower a SAPARD Monitoring Committee, including representatives of government and its rural economic and social partners, supported by a small, permanent Secretariat and overseeing a contracted SAPARD monitoring and evaluation program. The project would

train private and public sector SAPARD facilitators in financial evaluation and management, community organization, good agricultural practice, environment management and other SAPARD related grant preparation requirements. This sub-component would also include the development and implementation of communication strategies to (i) inform potential public and private sector SAPARD beneficiaries; and (ii) engage key agriculture stakeholders in the EU accession process.

(b) SAPARD Payment Agency and IACS. A comprehensive MAFWM Payment Agency (PA) would be established, including an accredited SAPARD Payment Agency, with the necessary control, implementation, payment, accounting, internal audit, monitoring and information technology systems and capacities to rapidly and effectively implement the MAFWM Pecuniary Incentives System and SAPARD program. The project would provide supporting technical assistance and finance the investment and some operating costs of the PA. This would include the construction and equipping of Regional PA sub-offices in the NUTS II regions once they are defined. The sub-component would also establish a comprehensive IACS that would build off an improved farm registry.

(c) Pilot SAPARD Pre-finance Facility. A pilot SAPARD pre-finance facility (the Facility) would be established by the GOC. The Facility will be financed by the Bank loan to the GOC. The GOC will use the Bank loan proceeds as a cash reserve for guarantees issued under the Facility to cover the risk of failure of municipalities in fulfilling SAPARD disbursement conditions. Overall management and monitoring of the Facility will be done by a Facility Steering Committee (FSC), to be formed by the representatives of relevant ministries (e.g. MAFWM, MOF, etc.). Operational guidelines of the Facility will be set by the FSC. Actual day-to-day administration of the Facility such as issuing individual guarantees, keeping account for individual guarantee accounts, collection of any fees, payment upon guarantee call, management of guarantee fund, etc. will be contracted out with a Facility Agent (the Facility Agent). The Facility Agent role has been assigned to the Croatian SME Development Agency (HAMAG). HAMAG already has a successful track record and operational expertise in issuing small-size guarantees, and is considered well qualified for the role of Facility Agent. The Facility will enable multiple numbers of guarantees during the availability period within the overall size of the Facility. In the event of a guarantee payout, the GOC will have recourse to the defaulting municipality to get the same amount repaid. A Reimbursement Agreement will specify the terms of reimbursement by the municipality to the GOC and other fiscal remedies and sanctions possibly available by GOC to enforce the recovery of the paid amount.

Component 2. Empowerment of MAFWM Administration and Management (estimated total cost: US\$7.58 million)

This component would aim to establish an organized, cohesive and well-informed MAFWM management and administration team, with improved overall capacity to address the challenges of EU accession. Investments under this component would address gaps in MAFWM management and administration capacity, information technology, and institutional structures that are necessary for the effective functioning of the MAFWM and conditional to EU accession. Project activities would determine the capacity profiles for key MAFWM management and administration staff and conduct skills gap analyses to determine capacity building requirements. On the basis of this, training programs will developed in, *inter alia*, civil service administration, change management, staff management, information technology and the EU agricultural *acquis*. This component would also strengthen the policy analysis capacity of the MAFWM Policy Analysis Unit by mobilizing national and international consultants, staff post-graduate training, technical assistance and funding for policy studies. This would include the upgrading of the AIC and development of a comprehensive Farm Register and pilot Farm Accounting Data Network (FADN). The project would also establish a management information system for MAFWM, built on government introduced SAP software that addresses the needs of the IACS and MAFWM's financial and administrative management information system (MIS) requirements. The project would also upgrade

MAFWM's information technology (IT) to ensure fast, secure data transfer and storage, both in-house and with regional centers, and establish a video conferencing capability between major MAFWM centers and agencies.

Component 3. Ensuring Safe Food and Sanitary and Phytosanitary Conditions. (estimated total cost: US\$19.55 million)

This component would support the development of the Croatia Food Agency (CFA) and create the necessary conditions for Croatian compliance with EU sanitary and phytosanitary requirements. The outcome would be safe, internationally-marketable agriculture and livestock products, overseen by a cost-effective, stakeholder-responsive inspection system. The key sub-components to be developed under this component would include:

(a) Development of the Croatia Food Agency. The project would support the development of the CFA and establish a consolidated, transparent, efficient, and risk-based food safety program. This would include the separation of human/animal health and food safety responsibilities among inspectors, the development of the CFA's web-based reporting and data management systems, CFA risk assessment and communications programs, food health crisis management strategies and a public information campaign.

(b) Strengthened Veterinary and Plant Health services. The project would develop regionally structured, effective veterinary and phytosanitary inspection services supported by investments in staff capacity building, transportation, testing equipment, a web-based inspection reporting, certification and data management system and civil works and office equipment at up to five regional centers. Veterinary animal and public health services would be strengthened through the establishment of a veterinary epidemiology department including the completion and integration of MAFWM epidemiology, residue testing, animal numbering, and border inspection software and staff training in its use. The project would also establish national veterinary, public health and plant health reference laboratories implementing ISO 17025 testing methodologies, including investment in civil works, staff capacity, information management and some equipment. An ISTA certified laboratory for genetically modified organism (GMO) testing would be established at the Croatian Institute for Seeds and Seedlings (CISS).

Component 4: Project Management (estimated total cost: US\$0.9 million)

A small implementation team within the MAFWM Department for Policy, EU and International Relations (DPEUIR) would manage the project. The implementation team would include a Project Manager, Financial Controller, Procurement Officer and an administration/secretarial support person. Project impact monitoring would be contracted out. The team would be responsible for all aspects of project administration, including overall project oversight, TA, goods and materials procurement, and financial control. To ensure sustainable outcomes, day-to-day management of project activities would be the responsibility of the relevant MAFWM Department or Institute Head. The implementation team would, in time, use the MAFWM SAP software for project accounts. A Project Steering Committee (PSC) composed of key Assistant Ministers within MAFWM would provide project oversight and ensure national program integration. The SAPARD Monitoring Committee and the CFA Board would ensure public participation in project program implementation. A Project Working Group made up of senior technical staff from the participating MAFWM departments would provide technical guidance to the project implementation team. The project would finance technical assistance, training and study tours, civil works, office, IT and laboratory equipment, vehicles, consultant fees, auditing and other operating expenses related to the project.

US\$ 1.85 million will be used to refinance the Project Preparation Facility (PPF). The PPF objective is to assist with the preparation of the above components. PPF investments are intended to meet the initial

needs of the PA, specify the design of the IACS, raise awareness of the SAPARD program amongst key stakeholders, train SAPARD facilitators, design a SAPARD communications strategy and conduct selected policy studies. The PPF also supports the establishment of the CFA through technical assistance, staff training and database design; preparation of detailed specifications and tender documents for the construction of the veterinary and plant health laboratories, and strengthening of the MAFWM veterinary and plant health departments with qualified national consultants. The project implementation team will also be established and partially equipped through the PPF.

4. Lessons learned and reflected in the project design

SAPARD programs in the region show slow initial up-take of the program. This has been due to the adoption of too many measures, weak program management, complex application procedures, commercial banking system reluctance to pre-finance SAPARD eligible projects, and a lack of public awareness of funding opportunities. In light of this, the MAFWM has targeted only four measures to minimize the risk of overrunning implementation capacity. Those measures include investments in agricultural holdings, processing and marketing of agricultural, forestry and fishery products, development and improvement of rural infrastructure and technical assistance and studies. Also, the CAACP PPF will mobilize qualified SAPARD agency consultants, train SAPARD facilitators and beneficiaries and equip and train the SAPARD Management Authority and Payment Agency. The PPF will also finance the development of a comprehensive communications program for SAPARD. Collectively, these measures, all to be implemented before SAPARD implementation, should minimize the initial set of constraints that have delayed SAPARD startup in neighboring countries.

National food safety strategies are often constrained by the lack of a political decision on the preferred organizational structure, a situation, which, to a degree, prevails in Croatia. In this situation, investments in food safety should strengthen institutional structures and capacities within the current framework, focusing on improved effectiveness and efficiency, while ensuring that such structures are compatible with long-term goals of an inter-Ministerial restructuring exercise. The Project has sought and received assurances from the relevant departments in the MAFWM and MoHSW on internal restructuring processes. The project has also provided a broad range of capacity building and learning opportunities under the PPF to empower food safety managers to implement the important and necessary reforms to their departments during project implementation.

Over investment in laboratory facilities, often at the expense of the quality of laboratory services, is common in the CEECs and evident in Croatia. CEEC laboratories are also often overly dependent on income from often-irrelevant government testing programs, frequently associated with food quality. Laboratories dependent on such testing regimes are vulnerable to foreseeable changes in the regulatory regime, which reduces the amount of testing of food products. The project will focus resources on the development of four reference laboratories for animal health, plant health, food safety and genetically modified organisms respectively. While these reference laboratories will be the main food safety and SPS testing centers, other public laboratories will develop accredited tests and private sector laboratory services will evolve over time providing a competitive environment for safety and quality testing in Croatia. The project will also finance a business study involving the 6 animal health laboratories, which is expected to lead to the rationalization of services and possible closure or sale of some laboratories.

The sustainability of project investments is often constrained by the inability of governments to internalize knowledge and plan for recurrent cost of project activities. Experience gained under the FSSP demonstrated that a small, professional government implementation team could manage a relatively large, complex project provided the participating departments and agencies were empowered to implement their project programs. The FSSP also placed project-financed national consultants within MAFWM departments, who were subsequently recruited into the MAFWM at project completion. These successful

remedies for project sustainability will be pursued within the CAACP. When deemed necessary the Government will directly contract and finance national experts under MAFWM terms and conditions for the duration of the project, however, it is expected that a number of specialized experts would also be financed from the Grant at competitive market rates.

5. Alternatives considered and reasons for rejection

The project team considered two different designs during project identification, which were rejected during project preparation. They included: (i) the use of the SWAp methodology for the proposed project; and (ii) whether to exclude a food safety component from the project.

With regard to (i), the SWAp methodology was rejected based on the findings of the draft, 'Country Procurement Assessment for Croatia' carried out by the Bank. The Public Procurement sub-unit within the Department of Human Resources and General Affairs (DHRGA) responsible for MAFWM's procurement activities was established as recently as a year and half ago and comprises a staff of only two - an economist and a technician. The assessment demonstrated that the Public Procurement sub-unit needs further development of its procurement rules and procedures to bring them in line with those of the EU and the World Bank. In light of this, it was agreed that the SWAp methodology might affect smooth project implementation at this stage. It was therefore recommended that the project use the sectoral investment loan implementation approach that would integrate specific investments modules, which will aim at strengthening the public procurement and financial management capacity of the MAFWM.

With regard to (ii), the exclusion of food safety as a project component due to cost, project complexity, alternative CARDS financing and the Bank's relative lack of expertise in this field was initially considered. Food safety, however, is a key issue in the *acquis communautaire* and a potential barrier to Croatian penetration of EU markets if not fully developed. The government has passed a largely EU compliant Food Law and established and staffed a CFA to manage its implementation. While the Food Law will require some revision for EU acceptance, and inter-Ministerial food inspection arrangements need to be strengthened, the basis of a sound food safety management system has been established. Key stakeholders have also shown a clear willingness to adapt institutional structures and food safety regulations to meet EU norms. CARDS' financing, furthermore, meets only a small part of the technical and physical requirements of a comprehensive food safety system in Croatia and no additional EU support is planned at this juncture. Based on this assessment, food safety has been included as a project component.

C. IMPLEMENTATION

1. Partnership arrangements (if applicable)

As part of both project preparation and implementation, the project would work with all agents and donor programs active in Croatia's EU *Acquis communautaire* compliance. To this end, the project is designed to bridge any funding gaps between government and donor funded programs and the perceived needs of Croatia's *acquis* cohesion. The primary donor in this field is the EU, initially through CARDS financing, with PHARE funding now under development and expected to be available in late 2006. A detailed analysis of EU funding in the project impact area has been made with the MAFWM, an EC financed PHARE programming mission and the EC Representation in Croatia and any funding overlaps eliminated. Other donor activity includes the USAID's support for HACCP training within Croatia's agro-industries, which has also been accommodated in the project design.

Implementation of co-financing has been agreed with the Government of the Netherlands, which will finance technical assistance and training across all components. For the implementation of the food safety component, the project would work in close collaboration with the CFA and the Ministry of Health

and Social Welfare (MoHSW). In making sanitary and phytosanitary inspection EU compliant, the project will work in close collaboration with the MAFWM Veterinary Directorate, Plant Protection Department and Agricultural Inspectorate and the MoHSW. With SAPARD implementation, the project will, through the relevant MAFWM departments, work closely with the Croatian Agricultural Extension Institute (CAEI), participating Municipalities and private sector stakeholders. The rationalization and strengthening of the food safety and SPS laboratory system will be implemented in close collaboration with the Veterinary Institute, Plant Protection Institute, CISS and the MoHSW.

The Government is interested to apply for about US\$5.0 million (EUR 4.0 million) support under the Global Environment Fund (GEF) Danube River and Black Sea Initiative, for a program to support the promotion of good agricultural practices conforming to the requirements of the EU Nitrate Directive under the Environment acquis. This would include, *inter alia*, the introduction of environmentally friendly agricultural practices; monitoring soil, water quality and environmental impacts; strengthen national policy, regulatory enforcement and capacity in these fields; and raising public awareness.

2. Institutional and implementation arrangements

The project, except the Pilot SAPARD Pre-finance Facility, would be managed by a small government project implementation team located within the MAFWM Department of Agricultural Policy and European Integration. The implementation team would include a Project Manager, Financial Officer, Procurement Officer and an office administrator/secretary and would be responsible for the whole project management including procurement, financial control, preparation of progress and project management reports and project monitoring and evaluation, which would be contracted out. The implementation team would be managed by a project manager, who has overall responsible for all aspects of the project. The team will work with the relevant MAFWM departments and institutes and the MoHSW, which will take day-to-day responsibility for the management of their respective sub-components. Additional national consultants will be employed through renewable annual contracts by the project where required to support component implementation, with a view to their eventual absorption into the MAFWM.

A Project Steering Committee (PSC) would be established to provide overall project oversight, advice and assistance in resolving issues associated with project implementation. It would be chaired by the Assistant Minister in charge of MAFWM's Department for Policy, European Union and International Cooperation and will include the Assistant Ministers of the six other MAFWM Departments engaged in the project. The CAACP implementation group would provide secretarial support to the PSC. The PSC would meet at least quarterly to review the CAACP quarterly and annual reports and annual work program, with a view to ensuring the closest possible alignment of CAACP activities with government EU integration policies and to capture synergies with other donor funded projects.

Administration of the SAPARD Pre-finance Facility, including issuing of individual guarantees, keeping account for individual guarantee accounts, collection of fees, payment upon guarantee call, management of guarantee fund, etc. will be contracted out to a Facility Agent, whose role is assigned to the Croatian SME Development Agency -HAMAG. HAMAG already has a successful track record and operational expertise in issuing small-size guarantees, and is considered well qualified for the role of Facility Agent. HAMAG, MoF and the MAFWM will enter into an Administrative Service Agreement, and a Project Agreement will be signed between HAMAG and the Bank setting terms and conditions of Facility operation.

Overall management and monitoring of the Facility will be done by a Facility Steering Committee (FSC), formed by the representatives of relevant ministries, including MAFWM, MOF, etc. The FSC will also approve the Operational Guidelines of the Facility. The Operational Guidelines will describe procedures for screening SAPARD sub-projects and establishing their eligibility for SAPARD financing, set

procedures for issuance of partial risk guarantees by HAMAG, as well as establish terms and conditions of Guarantee Agreements to be entered into between HAMAG and a Participating Bank.

3. Monitoring and evaluation of outcomes/results

A well-designed monitoring and evaluation (M&E) system will be critical for the project's timely and successful implementation. The project's M&E program would be contracted to a competent external agency by the project implementing group within MAFWM. Monitoring will be based on the baseline data collected at project inception, which will serve as a benchmark against which follow-up data collected during implementation will be measured. Progress would be monitored through regular reporting by the M&E contractor to the implementing team as well as through Bank supervision missions. The results of the M&E activities would be fed back into the implementation process as improved practices.

The M&E contractor will design a simple Management Information System for M&E, reporting formats for each component, including targeted annual performance objectives and monitoring indicators using Annex 3 details as the basis. Quarterly reports will cover progress in physical implementation, the use of project funds and project impact. The quarterly reports will be consolidated by the implementing team to half-yearly progress reports to be submitted through MAFWM to the Bank within two months of the end of each six-month reporting period. The format of the reports will be agreed with the Bank.

All SAPARD assistance schemes are required to be evaluated with a view to their preparation, mid-term review and assessment of their impact. As required by the EU¹, the SAPARD program will be independently monitored through a project financed contract. This shall be done under the auspices of the Monitoring Committee, which shall "ensure compliance with its own guidelines and implementing rules and reviewing evaluations". In drawing up their indicators, the MA and MC must take into account "the indicative methodology and list of examples of indicators published by the Commission" reflecting program effectiveness, management and financial implementation. Monitoring indicators must include the evaluation of the social and economic situation, the environment and equality between men and women. The M&E system must be supported by the installation, operation and interconnection of computerized systems for management, monitoring and evaluation, which the project will develop. The MA must submit an annual SAPARD implementation report, approved by the MC, within 6 months of the calendar year-end.

A mid-term review will be carried out to assess overall project progress. Lessons learned, with recommendations for any improvements, would be used in restructuring the project, if necessary.

4. Sustainability

Sustainability beyond the implementation period of the project is strong as the project is specifically linked to a process of EU integration that will eventually facilitate Croatia's entry into the European Union. In terms of actual implementation, the project would help government implement policy, institutional and regulatory reforms that would be embedded in agreements negotiated with the EC. SAPARD investments would be based on comprehensive financial and environmental assessments linked to future EU CAP interventions. Capacity building would be needs based and adjusted periodically in accordance with measured competency outcomes. Sustainability would be enhanced by project action to improve transparency and accountability in government programs and raise stakeholder participation. Project developed databases would strengthen MAFWM monitoring and evaluation capacity and accountability. Capacity building programs would ensure MAFWM has the skill sets required to manage

¹ Council Regulation (EC) No 1260/1999 of 21 June 1999 laying down general provisions on the Structural Funds.

EU agriculture and rural development programs in the longer term. All database programming and IT work would be locally procured, facilitating servicing and upgrading if required.

In the case of food safety and SPS programs, Croatia, with project support, would adopt best practice measures to secure the safety of its food and plant and animal populations, assuring consumers safe food production and market access for food producers and traders. The food safety and SPS programs will also seek full cost recovery for the private benefit they provide, minimizing cost to the government budget.

5. Critical risks and possible controversial aspects

Risk	Risk Rating	Risk Mitigation Measure
Delays in receiving and disbursing EU accession funds by the various branches of government due to complexity of the process	M	The project will work closely with the European Commission in advising the Croatian government in undertaking the steps for putting in place the mandates and institutional structures that will create a well functioning and coordinated inter-agency system for receiving and disbursing SAPARD funds. This process will be supported by the use of a Project Preparation Facility (PPF) to support key pre-SAPARD activities.
Private investors and municipalities may not be able to secure pre-financing for SAPARD investments, which are funded on a reimbursable basis following completion and evaluation.	M	The project will establish a Pilot SAPARD Pre-finance Facility that will cover private bank risk of municipalities not meeting EU grant compliance requirements. The project will also advise government on how to strengthen its agricultural credit guarantee fund, particularly in relation to SAPARD grant-backed private sector investments.
Croatia's full membership delayed beyond the life of the project.	S	The EU and the Government of Croatia are committed to a continued pre-accession cooperation in the areas that are crucial for the success of the project.
A municipality's annual debt service must be kept below 20% of its annual net revenue. This ceiling may prohibit poor municipality's access to the proposed pre-finance scheme because the repayment of short-term debt is counted as annual debt service and might exceed the 20% limit.	M	Amend the Budget Execution Law to exempt the debt repayment under the SAPARD pre-finance scheme from the debt service ceiling by taking into account the fact that the loans are virtually secured by the SAPARD grant as receivable.
MAFWM has weak institutional and staff capacity in key EU accession areas, particularly in policy analysis and rural development.	M	The ongoing PAL-financed functional analysis of MAFWM, the CARDS-funded institutional reform investments and the ongoing negotiations with EU on the acquis will address the institutional structure and capacity gaps. The Project will provide

		considerable investments for skill gap analysis, training, and study tours to EU member countries
The overhaul of the agriculture, veterinary and sanitary inspection systems necessary for compliance with EU requirements may face resistance from the existing structures and staff due to perceived threats to job security.	M	The project will delineate better-defined roles and responsibilities of the various affected staff, train relevant staff, and re-deploy as needed within the restructured system. To fulfill their mandates and functions, new hires are necessary; job losses are therefore not foreseen due to the restructured system.
Stakeholder consultation by MAFWM may be weak and stakeholders' opinions may not be heard and integrated into government policies and programs.	M	Stakeholder participation is mandated under the SAPARD program and will be monitored by the SAPARD Monitoring Committee, which includes civil society, farmers and agri-business representatives. Consumers and the food business are also represented on the CFA Board.
Overall Risk Rating	M	

Risk Rating – H (High Risk); S (Substantial Risk); M (Modest Risk); N (Negligible or Low Risk)

Controversial aspects: None

6. Loan conditions and covenants

Effectiveness Conditions:

None

Disbursement Conditions:

Disbursement conditions for the Guarantee Facility Loan Category are the following:

1. Administrative Service Agreement, satisfactory to the Bank, has been duly executed by the Borrower and HAMAG.
2. The Operational Guidelines, acceptable to the Bank, have been approved by the FSC.
3. The Bank has been furnished with evidence satisfactory to the Bank that a Guarantee Agreement between HAMAG and a Participating Bank, acceptable to the Bank, has been duly authorized and executed in compliance with the provisions of the Loan Agreement and is valid and enforceable in accordance with its terms.

Other Covenants under the Loan Agreement:

1. The Borrower shall assign to MAFWM the responsibility for Project management and coordination.
2. The Borrower shall: (a) maintain a Project Steering Committee which shall be responsible for the overall policy guidance and coordination of the Project activities; and (b) maintain a PIU within MAFWM, adequately staffed, which shall be responsible for day-to-day management of the planning and budgeting of Project activities, procurement, disbursement and financial

management, preparation of progress reports, staff management and Project monitoring and evaluation.

3. The Borrower shall carry out the Project (except for 'SAPARD Guarantee Facility' component) in accordance with the provisions of the Operational Manual, including provisions of EMP, and shall not amend, suspend, abrogate, repeal or waive any provision of the Operational Manual without prior approval of the Bank.
4. The Borrower will conduct a mid-term review, jointly with the Bank, by October 31, 2007.
5. The Borrower shall provide to the Bank, by February 1 of each year throughout the execution of the Project, commencing from February 1, 2007, an annual report on the progress of Project implementation, including a draft annual Project plan for the following year.
6. By May 31, 2006, the Borrower shall establish and thereafter maintain a Facility Steering Committee (FSC) which shall be responsible for overseeing the implementation of 'SAPARD Guarantee Facility'.
7. The Borrower shall cause HAMAG to obtain the Bank's approval of the first Guarantee Agreement between HAMAG and the Participating Bank, prior to entering into said Guarantee Agreement

Other Covenants under the Project Agreement:

8. HAMAG shall establish a Guaranty Facility Account for the SAPARD Guarantee Facility in a bank on terms and conditions satisfactory to the Borrower and the Bank.
9. HAMAG shall manage and use the proceeds of the Guaranty Facility Account in a manner consistent with the purposes and objectives of the Loan Agreement and in accordance with the provisions of the Operational Guidelines,
10. HAMAG shall maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with the requirements of the Project Agreement.
11. HAMAG shall make withdrawals from the Guaranty Facility Account for: (a) payments made in accordance with a call on a guarantee issued to a Participating Bank in accordance with a Guarantee Agreement, as a result of a default on a loan by a Beneficiary, for which the Participating Bank is unable to secure satisfaction of said loan in accordance with the relevant guarantee agreement, (b) using the fees deposited on said account; and (c) refunds to the Bank or the Borrower that may be required pursuant to the provisions of this Agreement or the Administrative Service Agreement. All withdrawals from the Guarantee Facility Account shall be made in accordance with the provisions of the Operational Guidelines.

D. APPRAISAL SUMMARY

1. Economic and financial analyses

In accordance with the World Bank guidelines an economic analysis of the project was not attempted since a large share of the project resources are allocated to institutional development. The project will undertake investments in public institutional capacity building in the particular areas of food safety and

rural development program design and administration. The project would ensure that these investments will be carried out in a cost effective manner so the country could meet the mandatory Agriculture Acquis requirements for accessing the EU grant funding associated with the Common Agricultural Policy. The fiscal impact of these investments and their recurrent costs are expected to be covered by the increased government revenues that would stem from the overall improved economic performance as observed in the accession experience of other candidate and new member states. As the country moves towards meeting EU requirements, the economy enjoys the benefits of expanded markets and concomitant robust economic growth. The project would also build capacity to create fiscal space within the MAFWM to sustain the recurrent expenditures related to CAP implementation by adjusting current agriculture and rural development policies with EU's Common Agricultural Policy. It is also expected that the PAL program would assist the Government of Croatia in the implementation of policy reforms that would help create the fiscal space.

2. Technical

The project will introduce a range of technical and scientific innovation including, *inter alia*, new laboratories, information databases and technology, the accreditation of laboratory testing, science based food risk assessment, HACCP-based food processing and competency-based training. Croatia is well positioned to receive these new technologies and approaches, however, foreign technical assistance will be needed to introduce some programs. Laboratory design will be prepared by local architectural companies, but overseen by an international specialist. MAFWM and Institute databases will be designed with international support, but programmed locally. Croatia has the skills and resources to upgrade the MAFWM IT system and mostly local consultants will be employed for its maintenance. Croatian agencies are already registered to conduct HACCP training and plant certification and to accredit laboratory tests to ISO 17025 standards. The introduction of a science-based food safety risk management system will require international training and technical support. Competency based training is a relatively new skill in Croatia and local and international consultants will team up for its delivery.

3. Fiduciary

(a) **Procurement.** An assessment of the capacity of the government implementation team within MAFWM to implement procurement actions for the project was carried out in July 2005. The assessment reviewed the organizational structure for implementing the project and the interaction between the implementing team staff responsible for the procurement and the MAFWM as a whole. Initially, the team's procurement officer would be overseen by an experienced procurement manager who has attended different procurement training courses and had an intensive experience in different Procurement and Selection procedures. The further training of the implementing team's procurement officer will be arranged as soon appropriate training course becomes available.

(b) **Financial Management Review.** The Project will rely extensively on the existing control framework within the MAFWM. An initial review of the Ministry's new accounting system indicates that it is capable of producing acceptable Project financial reports. It is anticipated that the Project will utilize Report Based Disbursement.

4. Social

The SAPARD Rural Development Plan provides for community participation in rural development planning and implementation acceptable to the EU and the Bank. Experience with SAPARD implementation elsewhere has demonstrated that public outreach is a key element of SAPARD success. The Croatian Food Agency will also require investment in public awareness and systems to identify and respond effectively to public concerns. A range of outreach means have been identified during project preparation, however, these need to be confirmed and an additional project start-up survey conducted on

agricultural producers' perspectives on how they receive information, what sources of advice they seek and their degree of reliance of different institutions. Survey findings will be used as a benchmark to measure progress in public outreach, monitor stakeholder opinions and identify areas in which the information campaign will focus. The project will also support MAFWM to develop and implement public information campaigns to ensure buy-in by stakeholders and the general public for the accession related agriculture policy adjustments.

5. Environment

The project has been classified as a category B project based on some construction works to be financed in the establishment of the laboratories and offices. Land Acquisition in this context is not anticipated, as the government has ownership of many possible land parcels, including state owned agricultural land in the vicinity of Zagreb. Other aspects of the project are limited to the purchase of office equipment and minor internal renovations. An environmental management plan has been prepared which details key environment issues to take into account during the design, construction, and operation stages. SAPARD grant recipients are required to conform to EU environmental standards for all supported investments. The project would not directly finance purchases of fertilizer or chemicals. The SAPARD Managing Authority and Monitoring Committee to be established under the loan will have staff monitoring functions to ensure that these EU requirements are applied.

6. Safeguard policies

Safeguard Policies Triggered by the Project	Yes	No
<u>Environmental Assessment (OP/BP/GP 4.01)</u>	[X]	[]
Natural Habitats (OP/BP 4.04)	[]	[X]
Pest Management (OP 4.09)	[]	[X]
Cultural Property (OPN 11.03, being revised as OP 4.11)	[]	[X]
Involuntary Resettlement (OP/BP 4.12)	[]	[X]
Indigenous Peoples (OD 4.20, being revised as OP 4.10)	[]	[X]
Forests (OP/BP 4.36)	[]	[X]
Safety of Dams (OP/BP 4.37)	[]	[X]
Projects in Disputed Areas (OP/BP/GP 7.60)*	[]	[X]
Projects on International Waterways (OP/BP/GP 7.50)	[]	[X]

7. Policy Exceptions and Readiness

There are no policy exceptions under the project.

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

Annex 1: Country and Sector Background
CROATIA: AGRICULTURE ACQUIS COHESION PROJECT

Macro-Economic Situation

Agriculture Sector

Croatia has a diverse agricultural resource base, with the capacity to produce most continental crop and livestock products, plus many Mediterranean crops. Soil fertility and climate are suitable for agriculture, and in areas such as eastern Slavonia the yield potential is equivalent to the major agricultural areas of the EU. With 0.73 ha of agricultural land and 0.34 ha of arable land per capita, Croatia also has proportionately more farmland than the EU (0.36 agricultural land ha/capita) and most of the other countries in eastern and central Europe.

Small, private farms dominate production, owning approximately two-thirds of all agricultural land (2.09 million ha), and 85% of all livestock (measured as livestock equivalents). Production is very low by western European standards however, due to small farm size (average 3 ha), a high level of fragmentation and limited use of modern technology. Marketed surplus is also low, with most production consumed on the farm. As a result of these factors, only 15% of farm households relied solely on farming for their livelihoods in 2003 (2003 Census). Total employment in agriculture in the 2003 was 99,047. Total State employment in agriculture excluding food processing over the period 1997-2002 fell only slightly from 23,000 to 19,000². Large, socially owned agro-kombinats (AK's) and agricultural cooperatives partially use the remaining 1.07 million ha. Although the AK's use more modern, capital-intensive management systems and obtain higher levels of production, their output and productivity are still well below production levels in Western Europe. Traditionally, the AK's have also dominated agricultural markets through their vertically and horizontally integrated processing and marketing subsidiaries; and together with the co-operatives, they were the major source of farm inputs. They are also a powerful influence on agricultural policy, seeking to preserve the high levels of protection and support they received during the socialist era. Thus, while the AK's account for less than 20% of total output, they have historically dominated agricultural sector policy and agricultural markets.

The transition to a modern, market-oriented agricultural economy requires reform of both components of this dual structure of agriculture. The competitiveness of small, private farms must be increased through policies and programs to facilitate: farm consolidation and enlargement, the adoption of more modern management systems and an increase in production and marketed surplus. A parallel re-structuring of the AK's is also needed, based on privatization, disaggregation and more efficient management. Commodity and factor markets also need reform. Competitive commodity markets must replace the regional processing and marketing monopsonies created by the AK's, and the markets for land and capital need to be strengthened. These are the challenges that the Croatian agriculture sector has faced since it began economic reform following independence in 1990.

Agricultural Production:

The importance of agriculture in GDP increased substantially in the initial post-independence period, from 10.3 percent in 1990 to 14.9 percent in 1992, mainly due to the higher resilience as compared to the other sectors of the economy which could not sustain the impact of the war and the loss of external markets. Since then, however, the share of agriculture has declined significantly and, since 1995, it has been hovering at around 7.5 percent. Agriculture thus continues to constitute an important component of

² Includes agricultural firms with state and private shareholdings as well as 100 per cent state owned firms (which were in the majority), according to DZS.

the Croatian economy and contributed 6.5% of GDP in 2003, which is close to the CEECs average. The total contribution to GDP including agricultural processing amounted to 9.9% in 2003.

The total cultivated arable area fell by 30% as a result of war, but has recovered steadily since then and is currently 82% of its 1990 level. This increase in cultivated area has been driven mainly by small private farmers, which, by 2001, were cultivating 90% of the area cultivated in 1990. In contrast, the area cultivated by the agro-kombinats (AK) experienced a sustained decline, falling to less than half of its pre-war level by 1997. The decline was partly the result of the loss of eastern Slavonia during the war, which is Croatia's richest farming area and a traditional center of agro-kombinat activity. The AK crop area increased following the return of eastern Slavonia in 1998, and has now stabilized at 55%-60% of 1990 levels. Of the 100,000 – 150,000 hectares no longer cropped by the AKs, some has been leased to private farmers, but much of this high quality arable land remains idle.

Production of all major crops, notably wheat, maize and sugarbeet, decreased dramatically as a result of the war in 1991, but have since then recovered close to their initial levels. In the second half of the 1990s, oilseeds and sugarbeet have been increasing most rapidly, mainly due to the favorable support policies. Unlike the major arable crops, vegetable production did not decrease as a result of the war and production continued at about the same quantity as before 1990. Production of continental fruit, mainly apples and plums, has been decreasing throughout the period and is now about 30% lower than it was in 1990. On the other hand, production of Mediterranean fruit, such as tangerines and olives, has been increasing, while the production of wine grapes has remained roughly constant.

Yield trends vary by crop and sector. Maize is the only crop for which yields have increased beyond the levels achieved in 1990, and this applies to both private farmers and AKs. For other crops, yields have recovered somewhat since 1992, but remain around or below the yields obtained at independence. AK yields remain higher than private farm yields, although the margin has narrowed somewhat. In most cases, Croatian yields are below those observed in the EU-15. For most crops, however, yields are close to the average of the Central European countries and they are even above those of some frontline EU accession candidate countries.

The livestock sector has experienced significant change in the level and composition of production over the last decade. Still today livestock herds are significantly smaller than in 1990, notably for the cattle herd that is still about half its pre-war size. Sheep, pig and poultry numbers have all begun to increase since 1998, due perhaps to increased demand in response to higher disposable incomes.

The reduction in livestock herds has been particularly dramatic for the AKs. These enterprises have reduced cattle numbers by over 70%, and sheep, pig and poultry numbers by 40%-50%. Lacking cash and access to credit, the AKs were unable to purchase the feed and replacement livestock needed to sustain their more capital intensive production systems and so had little choice but to terminate or scale down their operations. In the private sector, which now dominates all aspects of livestock production, the reduction in livestock numbers has been less dramatic. Their production systems are less intensive and most animal feed is produced on the farm.

Reflecting animal herds, meat production has decreased dramatically, particularly with AKs. Beef production in 2000 was still less than half its level in 1990. In spite of this, beef production remains the most important livestock sub-sector in Croatia, accounting for approximately 40 percent of the total livestock production. Most of the production now originates from family farms. All other livestock production is also still substantially lower than in 1990, except for pork production. Pig production follows cattle production in importance in Croatia, with 80 percent situated on family farms.

As with crop production, per animal production is generally well below EU standards. In addition, livestock yields are significantly below those achieved by the EU accession candidates. This is particularly the case for milk, where average yields are less than half the level in the EU and 30% to 50% lower than in frontline EU accession countries. Livestock yields have not recovered significantly since after the war and are still at level observed in the first half of the 1990s.

Agro-Processing:

In general, the broad trends observed in the agro-processing sector since 1990 are the same as for primary production: public sector contraction, a gradual expansion of private sector activity, and uneven development between commodities. The public sector contraction has had a much greater impact however, as socially owned enterprises traditionally dominated agricultural markets.

At independence, socially owned enterprises owned most of the large processors of milk, meat, oilseeds, sugarbeet and fruit and vegetables. Many of these enterprises were part of AK's, which, in turn, were major buyers of cereals and livestock. The largest of these agro-processors were established to meet the needs of all of the former Yugoslavia and drew their raw material from regional as well as domestic producers. Most were inherently unprofitable as they were managed according to socialist principles, to create employment and ensure food self-sufficiency. They survived nevertheless, supported by government subsidies and high import protection. Private ownership predominated among smaller enterprises such as local flourmills, bakeries, slaughterhouses and meat processors. Following independence and war, the socially owned agro-processors lost their traditional markets in former Yugoslavia. Their resultant over-capacity was exacerbated by the fall in domestic agricultural production and domestic demand. Output fell heavily, to almost 60% of 1990 production levels by 1993, and has remained close to this level since.

Not all elements of the agro-processing sector have followed this path. In areas such as dairy and oilseed processing, where private sector investment was rapid and strong, and where management responded positively to the new economic conditions, the processing sector has emerged stronger than its pre-independence era. These sub-sectors are also in a much stronger position to compete with imports as trade protection declines. A new problem, however, has emerged for these sub-sectors, however, a very high concentration of (private) ownership and a high consequent potential for monopsonistic behavior.

Agriculture Competitiveness

The fundamental constraints to increased competitiveness in Croatian agriculture have changed little since independence in 1990. Farm production and yields remain low and neither component of the dual structure of agriculture has made the structural changes needed to be competitive. The factor markets for land and capital remain weak, and the markets for both farm output and farm inputs are distorted. Many of the policy responses to these problems have been weak and misguided, reducing rather than enhancing competitiveness. Policy remains part of the problem rather than part of the solution.

There is a pressing need to address these problems and increase competitiveness, particularly considering the pending EU accession. Croatian agriculture will face a marked increase in competition during the coming years, as a result of trade policy reform. Significant reductions in import protection will be implemented through 2006 under the WTO agreement, and trade agreements with the EU and numerous other trading partners will take effect during the same period. Continued failure to address the fundamental constraints to competitiveness will thus weaken the sector, exposing it to the risk of further contraction. Key risks include:

- **Inflexible Farm Structure.** The small size and fragmented nature of Croatia's private farms limits their capacity to modernize, achieve more appropriate factor proportions and so increase their competitiveness. Private farmers, furthermore find it difficult to increase farm size and to modernize their production systems because of long-term weaknesses in land and capital markets;
- **Low Farm Productivity.** Crop yields and animal output are low by western standards, particularly among the small, private farmers who dominate the production of most commodities. This low performance is not due to any inherent limitations in the natural conditions for agriculture. In the first instance it occurs because most private farmers continue to use outdated or inappropriate management techniques, many of which could be improved at minimal cost;
- **Weak Land Markets.** The rural land market is characterized by an active informal market for short-term leases, particularly among private farmers, and a low level of land sales. An inefficient land administration is the immediate constraint to land sales.
- **Limited Use of Credit for Investment.** A strong private sector capacity for lending to small, private farmers has yet to evolve in Croatia, and public lending to these farmers is very limited. Commercial banks perceive small farmers as high-risk clients, despite default rates that suggest the contrary and small farmers are wary of the banking system in general. On-farm investment is reduced as a consequence;
- **Distorted Production Incentives and Weak Commodity Markets.** Few of the markets for farm output and farm inputs operate freely. Crop production and sales are driven by incentive payments, which divorce domestic prices from international trends in both absolute and relative prices.
- **Inappropriate Policies.** The policy response to this set of constraints has been ill conceived. A misguided reform of price and incentives policy in the mid 1990's has increased the distortions in commodity markets. It has also encouraged farmers to expand the output of products in which they have little or no comparative advantage, and to continue farming in areas that are clearly marginal for agriculture. Agro-kombinats, the least competitive component of agriculture, have benefited more from these policies than small, private farmers.

As a part of the first Programmatic Adjustment loan in Croatia, the Ministry has developed an agriculture competitiveness strategy which is in final revisions before formal adoption by the government. Subsequent PAL loans will support the monitoring and implementation progress of this strategy which broadly addresses: Privatization of State-owned companies; Development of agricultural land markets; Reducing policy-induced production distortions; Increased investment and credit market development; Better targeted research and consultation services; and Improved agricultural marketing.

Agricultural Services.

Since independence, Croatia has privatized its clinical veterinary services, established a public extension service, introduced competitive funding for applied research and strengthened its seed testing and registration, veterinary epidemiology and market information services. Food safety and sanitary and phytosanitary protection have been the beneficiaries of recent EU CARDS support and are now poised for development. Other services including animal breeding, soil testing, basic agricultural research and agricultural education remain essentially unreformed and publicly owned. The legislative base for agricultural services also requires further, extensive revision to strengthen competitiveness and ensure alignment with EU legislation and markets. Croatia's weak civil society and a lack of public sector commitment to participatory processes have limited devolvement of planning or implementation responsibility to community or industry-based groups, creating a further impediment to competitiveness.

Although clinical veterinary services are privatized, the former socially owned entities that deliver the bulk of veterinary services still enjoy monopsonistic positions in their regions and remain heavily dependent on contracts for the provision of testing and inspection services to government. While there has been some competition in allocating publicly funded inspection and sampling contracts, this should be broadened and anti-competitive practices, including collective price setting, deterred. The veterinary system must also facilitate greater private farmer involvement in animal treatment, through capacity building programs and law reform. On-going restructuring of the Croatian food safety system will lead to a significant reduction in public contracts for inspection services. This, combined with planned reform of Croatia's veterinary legal framework to increase competitiveness in the delivery of public and private animal health services, including greater farmer participation in animal treatment, numbering and artificial insemination, is likely to lead to a substantial restructuring of private veterinary services in the near future.

Agricultural testing and analysis services in Croatia are presently provided by publicly owned laboratories, most of which achieve high levels of cost recovery through testing fees and government contracts. EU alignment and the adoption of the *Acquis communautaire* is likely to lead to the consolidation, broadening and full public funding of inspection and testing services. A new Croatian Food (Safety) Agency has been established but is not yet fully operational, while the need for a Plant Protection Competent Authority is indicated. In addition to existing inspection and testing services, these authorities will be required to adopt risk assessment programs and to expand their residue testing, harmful organism monitoring, legal enforcement and public information roles. Smaller regional animal and public health laboratories could be released to the private sector under this restructuring, which would also see greater scientific, public and industry oversight of food and plant inspection and protection agencies and programs. Associated legal reforms, now underway through CARDS financing, should ensure the rationalization of agricultural product testing and registration procedures and improved market access to products already registered under EU law.

Agricultural extension is publicly funded, as are the core elements of the agricultural research system, though most research centers accrue substantial revenue through the provision of private goods and services. Neither system embraces significant stakeholder participation and their present aggregate impact on agricultural competitiveness is limited. Plans to shift agricultural extension management to regional Agricultural Chambers have been shelved for the moment, but would improve stakeholder participation and program relevance. This, however, must be preceded by a broad consultation process and is only likely to succeed if there is a quantum growth in "social capital"³ in Croatian political and economic life.

Public funding for agricultural research presently runs at 0.7 percent of agricultural GDP, of which half is spent on salaries. There is almost no private funding of research, with all agricultural research institutions bridging their funding gap through the production and sale of private goods including improved genetic material and testing and advisory services. While there is some competition in the allocation of research funds, the relevance of the resulting research is diluted by the absence of a national agricultural research strategy, the limited stakeholder participation in research prioritization and the lack of any effective research impact evaluation. In the short term, substantial gains in agricultural competitiveness can be made through low-cost technology testing and transfer programs exploiting recent international technology advances. This can be facilitated by lowering barriers to technology transfer, particularly product testing and registration regimes, eliminating input supply monopolies, encouraging foreign investment in the agricultural sector, building linkages with regional research systems and focusing public research funding toward profit-maximizing applied research programs.

³ Social Capital is defined as a cluster of cultural characteristics which create and maintain mutual trust and cooperation within a community or social group. Its three dimensions include trust, associatedness, and civiness.

The development and supply of agricultural genetics cuts across the regulatory-extension-research continuum. At present, the supply of animal and plant genetics are variously constrained by government ownership, excessive regulation, monopsonistic pressures and inadequate technology testing and transfer funding and programs. Plans to link animal genetic services to the proposed agricultural chambers would raise stakeholder control of that industry, however, additional legislative reform is required to encourage private sector competition and stronger farmers associations are required if farmers are to own and manage genetic registries and testing services. In the plant sector, the government should eliminate testing for most plant varieties on the EU Common Catalogue, promote an effective “truth-in-labeling program, further strengthen its seed certification, phytosanitary control and intellectual property protection systems and implement an adequately funded inspection regime with strong industry participation. Similar reform is required to raise competitiveness in agro-chemical supply. Government should remove tariffs on imported fertilizers and agrochemicals, register, but stop testing of EU approved products, ensure environment protection (heavy metal content, dangerous agrochemicals, etc), remove imbalances in market power, enhance market information and develop and implement appropriate truth in labeling legislation. Such government action should be supported by a dedicated government agency, preferably within MAFWM and involve strong stakeholder participation, preferably through an industry association.

The reforms required for increased competitiveness in agricultural services and input supply markets are extensive, but not particularly difficult or expensive. Vested interests, within and beside government are likely to resist this reform agenda and their effectiveness is enhanced by Croatia’s weak civil society, particularly in rural areas. Given the low level of competitiveness in Croatian agriculture, the benefits of service and market liberalization, with parallel growth in stakeholder participation and an effective regulatory regime would be substantial, however, their realization requires firm leadership and stronger political commitment to a competitive marketplace.

Regional SAPARD Implementation Experience

Regionally, SAPARD programs have experienced relatively slow up-take of the program measured in terms of disbursement or have missed their primary rural development target. Reasons for this include:

- adopting too many measures and sub-measures in the rural development plan;
- difficulties encountered by many of potential applicants in understanding the rather complex methodological guidelines, in receiving all necessary permissions and confirmations and in preparing the large amounts of data in a required form;
- inadequate public awareness of funding opportunities;
- relatively low profitability of some measures leading to difficulties in securing the needed private co-financing;
- favoring public and larger-size private investments to increase disbursement, creating a deadweight effect caused by large companies not necessarily in need of SAPARD assistance taking a significant part of the program funds at the expense of smaller, private sector investors.

Other issues have arisen with the SAPARD implementation agencies include:

- Governments have consistently underestimated the staff numbers and skills required to manage the Program;
- Monitoring Committee members are frequently under skilled and are not accustomed to take decisions which would bring them into a potential conflict with the Ministry;
- Monitoring Committees have not been provided adequate resources to involve external experts, create working groups on specific subjects to enhance preparation of specific decisions, call for short studies on specific topics, or organize informal and formal meetings to better prepare decisions affecting performance of the program in question.

Other issues affecting the quality of approved SAPARD investments include:

- insufficient attention to project economic viability and the relative return on investment in the scoring system;
- a relatively low transparency on the market for private consultants, with many consultants not well prepared to carry out SAPARD analysis. Consultants should be trained, competency tested and registered by the Managing Authority;
- the inability of potential beneficiaries to pre-/co-finance consulting services;
- lack of coordination among public authorities in issuing required certificates and need for some certificates/plans to be in electronic format;
- require procedure which allow the withdrawal of the provided support if a company is not able to prove that missing expected results, or deterioration of its economic situation was an effect of external factors, independent of the company;
- need a program to facilitate negotiations with credit institutions to secure financing for potential SAPARD beneficiaries.

Previous World Bank-funded Projects and Other International Financial Institutions. One World Bank-supported project offers valuable lessons for the CAACP, namely: the Farmers Support Services Project (FSSP). In addition, and as stated above, the CAACP complements other donors that are providing technical assistance and financial resources to the agriculture and rural development sub-sectors.

Farmer Support Services Project

The development objective of the FFSP was “*to support the transition of the agricultural sector by providing technology related support services that are relevant the private farmers with the aim of improving the productivity and income of the private farming community and hence, the competitiveness of the sector*”. The project components included (i) agricultural extension; (ii) agricultural research; (iii) animal health support services; (iv) pasture and fodder development; (v) seed industry development; and (vi) policy analysis support.

The project has significantly improved the efficiency and effectiveness of public sector technology-related support services that are relevant to private farmers. The Agricultural Research Council (ARC) and the Croatian Agricultural Extension Institute (CAEI) have been established and their structures and funding are now embedded in the Agriculture Law. The project has introduced the principles and practices of veterinary epidemiology to the Veterinary Department, substantially strengthened the National Veterinary Institute (NVI) and established an internationally recognized State Institute for Seeds and Seedlings (SISS) and a center for pasture research and teaching. With project support, MAFWM has also established an Agricultural Policy Unit together with a market information service. All of these institutions now offer web-based services to an increasingly “connected” rural community. Lessons learned include:

- Multi dimensional projects such as the FSSP are difficult to monitor;
- Competitive grants for applied agricultural research are not a solution to sustainable scientific support to the agricultural sector;
- The development of private agricultural support services requires more than tacit commitment on the part of government. Government policy reform is often required to avoid public sector competition and minimize the risks of monopoly or collusive practices;
- Farmer organizations require a basic quotient of ‘civiness’ in society and must be built progressively from the grass roots.

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies
CROATIA: AGRICULTURE ACQUIS COHESION PROJECT

1. Experience from Other Projects

The Agriculture Acquis Cohesion project is highlighted in the Country Assistance Strategy as a key institutional building priority for EU accession in Croatia, and is considered a core investment for all cases of lending. The project is a natural extension of a previous World Bank Agriculture Support Services Project (ASSP). Several other projects in the Croatia program have strategic linkages with this investment including the **Programmatic Adjustment Loan (PAL)** as the largest inter-sectoral policy reform tool of the Croatia Program. Both the loan and the PAL will support enhancement of agricultural competitiveness through support of mutually reinforcing policy reforms. The **World Bank Country Economic Memorandum (CEM)** section on Agriculture provided a key background review of agriculture policy reforms needed in the context of a wider macroeconomic framework. A **Technical Assistance Loan (TAL)** has financed key PAL studies including the agricultural competitiveness strategy and an ex-ante review of the SAPARD Program which the loan will help implement. The loan is also consistent with the PAL's pillar on public administration reform and will help to implement piloting of improved accounting and management systems in the line Ministry.

A **World Bank Coastal Forest Reconstruction and Protection Project** established programs for coastal fire protection which are now proposed for extension under one of Croatia's early SAPARD public sector measures. The **World Bank Land Registration and Cadastre Project** is helping to harmonize the land registration and cadastre books and is implementing a more efficient and electronic system that will also benefit agriculture land market transactions. A specific study on agriculture land policy to be financed by the loan's project preparation advance will engage partners involved with both projects, to help identify most critical actions to accelerate agricultural land transactions which are critical to improving competitiveness in the sector. Many of Croatia's rural areas were also hard hit by the war, and today are designated as areas of special state concern. A recently approved **Social and Economic Recovery Program (SERP)** loan will help to provide urgently needed capacity strengthening and small demand driven grant resources to these communities. Support will include assistance to form agricultural cooperatives which aggregate marketing and meet quality.

2. Other Donor Programs.

SIDA: Regulatory and Quality Infrastructure Development for Food Safety and Quality in South East Europe. This is a regional project in 8 Balkan countries, with a value of approximately EUR 7.5 million (2005-2009). The Croatian share will be c. EUR 0.4million/year in 2005/2006. In 2003 SIDA, supported a country review and needs identification. Draft TORs and logframe matrix have been prepared by Ministry of Health and Social Welfare (MoHSW), but are not sufficiently detailed to warrant comment at this stage.

CARDS 2002 Project: Capacity Building in the Area of Agriculture, Live Animals and Food Products started recently and is providing support to the MAFWM . The main twinning partner is Istituto Zooprofilattico Sperimentale dell'Abruzzo e del Molise "G.Caporale" with the phytosanitary aspects delivered by the Pesticide Safety Directorate of DEFRA UK. The four active components of the project are in relation to strategic development of food safety controls, development of legislation, capacity strengthening for risk assessment and official controls, and laboratory accreditation. The total value is EUR 1.75 million. The total inputs are 22 months of long term technical assistance ("Stabilization Adviser"), and 724 working days of short-term inputs.

CARDS 2003: Support to Sanitary Inspection Department, MoHSW. This project with a Finnish twinning partner started on 1 March 2005, focusing on developing the non-food component of the work of the Sanitary Inspection Department of the MoHSW (in relation to safety of items of common use, epidemiology, occupational and environmental health etc). The project will undertake a gap analysis, prepare a development strategy and train inspectors. The development strategy will need to be integrated with decisions related to organization of food safety functions.

WHO: Development of a National Food Safety Strategy. The World Health Organization is supporting a Balkan regional program for food safety, which included national workshops and Sub-regional workshop for the development of national food safety strategies (held in Brijouni, Croatia, 5-7 July 2004). In relation to Croatia, a result of this was the inclusion in the current Biannual Collaborative Agreement of WHO support for the preparation of a National Food Strategy and Action Plan. This work is coordinated by the Institute of Public Health, MoHSW. A draft strategy has already been prepared.

PHARE Preparation Technical Assistance

This program is designed to support the MAFWM with the timely preparation of proposals for future PHARE funding, likely to commence in mid-2006. The CAACP preparation team has worked closely with the PHARE team and agreed on a broad division of responsibilities between the CAACP, which will be SAPARD focused, and the PHARE support, which will backstop future IPARD programs.

Annex 3: Results Framework and Monitoring
CROATIA: AGRICULTURE ACQUIS COHESION PROJECT

Results Framework

PDO	Outcome Indicators	Use of Outcome Information
<p>To develop sustainable systems and capacities within the MAFWM to ensure the timely achievement of medium-term EU acquis conditions in the rural sector.</p>	<ul style="list-style-type: none"> • Institutional readiness to implement EU's CAP and for the sector to take advantage of EU accession opportunities 	<p>PY1-5. Ensure quality of implementation and implementation impact.</p> <p>PY2. Evaluate progress toward the negotiation of Croatia's EU accession agricultural chapter. If unsatisfactory, convene a workshop to resolve outstanding issues</p> <p>End-PY4. Provide evaluation of project results in strategies and actions plans to Government for assessing need and design of future investment.</p>
Intermediate Results One per Component	Results Indicators for Each Component	Use of Results Monitoring
<p>Component One:</p> <p>Implementation of the EU <i>acquis</i> in Rural Development An innovative, transparent, participatory and environmentally sustainable rural development program, with effective public-private sector participation is operational and the available funds are committed in line with the annual plans.</p>	<p>Component One:</p> <ul style="list-style-type: none"> • Number of SAPARD facilitators trained and working profitably; • Number of poor Municipalities using the Pilot SAPARD Pre-finance facility; • An effective SAPARD communication strategy is operational. 	<p>Component One:</p> <p>PY1 Monitor the progress of SAPARD rural development investment grants. Evaluate staff skills and apply additional capacity building resources if uptake is behind schedule.</p> <p>PY1. Monitor the uptake of the Pilot SAPARD Pre-financing facility for SAPARD municipal measures and apply corrective measures if problems identified.</p> <p>PY2. Review the work of the SAPARD program agencies. Address operational and capacity gaps if identified.</p> <p>PY2. Use focus groups to evaluate the SAPARD communication strategy. Revise strategy to meet identified constraints, if any.</p>

PDO	Outcome Indicators	Use of Outcome Information
		<p>PY3-4. Evaluate impact of the SAPARD investment program and reallocate resources if required to achieve rural development objectives.</p>
<p>Component Two:</p> <p>Empowerment of MAFWM Management and Administration. Staff capacity and management and information systems within MAFWM commensurate with the demands of EU integration;</p> <p>an EU compliant agricultural policy framework and capacity to inform key decision makers and stakeholders of likely impacts.</p>	<p>Component Two :</p> <ul style="list-style-type: none"> • MAFWM and its outreach offices use a fast, reliable and secure communication system; • MAFWM departments systematically use electronic databases for program management, monitoring and reporting. 	<p>Component Two:</p> <p>PY1. Ensure that database requirements have been specified and programming contracted. If not, apply additional resources for rapid resolution of issues.</p> <p>PY2 Confirm that all project sub-components have operating MIS. Identify implementation issues and apply corrective measures.</p> <p>PY2. Confirm MAFWM’s IT system is fast, reliable and secure. Examine IT technical support capacity and apply additional resources if inadequate.</p> <p>PY2. Review competency based capacity building program paying particular attention to capacity needs and skill gap analysis. Apply corrective measures if required.</p> <p>PY3-4. Monitor MAFWM staff competencies to ensure EU <i>acquis</i> capacities are being met. Revise training schedules if significant competency gaps are identified.</p>
<p>Component Three:</p> <p>Ensuring Safe Food and Sanitary and Phytosanitary Conditions. An EU compliant sanitary and phytosanitary systems that protect Croatia’s human, animal and plant life and health;</p> <p>An EU and WTO compliant food safety management</p>	<p>Component Three:</p> <ul style="list-style-type: none"> • VI, PPI, CSSI and MoHSW laboratories are operational and using ISO17025 accredited tests; • Agricultural inspection of SAPARD grants and government pecuniary payments meets EU requirements; • Sanitary and animal health 	<p>Component Three:</p> <p>PY1.Ensure databases for animal health, laboratory testing and food safety information management are operational and effectively linked. If not, apply corrective measures.</p> <p>PY2-3. Ensure that laboratory civil works and subsequent testing procedures are EU compliant/ISO 17025 accredited. If not, take corrective action.</p>

PDO	Outcome Indicators	Use of Outcome Information
<p>system that allows availability of safe food to Croatia's residents.</p>	<p>inspections are implemented by separate services.</p>	<p>PY2. Review progress with food safety and SPS institutional development, identify constraints and discuss them with Government</p> <p>PY3. Ensure that a food safety system having a unified inspection service and WTO compliant risk management system is operational. If not review institutional arrangement and training needs for adjustment.</p>
<p>Component Four:</p> <p>Project Management A small implementation team within MAFWM facilitating adoption and institutionalization of project sub-components and providing progress and financial reports and annual plans and budgets in a timely manner.</p>	<p>Component Four:</p> <ul style="list-style-type: none"> • Project progress and financial reports are initiated and submitted in a timely manner; • Project audits and procurement and financial supervision missions report uniformly good results; • Administrative leadership of implementing team recognized by institutional counterparts. 	<p>Component Four:</p> <p>PY1. Implementing team is fulfilling procurement and financial management responsibilities. If not, apply corrective measures.</p> <p>PY2. Ensure timely preparation of mid-term review inputs.</p> <p>PY4. Ensure timely transfer of project employed consultants to various project supported institutions before project closure.</p>

Arrangements for results monitoring

Outcome Indicators	Baseline						Data Collection and Reporting	
	YR1	YR2	YR3	YR4	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection	
Croatia completes the negotiation of its EU accession agricultural chapter	0%	50%	100%	100%	Annual	EC inspection mission and progress reports	MAFWM & Implementation Team	
Results Indicators for Each Component								
Component One : SAPARD Managing Authority, Monitoring Committee and Payment Agency are established	0%	100%	100%	100%	Annual	SAPARD Management and Payment Agency reports & project progress reports.	SAPARD agencies & Implementation Team	
Number of SAPARD/IPA facilitators trained and working profitably;	0%	40	60	80	Annual	SAPARD Management and Payment Agency reports & project progress reports.	SAPARD agencies & Implementation Team	
Level of SAPARD disbursement	0%	30%	100%	100%	Semi-annual	SAPARD Management and Payment Agency reports	SAPARD agencies	
Disbursement of the pilot SAPARD pre-financing facility for SAPARD municipal measures	0	EUR 2.5M	EUR 4M	100%	Semi-annual	SAPARD Management and Payment Agency reports	SAPARD agencies and PFIs	
SAPARD communication strategy operational	0%	100%	100%	100%	Semi-annual	Focus group discussions & project progress reports	SAPARD agencies & Implementation Team	

Arrangements for results monitoring

Outcome Indicators	Frequency and Reports						Data Collection and Reporting	
	Baseline	YR1	YR2	YR3	YR4	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Component Two : MAFWM staff able to implement EU <i>acquis communautaire</i> . MAFWM uses a fast, reliable and secure communication system MAFWM departments systematically use electronic databases.	15%	25%	40%	60%	70%	Annual	Staff competency studies	Contracted consultants and Implementation Team
	30%	50%	70%	80%	100%	Semi-annual	Project progress reports and staff satisfaction surveys	MAFWM & Implementation Team
	20%	30%	60%	80%	100%	Semi-annual	Contract completions, project progress reports and surveys	MAFWM departments, institutes and Implementation Team
Component Three: Croatian Sanitary and phytosanitary management systems are EU/WTO compliant and regionally based	40%	50%	70%	90%	100%	Annual	EC inspection reports and reports to international organizations plus project progress reports	MAFWM departments, institutes and Implementation Team
	20%	30%	50%	70%	80%	Semi-annual	Institute reports, accreditation reports and project progress reports	MAFWM institutes and Implementation Team
VI, PPI, CSSI and MoHSW laboratories are operational and using ISO17025 accredited tests Agricultural inspection of SAPARD grants and government							Agricultural	MAFWM Ag.

Arrangements for results monitoring

Outcome Indicators	Data Collection and Reporting							
	Baseline	YR1	YR2	YR3	YR4	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
pecuniary payments meets EU requirements	0%	40%	60%	80%	100%	annual	Inspectorate and SAPARD Payment Agency reports	Inspectorate and SAPARD Payment Agency
The CFA is fully operational and managing an EU compliant risk assessment system	20%	50%	70%	90%	100%	Semi-annual	CFA and project progress reports	CFA and Implementation Team
public and animal health inspection are implemented by separate services	0%	0%	0%	100%	100%	annual	Veterinary Directorate Annual Report and project progress reports	Veterinary Directorate and Implementation Team

Annex 4: Detailed Project Description
CROATIA: AGRICULTURE ACQUIS COHESION PROJECT

The proposed project would assist the government of Croatia in its EU accession efforts, in the areas of agriculture and rural development. The overarching objective is to enable Croatia's agricultural sector to capture benefits accruing from accession to the EU. More specifically, the immediate objective of the project is to develop sustainable systems and capacities within the MAFWM to ensure timely compliance with EU *acquis* conditions in the rural sector. Towards this, the project will work with the government of Croatia to (i) support the establishment of a SAPARD agency, implementing three of the SAPARD rural development measures and a limited and carefully targeted number of sub-measures; (ii) address gaps in the MAFWM management, administration, information technology, and institutional structure that are necessary for an enlarged MAFWM and conditional to EU accession; and (iii) support the establishment of the CFA and create the necessary conditions for Croatian compliance with EU sanitary and phytosanitary requirements. A Project Preparation Facility (PPF) would provide additional resources to realize activities envisaged under the above project components. The project would also finance the establishment of a small implementation team within MAFWM for the management, monitoring and evaluation of project activities.

Component 1: Strengthen Capacity for Absorbing EU Financial Assistance in Agriculture (estimated total cost of US\$18.55 million (EUR 15.69 million) of which IBRD Loan US\$12.02 million (EUR 10.17 million), Netherlands co-financing grant US\$0.73 million (EUR 0.62 million), and Government US\$5.80 million (EUR 4.91 million)

The purpose of SAPARD is to contribute to the implementation of the "*acquis communautaire*" concerning the common agricultural policy and related policies and to contribute to solving priority and specific problems for the sustainable adaptation of the agricultural sector and rural areas in the applicant countries. The output of this investment would be the capacity, during pre-accession, to comprehensively implement the *acquis communautaire* concerning the EU Common Agricultural Policy (CAP). This would be achieved by (a) establishing a SAPARD Managing Authority and Monitoring Committee; (b) establishing a Payment Agency and IACS; and (c) establishing a pilot SAPARD pre-financing facility for SAPARD municipal measures.

(a) **SAPARD Managing Authority.** SAPARD interventions are based on a Rural Development Plan approved by the EC. In order to assess their effectiveness, measures included in the Plan was subject to ex-ante appraisal, which will be TAL financed. The project would finance the establishment of a SAPARD Managing Authority within the MAFWM DSDRA. The project would mobilize 4 qualified consultants to form the nucleus of the SAPARD Managing Authority and provide office and computing equipment and furnishing to both the project employed consultants and to incremental MAFWM staff appointed to the Managing Authority. All Managing Authority staff would be trained in SAPARD procedures and senior staff would participate in study tours to recent EU entrant countries to garner SAPARD implementation lessons. The project would train and equip 21 District-employed SAPARD coordinators, working under the direction of the Managing Authority, to support the coordination and promotion of the program at the local level. Selected District and Municipal staff would also be familiarized with SAPARD procedures.

The Government would also establish and empower a SAPARD Monitoring Committee, including representatives of the EC, the government, including regional and local authorities and its rural economic and social partners. A one person Secretariat supported by the project would provide a permanent resource for the Monitoring Committee, which would meet at least quarterly. The Monitoring Committee

would (i) review progress in attaining objectives; (ii) examine results of implementation programs; (iii) give approval for the adjustment of the program and (iv) consider and approve annual and final reports.

The project would build off existing government and donor initiatives, to train private and public sector SAPARD facilitators in financial evaluation and management, community organization, good agricultural practice, environment management and other SAPARD related grant preparation requirements. The MA would invite prospective facilitators to apply for SAPARD training and screen applicants to select approximately 40 potential facilitators. Those selected would participate in a two-week training program that would reinforce skills in the aforementioned fields. Facilitators would undergo post course tests and only successful trainees would be eligible to act as SAPARD facilitators. Facilitator competency would be tested at 6 and 12 months after the training course. A second, refresher course for facilitators would be conducted in PY2. The project would additionally train and equip Agricultural Inspectors, who will be responsible for SAPARD grant monitoring, and CAIE advisors who will be responsible for promoting the SAPARD program amongst their farmer clients.

This sub-component would also include the development and implementation of a communication strategy to (i) inform potential public and private sector SAPARD beneficiaries; and (ii) engage key agriculture stakeholders in the EU accession process. Potential stakeholders would be surveyed to determine their knowledge of SAPARD and future information needs, on which basis the communication package would be prepared. The identification of communication needs and preparation of the resulting communication strategy and information packages would be let as a single contract. The project would also provide approximately 11 person months of supporting technical assistance, covering SAPARD management, monitoring, facilitator training and community participation and would finance part of the incremental operating costs of the MA and the MC.

(b) SAPARD Payment Agency. A comprehensive MAFWM Payment Agency would be established, including an accredited SAPARD Payment Agency, with the necessary control, implementation, payment, accounting, internal audit, monitoring and information technology systems and capacities to rapidly and effectively implement the MAFWM Pecuniary Incentives System and SAPARD program. EC Directives require that the Payment Agency be established independent of MAFWM and that the PA facilities meet minimum requirements for physical and communications security. Initially, about 90 staff will be appointed to the Payment agency, including an incremental 54 staff, recently approved by the MoF. By PY2, up to 200 staff will be employed by the PA. The project has confirmed that no suitable or upgradeable office space is currently available in Zagreb for an office of this size and requirement and has consequently made provision for the construction of an independent PA office on land to be provided by the Government. The project would design the PA in PY2 and complete its construction in PY3. PA offices would also be constructed in the agreed NUTS II Regions outside of Zagreb in PY2. In the short term, the PPF will be used to rehabilitate suitable office space for the initial, attenuated PA pending the construction of a permanent facility. All PA offices would be supplied with computing and office equipment, furniture, communications systems including secure local area networks and up-links to headquarters, and vehicles. The project would also develop a comprehensive IACS, built off the Farm Registry prepared under the FSSP, including land parcel and animal identification information, taxation registration information and the integrated management of graphic data, including land parcel and cropped area information, using GIS. The project would provide approximately 4 months of supporting technical assistance, covering IACS design and PA management and would finance part of the incremental operating costs of the PAs. The project would also finance the cost of the SAPARD audit by internationally accredited auditors until such time as the PA auditors are appropriately qualified.

The project would assist the PA with the development of a comprehensive GIS-referenced farm registry, including land parcel and livestock information, which would inform the PA IACS. The farm registry would be designed and developed under the PPF, with its progressive expansion supported over the life of the project.

(c) Pilot SAPARD Pre-finance Facility. A pilot SAPARD pre-finance facility (the Facility) would be established by the GOC. The Facility will be financed by the Bank loan to the GOC. The GOC will use the Bank loan proceeds as a cash reserve for guarantees issued under the Facility to cover the risk of failure of municipalities in fulfilling SAPARD disbursement conditions. Overall management and monitoring of the Facility will be done by a Facility Steering Committee (FSC), to be formed by the representatives of relevant ministries (e.g. MAFWM, MOF, etc.). Operational guidelines of the Facility will be set by the FSC. Actual day-to-day administration of the Facility such as issuing individual guarantees, keeping account for individual guarantee accounts, collection of any fees, payment upon guarantee call, management of guarantee fund, etc. will be contracted out with a Facility Agent (the Facility Agent). Facility Agent role is assigned to the Croatian SME Development Agency (HAMAG). HAMAG already has a successful track record and operational expertise in issuing small-size guarantees, and is considered well qualified for the role of Facility Agent. The Facility will be designed to issue multiple numbers of guarantees during the availability period within the overall size of the Facility.

The Facility will issue a guarantee which will guarantee the principal repayment of a short-term loan borrowed by the municipal beneficiary from local commercial banks. Considering the difficulty of measuring the performance risk of each municipality under the SAPARD disbursement conditions and considering the structure of the SAPARD pre-financing facility, a uniform and cooperative pricing principle for all beneficiaries will be adopted. Ex-ante eligibility of individual applications for SAPARD grants will be systematically and rigorously scrutinized by the Croatian SAPARD agency. Financing to support applications approved by the SAPARD agency will become eligible for the guarantees that will cover the ex-post conditions for SAPARD grant disbursement. The guarantee will cover the deficiency of SAPARD grant disbursement caused by the failure of beneficial municipality to fully meet the disbursement conditions.

The Facility will charge a guarantee fee to the municipal beneficiaries. Based on the cooperative pricing principle, the guarantee fee will be set by the FSC at a level at least lower than the economic benefit that would be achieved by the guarantee. The fee collected will supplement the guarantee fund.

Operational Guidelines, prepared by the FSC will define the mandates and responsibilities of FSC in implementing the SAPARD pre-finance facility and the overall procedural framework of the facility. A contract between GOC represented by the FSC and HAMAG will define the responsibilities of HAMAG in administering the Facility including the account management and book keeping of the individual clients, cash management of reserve fund, fee collection, guarantee disbursement upon call, recovery, etc.

HAMAG will issue guarantees to individual beneficiary commercial banks. The Guarantee Agreement will stipulate the detailed terms of each guarantee such as coverage, trigger, fee, payment, etc. The Guarantee Agreement will have a standard format with minor modifications to accommodate the individual borrower's needs. This will be prepared by HAMAG. In the event of a guarantee payout, the GOC will have recourse to the defaulting municipality to get the same amount repaid. A Reimbursement Agreement will specify the terms of reimbursement by the municipality to the GOC and other fiscal remedies and sanctions possibly available by GOC to enforce the recovery of the paid amount.

The project will provide technical assistance to support the development of the Facility. It will also provide two months of technical assistance to review governments various agricultural and rural investment grant, credit guarantee and interest rate subsidy programs and provide recommendations for their revision with a view to reducing risk and better supporting agricultural and rural investment, particularly as it relates to the SAPARD program.

Component 2. Empowerment of MAFWM Administration and Management (Estimated Cost of US\$7.58 million (EUR 6.41 million), of which IBRD Loan US\$3.32 million (EUR 2.81 million), Netherlands co-financing grant US\$2.52 million (EUR 2.13 million), and Government US\$1.74 million (EUR 1.47 million))

This component would address gaps in the MAFWM management, administration, information technology, and institutional structure that are necessary for an enlarged MAFWM and 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. The key sub-components to be implemented under this component would include:

(a) MAFWM Management Capacity Building. The project would, in light of EU accession requirements, determine the capacity profiles for key MAFWM management positions and conduct skills gap analysis to determine capacity building requirements. This would lead to the development of structured training programs for MAFWM management in, inter alia, civil service administration, change management, staff management, information technology and the EU agricultural acquis. A consultant firm would be employed to prepare the job capacity profiles, conduct the skill gap analysis and design a competency based training program. Based on the outcomes of this work, the consultant would identify specialized trainers who would prepare courses to address identified skill gaps. The consultant would implement pre and post-course tests provided by the trainers and would subsequently measure retained knowledge and acquired competencies, as specified by the trainers TORs, at 6-12 months post training. Subsequent training courses would be revised on the basis of the competency testing.

The project would establish a management information system (MIS) for MAFWM, built on government-introduced SAP software. Under a project contract, consultants will assess MAFWM management's information requirements and design a corresponding MIS, which will be programmed locally. The MIS would address the DHRGA's financial and administrative management information requirements. The project would also contract the design (PY1) and upgrade in PY2 and PY3 of MAFWM's information technology (IT) to ensure fast, secure data transfer and storage, both in-house and with regional centers, and establish a video conferencing capability between major MAFWM centers and agencies.

(b) Agricultural Information Center. The project would assist the MAFWM with the pilot development of an EU compliant⁴ farm accounting data network (FADN) and supporting National FADN Committee. The EU FADN has been established since 1965, with the aim of gathering accountancy data from farms for the determination of incomes and business analysis of agricultural holdings. The information collected, for each sample farm, concerns physical and structural data, such as location, crop areas, livestock numbers, labor force, etc, and economic and financial data, such as the value of production of the different crops, stocks, sales and purchases, production costs, assets, liabilities production quotas and subsidies, including those connected with the application of CAP measures. A Liaison Agency in each Member State has responsibility for data collection, while a National FADN Committee guides each Liaison Agency. The Liaison Agency for Croatia would be established in a location to be determined. Project inputs for the FADN would include national consultants, technical assistance, and the establishment of the FADN Committee. The project would finance computer hardware requirements of the Farm Registry, and the AIC for agricultural information management and the pilot FADN.

The project would also assist the AIC with computing equipment and with the development of system-based access to, and compilation of, data from the Croatian Statistical Office, the Customs Department and other relevant sources.

⁴ EC Council Regulation 79/65/EEC of 15 June 1965

(c) MAFWM Policy Analysis Capacity. Adoption of the acquis and the development institutional and control mechanisms required by the EU are the major challenges for the agriculture and food sector during Croatia's pre-accession period. These legal and institutional tasks are closely linked with broader policy issues. Better understanding of relevant policy options and the enhancement of policy analysis capacity at the Ministry of Agriculture, Forestry, and Water will play an important role in the successful completion of the tasks supported by the project. The objectives of the Policy Analysis Support Sub-component are to:

- support the transfer of EU accession experiences in the sector from the new member countries;
- help build the policy making capacity in Ministry staff who will lead implementation of EU conforming reforms forward;
- use policy studies on critical adjustment issues related to the implementation of the Common Agricultural Policy (CAP) and adoption of the acquis to help inform key decision makers and stakeholders of likely impacts.

The policy studies intend to support three specific objectives include:

- providing analytical foundation for the harmonization of Croatian agricultural support system with EU CAP;
- the identification of key sub-sectoral constraints and tasks required for the successful implementation of relevant acquis and CAP components;
- assistance to develop analytical capacity for estimation of key policy indicators including the Aggregate Measure of Support (AMS) and Producer Support Estimate (PSE).

Project inputs to the Policy Unit would include computing equipment, mobilizing national consultants, post-graduate training, technical assistance and funding for the policy studies and surveys.

(d) MAFWM Staff Capacity Building. A staff capacity building program would be established based on capacity needs and skill gap analysis within MAFWM, with resulting training programs ranging from specialized courses, to post-graduate scholarships at national and international universities with an associated bonding program of up to 4 years. The post-graduate training would target, but not be limited to, skill gaps amongst younger MAFWM staff specific to MAFWM's EU accession, together with talented new graduates recruited into MAFWM. Post-graduate students would be bonded to MAFWM for a period 2 times the duration of their scholarship. The specialized courses would particularly focus on the capacity needs of the DHRGA, where capacity building in financial management and general administration is urgently needed. DHRGA staff would also be encouraged to study for national qualifications in their areas of responsibility. All short course training would be competency based, with pre and post course testing and on-going evaluation of the retention and adoption of skills taught.

Component 3. Ensuring Safe Food and Sanitary and Phytosanitary Conditions. (Estimated Cost of US\$19.55 million (EUR 16.54 million), of which IBRD Loan US\$12.87 million (EUR 10.89 million), Netherlands co-financing grant US\$1.50 million (EUR 1.27 million), and Government US\$5.18 million (EUR 4.38 million)).

This component would enable the introduction, by 2008, of a comprehensive, effective and efficient food safety system to include the main functions of risk analysis and official control, in compliance with EU requirements. The outputs would be safe, internationally marketable agriculture and livestock products, overseen by a cost effective, stakeholder responsive inspection system. The key sub-components to be developed under this component would include:

(a) Croatia Food Agency Development. The 2003 Food Law defines the allocation of food safety responsibilities to different institutions, which involves food inspection and risk management being undertaken both by the MAFWM and MoHSW and risk assessment by the Croatian Food Agency. The project would support for the establishment of the CFA, with particular reference to the medium term-

development of supporting legislation and the development of a consolidated, transparent, efficient, risk-based food inspection service. This would include the separation of human/animal health and food safety responsibilities amongst inspectors. Specifically, the project would support the CFA with:

- the preparation of regulations not addressed by the 2003 CARDS project, which runs for only 2 years and has limited resources. This could include subsequent revisions to the Food Law 2003 and the corresponding amendment of veterinary and sanitary laws to ensure internal consistency;
- support for the CFA including the preparation of the internal organization and statute and support for the fulfillment of the statutory obligations, including managing registration of all food premises. The project would also provide policy support in terms of priorities, objectives and for the preparation of internal budgetary allocations. The design and launch of risk assessment activities by contracted institutions would be financed as would support for the development and evaluation of annual inspection plans and reports (with inspection agencies). The project would also support the preparation of national Rapid Alert System for Feed and Foods (RASFF) and the preparation and testing of national emergency plans;
- the development of the CFA's web-based reporting and data management systems;
- the development of a food safety communications strategy and its implementation;
- support for the food industry to respond to the more stringent sanitary demands through technical assistance and training for the design and introduction of Hazard Analysis and Critical Control Point (HACCP) systems and audit and recommendations on hygienic improvements to plant, equipment, process flows, including the appraisal of hygiene and quality related investments; and
- training for public health and veterinary inspectors in the regulation of industries using HACCP.

(b) Strengthened Veterinary and Plant Health Services. The project would develop competent, regionally structured and interactive veterinary and phytosanitary inspection services supported by investment in staff capacity building, transportation, testing equipment, a web-based inspection reporting, certification and data management system and civil works and office equipment at up to 5 regional centers. Veterinary, plant protection and public health services would be strengthened through:

- the development of the Veterinary Directorate (VD) as a Competent Authority through policy support for central management in terms of restructuring, planning, budgetary control, and the monitoring of regional inspection services. The project would also provide comprehensive training of veterinary public health inspectors in new regulations, food hazards and risks, modern food inspection methods and HACCP inspection, guidelines and procedures, and risk assessment and IT systems management. The project would provide equipment and software for inspectors, including sampling, rapid field testing and IT hardware and systems;
- the construction and equipping of a network of at least 5 regional inspection centers for the physical consolidation of agricultural, plant health and veterinary inspection services. MoHSW sanitary inspection staff may also use this facility;
- the establishment (epidemiologist and IT specialist) of a new Veterinary Epidemiology Department within the VD including the completion and integration of MAFWM epidemiology, residue testing, animal numbering, and border inspection software and staff training in its use;
- the acceleration of the process of EU acquis legal approximation and the strengthening of residue monitoring and trace back systems in the Veterinary Public Health Department through hiring national consultants (lawyer, veterinarian and data processor), vehicles and computer hardware and software;

- the strengthening of the Plant Protection Department through the provision of 4 national consultants, staff training, vehicles and computing software and hardware and the development of a plant health information database;
- the establishment of national veterinary and plant health reference laboratories implementing ISO 17025 testing methodologies including investment in civil works, staff capacity, information management and some equipment;
- the strengthening of the MoHSW food testing laboratory through limited civil works, test accreditation, training in good laboratory practice and the introduction of improved analytical methods;
- assistance for the evaluation and appointment of reference laboratories, and for establishing the appropriate financial and managerial basis for their functions;
- the development of an ISTA certified laboratory for genetically modified organism (GMO) testing at the Croatian Institute for Seeds and Seedlings (CISS);
- a business planning exercise leading to the rationalization of public sector veterinary and public health laboratories.

Component 4: Project Management (Estimated Cost US\$0.90 million (EUR 0.76 million), of which the Government US\$0.90 million (EUR 0.76 million).

A small Project Implementation Team (PIT) within the MAFWM Department for Policy, EU and International Relations (DPEUIR) would manage the project. The PIT would include a Project Manager, Financial Controller, Procurement Officer and an administration/secretarial support person. Project impact monitoring would be contracted out. The Implementation Team would be responsible for all aspects of project administration, including overall project oversight, TA, goods and materials procurement, and financial control. To ensure sustainable outcomes, day-to-day management of project activities would be the responsibility of the relevant MAFWM Department or Institute Head. When available, the Implementation Team would use the MAFWM SAP software for project accounts, but may procure commercially available software in the interim. A Project Steering Committee (PSC) chaired by the Assistant Minister DAPEUIC and including the Assistant Ministers of the six other MAFWM Departments engaged in the project would provide project oversight and ensure national program integration. A Project Working Group made up of senior technical staff from the participating MAFWM departments would provide technical guidance to the PIT. The project would finance technical assistance, training and study tours, civil works, office, IT and laboratory equipment, vehicles, consultant fees, auditing and other operating expenses related to the project. The structure of the PIT and its staff requirements are described in Annex 6.

US\$1.85 million will be used to refinance the Project Preparation Facility (PPF). Government commitment to the PPF is KN900,000 (US\$150,000). The PPF provides additional resources for the preparation of the above components. PPF investments are intended to meet the initial needs of the SAPARD MA and PA, specify the design of the IACS, raise awareness of the SAPARD program amongst key stakeholders, train SAPARD facilitators, design a SAPARD communications strategy and conduct selected policy studies. The PPF also supports the establishment of the CFA through technical assistance, staff training and database design, preparation of detailed specifications for the veterinary and plant health laboratories and strengthening of staffing in the MAFWM veterinary and plant health departments. The project implementation team has been established and partially equipped through the PPF.

Annex 5: Project Costs
CROATIA: AGRICULTURE ACQUIS COHESION PROJECT

Project Cost By Component and/or Activity	Local US\$ million	Foreign US\$ million	Total US\$ million
Implementation of EU <i>Acquis</i> in Rural Areas	12.03	5.37	17.40
Empowerment of MAFWM Administration and Management	4.34	2.26	6.60
Ensuring Safe Food and Sanitary Conditions	10.12	7.37	17.49
Project Management	0.80	0.04	0.84
Refinancing of PPF	1.14	0.71	1.85
Total Baseline Cost	28.43	15.75	44.18
Physical Contingencies	1.78	1.22	3.00
Price Contingencies	0.80	0.45	1.25
Total Project Costs¹	31.01	17.42	48.43
Interest during construction			
Front-end Fee	0.00	0.08	0.08
Total Financing Required	31.01	17.50	48.51

¹Identifiable taxes and duties are US\$9.33 million (EUR 7.89 million) and the total project cost, net of taxes, is US\$39.33 million (EUR 33.28 million). Therefore, the share of project cost net of taxes is 80.8 %.

Sources of funds are as follows:

Component	IBRD Loan US\$ million	Netherlands Co-Financing US\$ million	Government US\$ million	Total US\$ million
A	12.02	0.73	5.80	18.55
B	3.32	2.52	1.74	7.58
C	12.87	1.50	5.18	19.55
D	0.00	0.00	0.90	0.90
PPF Refinancing	1.85	0.00	0.00	1.85
Front-end Fee	0.08	0.00	0.00	0.08
Total	30.14	4.75	13.62	48.51

Annex 6: Implementation Arrangements
CROATIA: AGRICULTURE ACQUIS COHESION PROJECT

1. The project, except for the Pilot SAPARD Pre-finance Facility, would be managed by a project implementation team established within the MAFWM Department for Policy, European Union and International Cooperation. The team would be responsible for day-to-day management of the planning and budgeting of project activities, procurement including preparation of procurement plans, preparation of progress and project management reports, staff management and project monitoring and evaluation, which will be out-sourced. The team will be managed by a project manager, who has overall responsibility for all aspects of the project. The implementing team would also include a senior finance specialist, a procurement specialist and an office manager/secretary. The implementing group will work with (a) the Project Steering Committee; (b) the SAPARD Managing Authority and Monitoring Committee; (c) the SAPARD Payment Agency; (d) the VI, PPI, CISS and MoHSW for laboratory development and (e) the CFA.

2. The Project Steering Committee (PSC) chaired by the Assistant Minister in charge of MAFWM's DAPEUIC and including the Assistant Ministers of the six other MAFWM Departments engaged in the project and a representative of the MoF will be established within the MAFWM to guide and support the project process and interact with Bank supervision missions. The CAACP implementing team would provide secretarial support to the PSC. The PSC would meet at least quarterly to review the CAACP quarterly and annual reports and annual work program with a view to ensuring the closest possible alignment of CAACP activities with government EU accession policies and to capture synergies with other donor funded projects.

3. The project monitoring and evaluation (M&E) program would be contracted to an outside agency. In pursuing its major developmental objectives, the project would target participation in the SAPARD rural development program, harmonization with EU *acquis* directives, food, plant and animal safety and MAFWM management and staff capacity in relation to EU accession. SAPARD participation, which would be separately monitored in accordance with EU requirements, would be measured through the number of farmers, agri-businesses and municipalities receiving SAPARD support and the diversity and value of measures applied. EU *acquis* cohesion will be measured through Croatia's progress in negotiating the Agricultural Chapter of the accession negotiations. Food, plant and animal health safety will be measured through the reports to domestic and international agencies using data processed through the food safety and SPS databases. MAFWM management and staff capacity would be measured against job "capacity profiles" using competency based training programs, with pre and post course testing and on-going evaluation of the retention and adoption of skills taught.

4. Baseline data would be collected at the beginning of the implementation of each sub-component. The follow-up data collection would be largely secured through compulsory (regulatory) reporting to MAFWM databases developed by the project and through the implementation of competency-based training programs. Progress would be monitored through regular reporting by the M&E contractor through the project implementing team and through project supervision missions. It is envisaged that reporting under the CAACP would be done through quarterly progress reports using agreed formats.

5. Project sub-components would be implemented by the responsible MAFWM department or Institute. The SAPARD program would be implemented by the SAPARD Managing Authority within the MAFWM Department of Sustainable Development of Rural Areas (DSDRA), overseen by a SAPARD Monitoring Committee, including representatives of government and its rural economic and social partners, supported by a small, permanent Secretariat. SAPARD program administration would be the responsibility of the SAPARD Payment Agency within the MAFWM Directorate of Marketing and Structural Support (DMSS). The SAPARD Payment Agency will operate through sub-Payment Agencies located in the NUTS II regions in Croatia, once they are defined. The MAFWM capacity building

program will be managed by the MAFWM Secretary of the Ministry, supported by contracted specialists who would develop (i) a competency-based management and staff development program and (ii) an MIS and IT development and management program. Veterinary, plant protection and GMO laboratory development would be managed by the VI, PPI and CISS respectively. The MoHSW would take responsibility for upgrading its food laboratory. The CFA would manage all aspects of food safety management under the CAACP while the MAFWM Veterinary Department, in collaboration with the MoHSW, would be responsible for restructuring sanitary inspection services. The Veterinary Directorate Department of Animal Health would establish an Epidemiology Unit while and strengthen its animal health disease management capacity and Department of Veterinary Public Health would be the responsibility for strengthening the EU veterinary legal approximation process, animal residue testing and zoonotic disease management.

6. Administration of the SAPARD Pre-finance Facility, including issuing of individual guarantees, keeping account for individual guarantee accounts, collection of fees, payment upon guarantee call, management of guarantee fund, etc. will be contracted out to a Facility Agent, whose role will be assigned to the Croatian SME Development Agency -HAMAG. HAMAG already has a successful track record and operational expertise in issuing small-size guarantees, and is considered well qualified for the role of Facility Agent. HAMAG and the MAFWM will enter into an Administrative Service Agreement, and a Project Agreement will be signed between HAMAG and the Bank setting terms and conditions of Facility operation.

7. Overall management and monitoring of the Facility will be done by a Facility Steering Committee (FSC), formed by the representatives of relevant ministries, including MAFWM, MOF, etc. The FSC will also set the Operational Guidelines of the Facility. The Operational Guidelines will describe procedures for screening SAPARD sub-projects and establishing their eligibility for SAPARD financing, set procedures for issuance of partial risk guarantees by HAMAG, as well as establish terms and conditions of Guarantee Agreements to be entered into between HAMAG and a Participating Bank.

Annex 7: Financial Management and Disbursement Arrangements
CROATIA: AGRICULTURE ACQUIS COHESION PROJECT

Country Issues.

The latest draft of the Croatia CFAA report (May 2005) concludes that the level of fiduciary risk attached to the primary elements of Croatia's public financial management systems (legal framework, institutional capacity and practices for the core financial control processes such as budgeting, treasury and cash management, accounting, financial reporting, internal control, internal audit, external audit and parliamentary oversight) is significant.

Most of the weaknesses in the PFM arrangements revolve around inefficiencies and weaknesses in the existing financial accounting and management systems. The number of staff in key PFM functions, such as financial control, accounting and auditing, are inadequate and training capacities are lacking.

Strengths and Weaknesses.

The major strengths of the project lie in the use of the existing reporting systems of the MAFWM and the participation of ministry staff with previous experience of Bank financial management requirements. The major weakness is that the accounting department of the Ministry is currently understaffed and may have difficulty coping with the additional workload. This will be mitigated by the existence of a senior finance specialist within the project implementation team who will be able to coordinate financial process flows and Project reporting.

Funds Flow.

The IBRD would make funds available to the Government of Croatia under the Loan Agreement, governing the terms and conditions of the IBRD loan and specifying the project.

Project funds will flow from: (i) the IBRD via a single Special Account established in a commercial bank acceptable to the Bank, under the control of the State Treasury; (ii) the IBRD directly from the Loan Account to suppliers; and (iii) the Government, on the basis of payment requests approved by the MAFWM.

The GOC through an Administrative Service Agreement would make a portion of the proceeds of the Loan available to HAMAG for the execution of Pilot SAPARD Pre-finance Facility sub-component on the terms and conditions set forth in the Administrative Service Agreement.

Staffing.

The organizational structure of the project implementation team provides for a Project Manager, who has overall responsibility for all aspects of the project, a senior finance specialist, a procurement specialist and an office manager/secretary. The Project Manager has previous experience of implementing a Bank-financed project.

The accounting department of the MAFWM currently employs eight staff. This is less than provided for in the Ministry's organizational plan. However, with the support of the implementation team, this will be adequate to support the accounting and reporting needs of the Project.

Accounting Policies and Procedures.

The project's accounting and reporting systems will be based on those used within the MAFWM. Data in the MAFWM's system is reconciled with data in the MOF Treasury Ledger System. Accordingly, the project financial statements will be presented on a cash basis and in Croatian Kuna. The MAFWM has an appropriate set of procedures and internal controls including authorization and segregation of duties over the use of the Treasury Ledger System and the Ministry's own accounting system

Internal Audit.

Internal audit is a relatively new function within the Croatian financial management framework. The 2003 Budget Act required all ministries to establish an internal audit function reporting directly to the responsible Minister. Accordingly, the MAFWM has appointed staff to the internal audit function, who are currently being trained by the Ministry of Finance. Given the formative stage of this function, no reliance will be placed on this unit. Consideration will be given during the project implementation of the reliance that may be placed on this unit as well as if and how this unit may be strengthened.

External Audit.

As of the date of this report, the Borrower is in compliance with its audit covenants of existing Bank-financed projects. The project financial statements will be audited by an independent auditor acceptable to the Bank, in accordance with standards on auditing that are acceptable to the Bank.

The audit scope will include the transactions relating to the execution of the Agricultural Cohesion Project as reflected in the accounting system of the MAFWM. The audited Agricultural Cohesion Project financial statements together with the auditor's opinion thereon will be provided to the Bank within six months of the end of the reporting period, being the fiscal year.

A separate audit will be carried out for SAPARD Pre-finance Facility. Financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year or other period agreed to by the Bank, will be audited in accordance with consistently applied auditing standards acceptable to the Bank by independent auditors acceptable to the Bank. The audited financial statements together with the auditor's opinion thereon will be provided to the Bank within five months of the end of the reporting period.

The contract for the audit awarded during the first year of project implementation may be extended from year-to-year with the same auditor, subject to satisfactory performance. The cost of the audit may be financed from the proceeds of the credit.

The Croatia CFAA (May 2005) draws attention to a number of weaknesses in the operations of the State Audit Office (SAO). However, the SAO is, through a twinning arrangement with the UK NAO and other measures, seeking to improve its capacity. An assessment of the capacity of the SAO was undertaken in connection with the preparation of the recently negotiated Croatia Education Sector Support Project and it was determined that, subject to the use of audit terms of reference acceptable to the Bank, the SAO was eligible to perform the audits of Bank financed projects. Hence the Borrower may elect to engage a private sector audit firm or it may engage the SAO.

Reporting and Monitoring.

Project management-oriented Financial Monitoring Reports (FMRs) will be used for project monitoring and supervision and the indicative formats of these have already been discussed and agreed with the Bank.

Disbursement Arrangements.

Disbursement Table

Category	Amount of the Loan Allocated (in US\$)	% of Expenditures to be financed
1. Civil Works	13.16	85%
2. Goods	7.80	100% of foreign expenditures, 100% of local expenditures (ex-factory) and 85% of local expenditures for other items procured locally
3. Consultant Services and Training	1.75	100%
4. Operating Costs	0.77	100%
5. Guarantee Facility	4.73	100% of the amount of the guarantee commitment under each Guarantee Agreement
6. Refunding of Project Preparation Advance	1.85	Amount due pursuant to Section 2.02 (b) of Loan Agreement
Premia for Interest Rate Caps and Interest Rate Collars	0.00	Amount due under Section 2.09(c) of Loan Agreement
Front end Fee	0.08	Amount due under Section 2.04 of Loan Agreement
Total	30.14	

Operating costs include, communication, office supplies, utilities, operation and maintenance of office equipment, vehicles and offices, project monitoring studies, project report and publications.

Use of report-based disbursement: Disbursements from the Loan Account will follow a traditional SOE based disbursement method at the beginning, with the possibility to move to FMR-based disbursement during the life of the project. In that case, MAFWM will use Financial Monitoring Reports to support applications for withdrawal from the Loan Account; it will not provide the Bank with a detailed list of expenditures. Supporting documentation, including completion reports and certificates, will be retained by the Borrower and made available to the Bank during project supervision.

To facilitate timely project implementation, the Treasury will establish, maintain and operate a Special Account in EUR under terms and conditions acceptable to the Bank. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the Financial Monitoring

Reports, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

The project is expected to be implemented over a period of 4 years, plus six months for the completion of accounts and the submission of withdrawal applications.

Supervision Plan.

The project implementation progress reports will be monitored in detail during regular supervision missions. FMRs will be reviewed on a regular basis by the country FMS and any issues arising will be followed up promptly. The frequency of on-site FM supervision missions will be determined based on the Project's FM risk rating, which will be generated using ECA's financial management risk model. Audited financial reports of the Project will be reviewed and identified issues followed up.

Annex 8: Procurement

CROATIA: AGRICULTURE ACQUIS COHESION PROJECT

A. General

Procurement for the Agriculture Acquis Cohesion Project (AACP) would be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, and the provisions stipulated in the Legal Agreement. The AACP activities not financed from the World Bank Loan can be procured in accordance with the national regulations, or the implementation agency's procurement regulations. The general, the description of various items under different expenditure category are described below. For each contract to be financed by the Loan, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank project team in the Procurement Plan. The Procurement Plan would be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

Advertising

A General Procurement Notice (GPN) listing all main procurement packages will be advertised on-line in UNDB, dgMarket, local newspaper *Narodne Novine* and on MAFWM web-site following AACP negotiations. Specific Procurement Notices (SPN) for ICB Goods and Works packages and Expressions of Interest (EOI) for consultants' contracts above US\$ 200 000 (EUR160,000) equivalent would be advertised on-line in UNDB, dgMarket and on the MAFWM website. Advertisement of NCB contracts for goods and works would be done in *Narodne Novine* and the MAFWM website. The results of contract awards for goods, works and consultants will be posted in UNDB on-line and dgMarket as required under the Guidelines. In addition, the MAFWM should allocate a part of its website for posting information on contract awards, including name of each bidder who submitted bid, bid prices as read out at public opening, name and evaluated prices of each bid that was evaluated, name of bidders who were rejected and the reasons for rejection, the name of winning bidder and the price it offered as well as duration and a brief summary of the scope of the contract awarded. All contracts financed by the AACP awarded through direct contracting shall be listed on the above mentioned websites.

Procurement of Works: Eligible investments under this category would include construction of a Veterinary Laboratory, and upgrading of the MAFWM Payment Agency office, a Plant Protection Laboratory, 5 regional offices for agricultural inspection services and the agreed NUTS II regional offices for the MAFWM Payment Agency. All contracts above US\$3.7 million (EUR 3 million), except contract for Relocation of National Veterinary Institute, which will be procured through NCB, will be procured through International Competitive Bidding (ICB) procedure. All contracts below US\$3.7 million (EUR 3 million) will be procured through National Competitive Bidding (NCB) procedure consistently with the threshold set up in the CPAR. The NCB is a procedure similar to *open tendering* method as defined in the Croatian Public Procurement Act (effective January 2002). The ECA sample NCBs documents Goods and Works will be used. Works contracts estimated to cost less than US\$74 000 (EUR 60,000) equivalent per contract may be procured through Shopping procedure on the basis of comparing quotations obtained from at least three contractors. Bank's standard format for Three Quotation Procedures for Minor Works can be used.

Procurement of Goods: Goods procured under this project would include: office and laboratory equipment, data network equipment, information technology (IT), office furniture, and vehicles. The procurement will be done using the Bank's Standard Bidding Documents (SBD) for all ICB packages. Contracts for goods will be grouped in bid packages as much as feasible. Goods estimated to cost US\$620 000 (EUR 500,000) equivalent and above per contract would be procured through ICB. IT equipment and software would be procured as separate packages using the Supply and Installation of

Information Systems SBD (Single stage or two-stage procedure as appropriate). Goods estimated to cost less than EUR 500 000 equivalent per contracts would be procured through NCB similarly to the works contracts described above. Packages for off-the-shelf goods of standard specifications estimated to cost EUR 60 000 equivalent per contract may be procured through Shopping procedure on the basis of comparing quotations obtained from at least three suppliers, using the Bank's Standard Format for Invitation to Quote. Procurement of hardware and software of standard specifications below the NCB threshold may be done through E-Croatia following the existing practice in the country. For procurement of non-standard IT equipment items which cannot be included in E-Croatia Catalogue (hardware, software, etc), the procedures set forth in the Bank's external website. The authorized firms which are recommended in this web-site will be included in the shortlist when quotations are solicited. In addition, other firms or local dealers may be added to this list, upon checking their credentials with respective manufacturers.

Selection of Consultants: Individual consultants and consultant firms (both local and international) will be required to assist in the implementation of all project components and to **provide:** technical assistance, training and studies in all components. In the market and supply chain development TA and training would be for the analysis and development of agriculture supply chains, for the assistance to rural communities and for innovative technology development. In the rural finance component, TA would be used to train bank and NBFi personnel to appraise and manage agriculture lending; to design, test and adopt more appropriate loan products, collateral instruments and financial services; In the institution development component, TA would be used to advise project staff in legal framework analysis; in institutional development need analysis and in industry-specific regulatory support identification and in issues concerning animal and plant diseases, laboratory service and inspection, food inspection and control and product certification. Land specialists would be used for registration, cadastre, information technologies, and land registry development. In addition, the project would provide specific membership fees, contract for public awareness program, audit services; design and supervision etc.

Short lists of consultants for services estimated to cost less than US\$250 000 (EUR 200 000) equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

The applicable selection methods will be: Quality and Cost Based Selection (QCBS), Quality Based Selection (QBC), Selection Based on Consultants' Qualifications (CQS) for contracts estimated to cost less than US\$250 000 (EUR 160 000) equivalent, Fixed Budget Selection (FBS), Least Cost Selection (LCS) The Single Source Selection (SSS) method may be used in exceptional cases as per the provisions of paragraph 3.10 of the Guidelines and with the prior approval of the Bank. Contracts for Individual consultants (IC) may be used for services where terms of personnel are not required, and where the qualification and experience of the individual consultant are the paramount requirements. Individual consultants may be selected on a sole source basis in exceptional cases as per the provisions of the Guidelines and with the prior approval of the Bank.

The Bank's standard Request for Proposals (RFP) will be used for QCBS, QBS, FBS and LCS, and Letter of Invitation will be applicable to CQ for firms and for selection of individual Consultants.

The MAFWM would follow the World Bank anti-corruption measures and would not engage services of firms and individuals debarred by the Bank. The listing of such debarred firms and individuals is located at: <http://www.worldbank.org/html/opr/procure/debarr.html>

Training: Training will include seminars, conferences, workshops and study tours in connection with the activities included in the Project components and reflected in the procurement plan, approved by the Bank. Changes and additions to the plan would be reviewed by the Bank separately as they occur and would cover the list of participants, agenda for training events and estimated budget. Consultants,

required for preparation, facilitation or conducting training activities shall be selected under appropriate procedures for selection of consultants as described above.

Operational Costs: The government would finance operating costs for the government project team implementing the project, including salaries; field allowances; communications; office supplies and utilities; operation and maintenance costs of equipment, vehicles and offices; project report and publication and other recurrent costs incurred as a result of project implementation. These costs would be procured using the implementing agency's administrative procedures.

B. Assessment of the agency's capacity to implement procurement

The implementing agency for the project, as well as the Project Preparation Facility, is the Ministry of Agriculture Forests and Water Management. A Project Implementation Team will be established within the Department of Agricultural Policy, EU and International Relations Agricultural Policy Unit by the end of June 2005. It will comprise a Director, Procurement Specialist, Financial Management Specialist and a Technical Assistant. The project team will be responsible for the day-to-day coordination, management and monitoring of the project in close collaboration with all other departments within the Ministry involved in the project. Initially, the team would be hired as consultants and after project effectiveness will be transferred as regular staff to the Ministry. During the PPF implementation the team will be assisted by an experienced Procurement Adviser, who will help with the implementation of the procurement activities, including and not limited to planning, scheduling, monitoring and reporting, preparation of bidding and proposal documents for the PPF and for the preparation of the bidding and proposal documents for the first year of project implementation. The PPF would be a very good opportunity for the implementing agency teams (departments) involved in the project to acquire additional knowledge and skills in project management, planning and Bank's procurement procedures.

The overall risk for procurement is average.

Action plan for strengthening agency's capacity to implement project procurement:

- Borrower should make a formal decision on the responsibilities, authorities and lines of accountability of all staff involved in the project, in particular the Project Implementation Unit (PIU).
- In order to build-in and maintain strong procurement management capacity, it is recommended that the relevant Ministry staff involved in project implementation attend procurement training offered by ILO in Turin, Italy, or a similar appropriate training organized by other institution, or by the Bank within the region.
- A part-time procurement specialist would be needed, who should be experienced preferably in Bank procurement procedures and public procurement, to help in the implementation of procurement activities, including planning, scheduling, monitoring and reporting, bidding and selection procedures, including contractual issues during the life of the project.
- At least a one day training session in procurement during the project launch workshop, including presentations on Bank procurement and consultant Guidelines, preparation of bidding documents for each type of procurement and selection methods proposed in the procurement plan, bid evaluation and preparation of contracts.
- A framework service contract should be signed with either an individual or a firm for translation and interpretation services required for implementation of the project.

C. Procurement Plan

The Procurement Plan provides the basis for the procurement methods and identification of contracts subject to prior review by the Bank. The Implementing Agency will prepare a Procurement Plan for project implementation, which would be agreed before negotiations. The Procurement Plan would be available at the MAFWM web-site. It would also be available in the Project's database and in the Bank's external website. During the initial period of implementation the format of the Procurement plan will be expanded to provide a planning and monitoring tool for the MAFWM. The Procurement Plan would be updated in agreement with the Bank annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

Croatia: Agricultural Acquis Cohesion Project Procurement Plan

1. GENERAL

1.1 PROJECT INFORMATION

Country: Croatia
Borrower: Ministry of Finance
Project Name: Agriculture Acquis Cohesion Project
Loan No: 34939-HR
Project Implementing Agency: Ministry of Agriculture Forestry and Water Management

1.2 AGREED DATE OF THE PROCUREMENT PLAN

30th of November, 2005

1.3 DATE OF GENERAL PROCUREMENT NOTICE

15th of February, 2005

2. GOODS AND WORKS AND NON-CONSULTING (TECHNICAL) SERVICES

2.1 PRIOR REVIEW THRESHOLD

Procurement decisions subject to Prior Review by Bank as stated in Appendix 1 to the Guidelines for Procurement:

Procurement method	Prior Review Threshold	Domestic preference (Yes/no)	Prior Review by Bank
ICB: Works	>EUR 3,000,000	NA	All
NCB: Works	<EUR 3,000,000	NA	First contract and as agreed in the procurement plan
Shopping: Works	<EUR 60,000	NA	First contract and as agreed in the procurement plan
ICB: Goods	>EUR 500,000	Yes	All
NCB: Goods	<EUR 500,000	NA	First contract and as agreed in the procurement plan
Shopping	<EUR 60,000	NA	First contract and as agreed in the procurement plan

2.2 PRE-QUALIFICATION

Not Applicable

2.3 PROPOSED PROCEDURES FOR CDD COMPONENTS

Not Applicable

2.4 ANY OTHER SPECIAL PROCUREMENT ARRANGEMENTS

For ICB goods and works, all contracts for works and goods above the NCB thresholds will be subject to prior review. For the relocation of the National Veterinary Institute, NCB works up to the value of EUR 5,000,000 may be procured under a contract awarded on the basis of National Competitive Bidding. For works below EUR 3,000,000, the first contract and, subsequently, as agreed in the procurement plan shall be subject to prior review. For NCB goods below EUR 500,000, the first contract and, subsequently, as agreed in the procurement plan are subject to prior review. All Information Technology procurement shall be subject to prior review. For Shopping, goods and works contracts below EUR 60,000, the first contract and, subsequently, as agreed in the procurement plan will be subject to prior review.

The Croatian Agricultural Extension Institute (AEI) will act as an implementing agency for the SAPARD Communication Program. It will be responsible for the preparation of promotional material and conduct of stakeholder workshops. Selected food safety risk analysis studies and veterinary epidemiology studies will be contracted to scientific institutions which have unique skill sets and resources for conducting the studies. Other risk analysis and epidemiological work will be open to competitive bidding.

The institutions providing services other than consultancy, such as training, conducting seminars, and study tours, will be selected on the basis of an analysis of the most suitable program of training offered by the institutions, availability of services, period of training and reasonableness of cost.

2.5 PROCUREMENT PACKAGES FOR GOODS, WORKS AND TECHNICAL SERVICES WITH METHODS AND TIME SCHEDULE

1	2	3	4	5	6	7	8	9
No.	Contract Description	Number of contracts	Procurement Method	Domestic Preference (yes/no)	Review by Bank (prior/post)	Expected Bid Opening date	Expected Contract Signing	Expected Contract Completion
	Works							
1	Relocation of National Veterinary institute	1	NCB	No	Prior	May-06	Jul-06	Dec-07
2	Relocation of the Plant Protection Institute and Fruit	1	NCB	No	Prior	Mar-06	May-06	Mar-07
3	Genetically Modified Organism (GMO) laboratory and offices	1	NCB	No	Prior	Mar-06	Apr-06	Jan-07
4	Construction of Payment Agency headquarters	1	NCB	No	Prior	Dec-06	Feb-07	Feb-08
5	NUTS II region Payment Agency offices	3	NCB	No	Prior	TBD		
6	Construction of regional MAFWM Inspection Offices	5-6	NCB	No	Prior	TBD		
7	Upgrading of Croatia Food Agency office	1	NCB	No	Prior	Sep-06	Oct-06	Jan-07

1	2	3	4	5	6	7	8	9
No.	Contract Description	Number of contracts	Procurement Method	Domestic Preference (yes/no)	Review by Bank (prior/post)	Expected Bid Opening date	Expected Contract Signing	Expected Contract Completion
	Goods							
a.	Equipment, Materials and Supplies							
1	PY 1 Office furniture and	2	NCB	No	Prior	May-06	Apr-06	Jun-06
2	PY 2 Office furniture and equipment	2	NCB	No	Prior	Jan-07	Feb-07	Apr-07
3	PY 3 Office furniture equipment)	2	NCB	No	Prior	Jan-08	Feb-08	Apr-08
4	Laboratory equipment and supplies	1	ICB	No	Prior	Sep-06	Nov-06	Feb-07
5	Laboratory information management systems	1	NCB	No	Prior	Sep-06	Nov-06	Apr-07
6	Payment Agency database management computing system		ICB	No	Prior	Jan-06	Feb-06	Mar-06
7	MAFWM database management computing systems	1	ICB	No	Prior	Oct-06	Dec-06	Mar-07
8	SAPARD Communications Program	1	NCB	No	Prior	Through life of the project		
9	Document translation	1	Shopping	No	Prior	Through life of the project		
10	Development of Veterinary and Plant Protection Department databases	1-2	NCB (if available locally)	No	Prior	Sep-06	Nov-06	May-07
11	Development of MAFWM MIS	1	ICB	No	Prior	Feb-07	Apr-07	Sep-07
12	Ag. Information Centre Information Procurement & Management		Shopping	No	Prior	Through life of the project		
13	Food safety Communication Program	1	Shopping	No	Prior	Through life of the project		
14	CAACP Communications Program		Shopping	No	Prior	Mar-06	Apr-06	Jun-06
b.	Vehicles							
	Vehicles	1	ICB	No	Prior	Apr-06	Jun-06	Sept-06

3. SELECTION OF CONSULTANTS

3.1 PRIOR REVIEW THRESHOLD

Selection Decisions subject to Prior review by Bank as stated in Appendix 1 to the Guidelines Selection and Employment of Consultants. Selection Based on Consultants' Qualifications estimated to cost less than EUR 160,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines. Short-list may comprise only national consultants for contract less than EUR 200 000. All Individual Consultant selection will be subject to prior Bank review.

Selection Decisions subject to Prior review by Bank as stated in Appendix 1 to the Guidelines Selection and Employment of Consultants. Selection Based on Consultants' Qualifications estimated to cost less than EUR 160,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines. Short-list may comprise only national consultants for contract less than EUR 200 000. All Individual Consultant selection will be subject to prior Bank review.

	Selection Method	Prior Review Threshold	Comment
1.	Consultant recruitment prior review	>EUR 160,000	As agreed in the procurement plan
2.	Individual Consultants (3CVs)	>EUR 50,000	As agreed in the procurement plan
	Single Source Selection	All	

3.2 SHORT LIST COMPRISING ENTIRELY OF NATIONAL CONSULTANTS

Short list of consultants for services, estimated to cost less than EUR 200,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

3.3 ANY OTHER SPECIAL SELECTION ARRANGEMENTS

3.4 CONSULTANCY ASSIGNMENTS WITH SELECTION METHODS AND TIME SCHEDULE

1	2	3	4	5	6	7	8
No.	A. International Consultants	Person Months	Procurement Method	Expected Short-listing Date	Expected Contract Signing Date	Expected Completion date	Comments
1	SAPARD M&E Advisor	2	Individual Consultants	Mar-06	Apr-05	May-07	Prior Review TO only
2	SAPARD Rural Development Advisor	3	Individual Consultants	Mar-06	Apr-05	May-07	Prior Review
3	SAPARD Field Program Advisor	4	Individual Consultants	Mar-06	Apr-05	May-07	Prior Review
4	Rural Forum Advisor	2	Individual Consultants	Mar-06	Apr-05	May-07	Prior Review TO only
5	Payment Agency IACS Advisor	2	Individual Consultants	Mar-06	Apr-05	May-07	Prior Review TO only
6	Payment Agency Risk Management Advisor	2	Individual Consultants	Mar-06	Apr-05	May-07	Prior Review TO only
7	SAPARD Guarantee Fund Advisor	2	Individual Consultants	Mar-06	Apr-05	May-07	Prior Review TO only
8	Credit Guarantee Advisor	2	Individual Consultants	Mar-06	Apr-06	Jun-06	Prior Review TO only
9	MAFWE Management Skill Gap Analyst	2.5	Individual Consultants	TBD			Prior Review
10	Policy Analysis Specialists	16	Individual Consultants	Through life of the project			Prior Review s

1	2	3	4	5	6	7	8
No.	A. International Consultants	Person Months	Procurement Method	Expected Short-listing Date	Expected Contract Signing Date	Expected Completion date	Comments
11	Agricultural Information Systems Advisor	3	Individual Consultants	May-06	May-06	Jun-07	Prior Review
12	Food Safety Management Advisor	5	Single Sourced	May-06	May-06	June-09	Prior Review
13	Food Safety Regulation Advisor	2	Individual Consultants	April-06	May-06	Jun-07	Prior Review TO only
14	Reference Laboratory Management Advisor	3.5	Individual Consultants	Oct-06	Nov-06	Jun-08	Prior Review
15	Food Laboratory Test Certification Advisor	2	Individual Consultants	TBD			Prior Review TO only
16	Laboratory Rationalization Study	2	Individual Consultants	TBD			Prior Review TO only
17	HAACP/Quality Assurance Advisor	4	Individual Consultants	TBD			Prior Review
18	Sanitary and Phytosanitary Insp. Advisors	6	Individual Consultants	TBD			Prior Review
19	SPS Skill Gap Analyst	1.5	Individual Consultants	TBD			Prior Review TO only
20	Ex-ante Evaluation of IPARD Program	2	Individual Consultants	TBD			Prior Review TO only
	Sub-total: International Consultants						
B	National Consultants						
1	CFA Office Upgrade Design/Design Supervision	TBD	CQS	May-06	Jun-06	Jul-06	Post
2	CFA Office Upgrade Building Supervision	TBD	CQS	Sep-06	Oct-06	Jan-07	Post
3	NVI design supervision during construction	TBD	CQS	May-06	Jul-06	Dec-07	Post
4	NVI Laboratory Civil Works Supervision	TBD	CQS	May-06	Jul-06	Dec-07	Post
5	PPI Laboratory Design Supervision	TBD	CQS	Mar-06	May-05	Mar-07	Post
6	PPI Laboratory Civil Works Supervision	TBD	CQS	Mar-06	May-05	Mar-07	Post
7	GMO Laboratory Design/Design Supervision	TBD	CQS	Mar-06	Apr-06	Jan-07	Post
8	GMO Laboratory Civil Works Supervision	TBD	CQS	Mar-06	Apr-06	Jan-07	Post
9	PA Headquarters Design/Design Supervision	TBD	CQS	TBD			Post
10	PA Headquarters Building Supervision	TBD	CQS	TBD			Post
11	Design/Design Supervision of NUTS II Offices	TBD	CQS	TBD			Post
12	Supervision of NUTS II Office Construction	TBD	CQS	TBD			Post
13	Regional Inspection Office Design/Design Supervision	TBD	CQS	TBD			Post
14	Regional Inspection Office Civil Works Supervision	TBD	CQS	TBD			Post
	Sub-total National Consultants	TBD					
C	Study Consultancies						
	CFA Risk Assessment Studies	NA	Other	Through life of the project			Prior Review TO
	Laboratory Certification	NA	CQS				Prior Review TO
	Epidemiology field and laboratory studies and reporting	NA	Other	Through life of the project			Prior Review TO
	SAPARD Monitoring and Evaluation Contract	NA	NCB	Through life of the project			Prior Review

1	2	3	4	5	6	7	8
No.	A. International Consultants	Person Months	Procurement Method	Expected Short-listing Date	Expected Contract Signing Date	Expected Completion date	Comments
	SAPARD Financial and Performance Audit	NA	LCS	Through life of the project			Prior Review
	Policy studies	NA	CQS	Through life of the project			Prior Review TO
D	Training Consultancies						
	MAFWM Management Training Program	NA	Other	Through life of the project			Prior Review

4. IMPLEMENTING AGENCY CAPACITY BUILDING ACTIVITIES WITH TIME SCHEDULE

1	2	3	4	5
Description of Activity	Procurement method	No. of Contracts	Review by Bank (prior/post)	Commencement/Duration
Studies				
FADN Pilot Program	Other	1	Prior	Through life of the project
Training				
Policy Analysis Post-graduate Training program	Other	several		Through life of the project
MAFWM Bonded Scholarship Program	Other	several		Through life of the project
Capacity building training	Other	several		Through life of the project
Study tours/overseas Training	Other	several		Through life of the project

Annex 9: Economic and Financial Analysis

CROATIA: AGRICULTURE ACQUIS COHESION PROJECT

The overarching project objective is to enable Croatia's agricultural sector to capture benefits accruing from accession to the EU. More specifically, the immediate objective of the project is to develop sustainable systems and capacities within the MAFWM to ensure timely compliance with EU *acquis* conditions in the rural sector. The benefit for Croatian agriculture of EU accession include better access to EU markets, a better integrated support program for agriculture and rural development and improved agricultural services, particularly with respect to sanitary and phytosanitary protection. Croatian consumers will benefit from a more competitive production and market environment and from safer foods. Croatia's rural residents, particularly those in poorer municipalities, will benefit from improved rural infrastructure and services. The project has been determined to have no significant negative environment impact, while a proposed GEF initiative is expected to substantially reduce agriculture sector environmental impact through support for the establishment of the EU Nitrates Directive and the introduction of Good Agricultural Practice measures to farming. Possible social impacts may arise from the inability of some Croatian smallholder farmers to accommodate the costs associated with strengthened regulatory regimes and the more competitive agricultural marketplace, leading to their departure from agriculture. The Croatian Government already has in place an income support program for uneconomic smallholder farmers and will, under the project, develop policies for assisted redundancy from agriculture. Such programs are expected to be consistent with prevailing EU practices. As the project focuses primarily on building capacity within the MAFWM to implement the *acquis communautaire* and, thereby, accrue the substantial benefits arising from EU accession, no attempt has been made to determine the economic benefit, which is considered to far outweigh the project cost.

The project will facilitate proposed SAPARD investments, which will focus on measures to: (i) strengthen investment in agriculture; (ii) improve the processing and marketing of agriculture and fishery products; (iii) improve rural infrastructure; and, (iv) provide supporting technical assistance and public information. Project inputs will include capacity building for activities (i), (ii) and (iv) and a pre-finance guarantee facility for private sector financing of activity (iii). Considering the Bank's direct involvement in activity (iii) an analysis of likely financial and economic outcomes has been made for possible rural infrastructure investments⁵.

The Bank's proposed SAPARD Pre-Finance Facility is designed to assist municipalities in obtaining pre-financing for SAPARD eligible investments that would otherwise not be available through the commercial bank sector, thus allowing smaller, poorer municipalities to avail of the necessary SAPARD funding. The public rural infrastructure measure will avail of 40% of the SAPARD funds available to Croatia in 2006, which, with government counterpart funding will amount to US\$ 16.4 million (EUR 13.3 million). Eligible investments will include unclassified roads and forest firebreaks, sewerage system and wastewater treatment plants and heating plants which use waste and/or by-products from agriculture and/or forestry. The grant amount available to the local government entities is limited to Kuna 5 mln (approx. EUR 675,000) per project; however MAFWM is currently assessing the need to raise this ceiling for sewerage systems and wastewater treatment projects.

Given that the National Agricultural and Rural Development Plan NARDP and the proposed rural infrastructure measures are still in process of completion and given the time until initial approval of SAPARD grants in early 2006, it has not been possible, at this stage, to obtain firm financial and

⁵ Croatia Agriculture *Acquis* Cohesion Project. Financial and Economic Analysis of Rural Infrastructure Investments Eligible for SAPARD Funding. June 17, 2005

economic data on any specific projects that would be included in the program. This has limited the capacity to make detailed quantitative financial and economic assessments, however, a comprehensive analysis of economic viability of the proposed investments has been made on the basis of a qualitative assessment with the inclusion of indicative financial data. Potential investments reviewed include forest roads/firebreaks, small-scale sewerage systems and wastewater treatment plants and heating plants using forestry or agricultural by-product.

Multi-functional firebreak roads. The activities under this sub-measure would primarily involve the construction of multi-functional roads providing a fire break and a road usable for fire fighting, as well as to provide access to privately owned forest and agriculture land. Funding under the SAPARD program will assist municipalities located in fire risk zones I ('extremely high' level of danger) and II ('high' level of danger). This primarily relates to forests in the coastal region and on the islands. There is no legal requirement for planning/building permission, however the proposed fire-prevention roads need to be part of the municipality's fire fighting plan. The largest benefits expected from forest fire prevention measures are the prevention of negative economic consequences on landscape and environmental conditions of the coastal forests created by the reduction in area of coastal forests that would be burnt by fires. Forested landscapes are an important aspect of the Dalmatian coast's attractiveness with evidence showing that forested landscapes significantly increase the attractiveness of resort areas. Tourists are less likely to come to areas without such landscapes or are only willing to do so if they pay lower prices. Studies in Croatia and Italy have shown that tourists have a willingness to pay an additional 2-3 US\$ per tourist per day for areas with attractive forest landscapes.

The fire-prevention roads with their width of approx. 4 meters will provide considerably less forest fire protection than regular forest firebreaks, which have a minimum width of 12 meters. However, the fragmentation of the private forest land ownership as described above, in combination with the absence of any compensation to the private owners for the land used by the firebreak, means that it is very difficult for the municipalities to obtain owner consent for regular firebreaks. Providing access to the private owners' land while improving fire protection via the fire-prevention roads makes it possible to obtain consent from landowners who can enhance the land's productive activity.

The Bank's Coastal Forest Reconstruction and Protection project (closed at the end of 2003), made an extensive economic analysis of the benefits obtained by rehabilitation of forest and improved forest management. Monetary estimates were made for the value of visible landscapes, the existence value of regional forests, wood production, and hunting and erosion control. The analysis showed that the value per hectare of forest saved from fire through prevention and suppression activities can be estimated at US\$2,619. The benefit from prevented loss of landscape from visible forest amounts to approx. 80% of the total value per hectare of forest saved. This is due to the importance of the coastal forests to the tourism sector and the fact that approximately half of the fires occur within 5 km of the coast. Benefits in wood production, hunting and erosion also occur, but are limited given respectively the low value of wood, limited hunting activity and non-susceptibility of coastal Croatia to erosion.

Sewerage systems and waste water treatment plants. Only about 15% of the Croatian population is connected to primary and secondary sewerage treatment plants. In 2003 only 21% of total municipal wastewater was treated. Large quantities of untreated wastewater are discharged directly into sea and rivers. The country's 123 cities and 422 municipalities operate in the water sector via 122 Municipal Water and Sewerage Companies (MWSC). Most MWSCs operating outside highly populated areas are considered unable to survive financially without assistance from regional and central government in the form of capital grants and subsidies. SAPARD funding for sewerage treatment, will result in: the construction of small wastewater treatment plants; improved water quality in the receiving body; improved quality of life for the local population and the reduction of potential trans-border pollution. The financial viability is expected to be low as Croatian municipalities are generally unable to balance the financial budget for water and sewerage infrastructure in absence of grants for capital investment.

The economic benefits, however, are expected to be high. Social benefits include reduced surface and groundwater pollution, reduced health costs due to cleaner water, improved recreational opportunities from cleaner discharge areas. Economic benefits would include local employment from plant construction and maintenance, reduced operating costs through more efficient MWSCs, expanded tourism opportunities and improved agriculture, fishing and property values. Determining the economic benefit of any proposed project will depend on the attractiveness of the location, in particular with regards to tourism. Future tourism, growth and employment represent the most important economic benefits for the municipalities in the Bank's Coastal Cities Pollution Control project. Such specific economic benefit would be more limited in the case of SAPARD funded wastewater projects in non-coastal, rural areas. Financial and economic analysis of small sewerage systems and waste water treatment plants elsewhere in the EU show financial rates of return of about 5% and economic rates of return of 10-11%.

To be eligible for this measure, municipalities should prepare a discounted financial model covering the economic life-time of the project (usually 20-25 years) to be used as the basis for a discounted cash flow analysis. The financial model should include all cost elements, capital cost and all associated operating and maintenance costs. The requested SAPARD grant should be offset against the capital cost. Eligible applications would provide for water tariffs sufficient to cover all yearly operating and maintenance costs, a positive financial internal rate of return after offsetting the SAPARD grant and a MSWC plan for annual increase of water tariffs until an upper limit for water provision and wastewater treatment of 3-4% of household income is reached.

Heating plants using agricultural or forestry by-products. The proposed sub-measure targets biomass heating plants with a capacity of approx. 1 MW. Plants are envisioned in the forestry areas of Eastern Slavonia and Licko-Senjska. Typical investment costs for a 1 MW biomass heating plant include approximately Kuna 2.5 mln for the boiler & pipes and Kuna 1.3 mln for related investments such as wood chopping equipment, loader, containers and trucks. Experience with similar sized plants elsewhere in Croatia and in neighboring Hungary show financial rates of return of 13-20%. Experience in countries such as Denmark and Canada has confirmed the financial viability of biomass heating plants. Any SAPARD funding would be subject to a positive feasibility study on the availability of forest waste product. Economic benefits include local employment, economic activity and tax revenue from the operation of the biomass plant and the sustainable harvesting and collection of biomass, together with reduced foreign expenditure on fossil fuels.

Annex 10: Safeguard Policy Issues
CROATIA: AGRICULTURE ACQUIS COHESION PROJECT

**Environmental Review
Summary**

THE PROJECT

The project will finance activities aimed at building managerial organizational and training capacities where direct environmental linkages are not easily established. It will also finance activities related to construction of new laboratories, office buildings, and different types of renovations where the environment issues are more easily predicted. Lastly the project will support establishment of the SAPARD Program which will include its own environmental screening mechanism for sub-projects financed with EU Grant resources in line with the European Union's requirements and environmental standards. The loan will help establish a Facility to encourage commercial banks to finance SAPARD public measure investments. No direct co-financing of EU SAPARD sub-projects is envisioned by the loan.

POTENTIAL ENVIRONMENTAL ISSUES

An environmental review was prepared for the project which screened possible loan financed investments where environmental issues can be identified up-front in the design, construction and operation stages. The scope of this review included:

- environmental considerations in office, laboratory, and landscape **designs**;
- dust, noise, disposal and handling of construction debris and hazardous waste; wastewater connections and procedures for historic and cultural monuments and chance finds in the **construction phase**; and
- Hazardous, GMO, and municipal waste disposal and handling; Laboratory certification, wastewater disposal, and fuel storage handling in the **operations stage**.

RESPONSIBILITY

The Ministry of Agriculture, Forestry, and Water Management as the key beneficiary of the loan, will take primary responsibility for addressing the environmental aspects of the loan, and ensuring that the Environmental Management Plan is implemented. The plan has taken into account local Croatian laws and practices related to environmental and construction permitting. Key participants in the EMP have been clearly identified and include the laboratory and building design teams; the regional Ministry of Environment, Physical Planning and Construction Office that issues construction permits; the construction contractor; the water authority; and the building or laboratory operator.

SELECTED SAFEGUARD AND ENVIRONMENTAL CATEGORIES

The Project has been classified as a category B environment project because the anticipated environmental issues are not significant in scope and scale and can be effectively managed through adequate up-front planning through the development of an Environmental Management Plan. The EMP has taken into consideration all existing Croatian legislation and has highlighted some areas for monitoring where legislation is likely to be revised during the project period.

Environmental Monitoring

The environmental review recommends that an up-front team comprised of representatives of MAFWM, and building and laboratory designers be established to ensure that the EMP measures related to the environment are included in the design stage of all facilities financed. A special supervision or monitoring of the construction phase was not expected to be needed as long as the contractors are provided with a copy of the EMP and its implementation becomes a binding part of their contract. A mid-term review of the loan can serve as an ex-post review of the inclusion of these aspects in construction contracts. Training in operations of the laboratories would be ensured through the needed for continual updating of certification and thus up-front integration of environmental aspects into the certification process is recommended in the review as the best way to ensure adherence to the EMP.

Annex 11: Project Preparation and Supervision
CROATIA: AGRICULTURE ACQUIS COHESION PROJECT

	Planned	Actual
PCN review	11/15/2004	11/22/2004
Initial PID to PIC	12/01/04	06/16/2005
QER	04/15/2005	04/14/2005
ISDS to PIC	04/15/2005	07/28/2005
Appraisal	06/23/2005	08/23/05
Negotiations	10/25/2005	11/28/2005
Board/RVP approval	02/20/2006	
Planned date of effectiveness	04/01/2006	
Planned date of mid-term review	10/15/2007	
Planned completion date	04/30/2010	
Planned closing date	10/31/2010	

Key institutions responsible for preparation of the project: Directorate of Marketing and Structural Support (MAFWM); Department for Policy, European Union and International Cooperation (MAFWM); Department of Sustainable Development of Rural Areas (MAFWM); Veterinary Directorate (MAFWM); and Croatia Food Agency.

Bank staff and consultants who worked on the project included:

Name	Title	Unit
Bank Staff		
Aleksandar Nacev	Task Team Leader	ECSSD
Karin Shepardson	Senior Operations Officer	ECSSD
Paula F. Lytle	Senior Social Development Specialist	ECSSD
Kyoichi Shimazaki	Lead Financial Officer	IEF
Antonia Viyachka	Procurement Analyst	ECSPS
Michael Gascoyne	Sr Financial Management Specialist	ECSPS
Edward Daoud	Disbursement	LOAG1
Irina Kichigina	Senior Counsel	LEGEC
Garry Smith	Institutional Consultant	ECSSD
Meeta Sehgal	Consultant	ECSSD
Solvita Klapare	Consultant	ECSSD
Jerzy Michalek	Rural Development Specialist	FAO/TCP
Ian Goulding	Food Safety Consultant	FAO/TCP
Csaba Csaki	Policy Consultant	ARD

Bank funds expended to date on project preparation:

1. Bank resources: US\$252,726 (of which 35,200 FO TCIE)
2. Trust funds:
3. Total: US\$252,726

Estimated Approval and Supervision costs:

1. Remaining costs to approval: US\$30,000
2. Estimated annual supervision cost: US\$80,000

Annex 12: Documents in the Project File
CROATIA: AGRICULTURE ACQUIS COHESION PROJECT

A. Technical Reports

- Financial and Economic Analysis of Rural Infrastructure Investments Eligible for SAPARD Funding

B. Project Preparation Documents

- Procurement Assessment
- Financial Assessment Report
- Procurement Review Report
- Project Costs

Annex 13: Statement of Loans and Credits
CROATIA: Agricultural Acquis Cohesion Project

Project ID	FY	Purpose	Original Amount in US\$ Millions				Cancel.	Undisb.	Difference between expected and actual disbursements	
			IBRD	IDA	SF	GEF			Orig.	Frm. Rev'd
P080258	2006	SCI & TECH	40.00	0.00	0.00	0.00	0.00	36.88	0.00	0.00
P076730	2005	SOC & ECON REC	45.68	0.00	0.00	0.00	0.00	42.03	0.00	0.00
P069937	2005	SOC WELF DEVT	40.00	0.00	0.00	0.00	0.00	37.48	0.00	0.00
P043195	2004	RIJEKA GATEWAY	156.50	0.00	0.00	0.00	0.00	112.85	17.36	0.00
P079978	2004	ENERGY EFF	5.00	0.00	0.00	0.00	0.00	5.15	1.19	0.00
P065416	2004	COAST CITIES POLLUT'N CONTROL (APL #1)	47.54	0.00	0.00	0.00	0.00	46.33	21.74	0.00
P071461	2004	ENERGY EFF (GEF)	0.00	0.00	0.00	7.00	0.00	6.26	2.62	0.00
P063546	2003	PENSION SYS INVST	27.30	0.00	0.00	0.00	0.00	14.86	8.03	0.00
P067149	2003	REAL PROP REG & CADASTRE	25.70	0.00	0.00	0.00	0.00	24.93	1.97	0.00
P042014	2002	KARST ECOSYS CONSV (GEF)	0.00	0.00	0.00	5.07	0.00	2.58	3.27	2.19
P065466	2001	COURT & BANKRUPTCY ADM (LIL)	5.00	0.00	0.00	0.00	0.00	3.67	3.67	3.67
P051273	2000	HEALTH SYSTEM	29.00	0.00	0.00	0.00	0.00	9.47	9.47	-2.26
P057767	1999	TA INST REG REF PSD	7.30	0.00	0.00	0.00	0.00	1.21	1.21	0.00
P043444	1998	MUN ENV INFRA	36.30	0.00	0.00	0.00	0.00	16.79	16.06	12.14
Total:			465.32	0.00	0.00	12.07	0.00	360.49	86.59	15.74

CROATIA
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

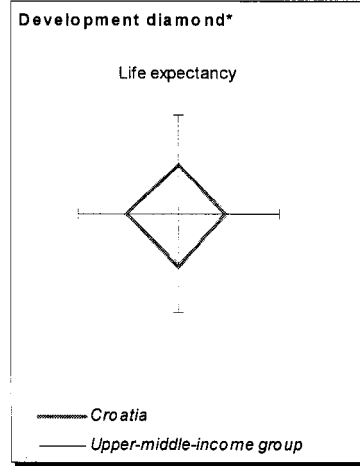
FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
1998/02	Belisce	12.11	0.00	0.00	13.02	12.11	0.00	0.00	13.02
2002	Croatia Banka	1.82	0.00	0.00	0.00	1.82	0.00	0.00	0.00
1999	Croatia Capital	0.00	4.21	0.00	0.00	0.00	3.83	0.00	0.00
1999/02	E&S Bank	22.60	0.00	0.00	0.00	22.60	0.00	0.00	0.00
2005	PBZ	90.81	0.00	0.00	0.00	90.81	0.00	0.00	0.00
2001	Pliva	0.00	0.00	10.00	0.00	0.00	0.00	10.00	0.00
2000	Viktor Lenac	6.00	0.00	0.50	8.18	6.00	0.00	0.00	8.18
Total portfolio:		133.34	4.21	10.50	21.20	133.34	3.83	10.00	21.20

		Approvals Pending Commitment			
FY Approval	Company	Loan	Equity	Quasi	Partic.
2002	Croatia Banka	0.01	0.00	0.00	0.00
2002	ESBank Zagreb II	0.01	0.00	0.00	0.00
2004	Viktor Lenac Exp	0.01	0.00	0.00	0.01
Total pending commitment:		0.03	0.00	0.00	0.01

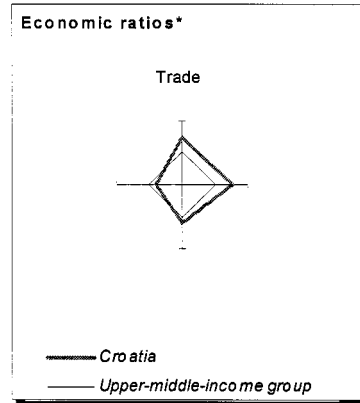
Annex 14: Country at a Glance

CROATIA: Agricultural Acquis Cohesion Project

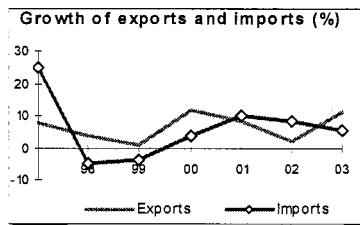
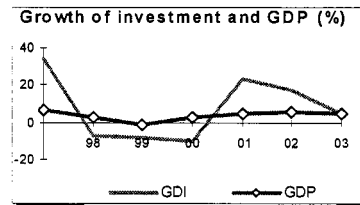
	Croatia	Europe & Central Asia	Upper-middle-income
POVERTY and SOCIAL			
2003			
Population, mid-year (millions)	4.4	473	335
GNI per capita (Atlas method, US\$)	5,500	2,570	5,340
GNI (Atlas method, US\$ billions)	24.0	1217	1,788
Average annual growth, 1997-03			
Population (%)	-0.8	0.0	1.2
Labor force (%)	0.3	0.2	1.8
Most recent estimate (latest year available, 1997-03)			
Poverty (% of population below national poverty line)	11
Urban population (% of total population)	69	63	76
Life expectancy at birth (years)	75	69	73
Infant mortality (per 1,000 live births)	7	31	19
Child malnutrition (% of children under 5)
Access to an improved water source (% of population)	95	91	89
Illiteracy (% of population age 15+)	2	3	9
Gross primary enrollment (% of school-age population)	95	103	104
Male	..	104	104
Female	..	102	104



	1983	1993	2002	2003	
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
GDP (US\$ billions)	..	10.9	22.8	28.7	
Gross domestic investment/GDP	..	15.5	26.7	27.8	
Exports of goods and services/GDP	..	52.4	45.3	44.0	
Gross domestic savings/GDP	..	14.3	17.9	18.4	
Gross national savings/GDP	..	16.2	20.5	18.9	
Current account balance/GDP	..	5.8	-8.4	-6.1	
Interest payments/GDP	..	0.9	2.2	2.0	
Total debt/GDP	..	22.8	67.7	75.3	
Total debt service/exports	..	4.9	24.3	17.7	
Present value of debt/GDP	65.9	..	
Present value of debt/exports	122.9	..	
(average annual growth)					
GDP	..	4.0	5.2	4.7	4.2
GDP per capita	..	4.7	5.1	6.5	4.5
Exports of goods and services	..	6.3	1.8	10.9	4.8



	1983	1993	2002	2003
STRUCTURE of the ECONOMY				
(% of GDP)				
Agriculture	..	13.8	9.0	8.7
Industry	..	35.8	29.3	29.1
Manufacturing	..	30.6	20.1	20.0
Services	..	50.3	61.8	62.2
Private consumption	..	62.2	60.7	61.2
General government consumption	..	23.5	21.4	20.4
Imports of goods and services	..	53.6	54.0	53.4
(average annual growth)				
Agriculture	..	-0.3	0.5	2.7
Industry	..	3.4	8.7	5.3
Manufacturing	..	3.1	6.7	5.0
Services	..	4.8	3.3	5.7
Private consumption	..	3.3	7.8	2.1
General government consumption	..	-0.1	0.6	0.9
Gross domestic investment	..	6.5	17.3	4.5
Imports of goods and services	..	5.1	8.4	5.4

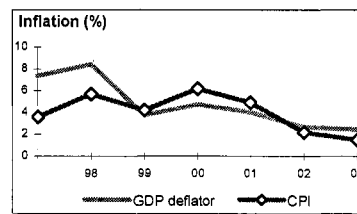


Note: 2003 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

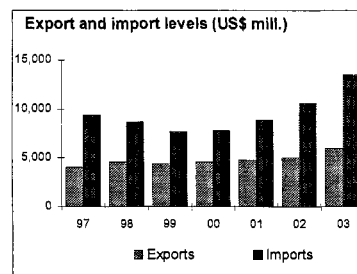
PRICES and GOVERNMENT FINANCE

	1983	1993	2002	2003
Domestic prices				
<i>(% change)</i>				
Consumer prices	..	1,516.6	2.2	1.5
implicit GDP deflator	..	1,466.8	2.7	2.4
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	..	36.9	45.0	44.6
Current budget balance	..	-0.1	1.6	1.8
Overall surplus/deficit	..	-2.0	-3.2	-3.5



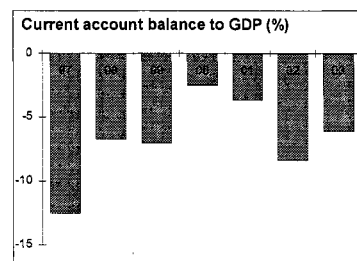
TRADE

	1983	1993	2002	2003
<i>(US\$ millions)</i>				
Total exports (fob)	..	3,910	4,995	6,007
Raw materials, excluding fuels	..	237	274	329
Mineral fuels and lubricants	..	377	458	560
Manufactures	..	1,762	2,456	2,953
Total imports (cif)	..	4,620	10,635	13,469
Food	..	266	794	930
Fuel and energy	..	447	1,310	1,500
Capital goods	..	749	3,682	4,500
Export price index (1995=100)	141	120
Import price index (1995=100)	140	119
Terms of trade (1995=100)	101	101



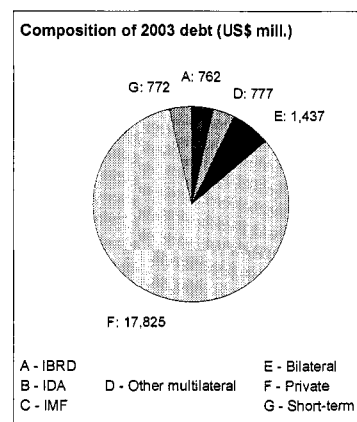
BALANCE of PAYMENTS

	1983	1993	2002	2003
<i>(US\$ millions)</i>				
Exports of goods and services	..	6,196	10,562	14,324
Imports of goods and services	..	5,767	13,047	16,212
Resource balance	..	429	-2,485	-1,888
Net income	..	-120	-499	-1,096
Net current transfers	..	328	1,076	1,235
Current account balance	..	637	-1,908	-1,749
Financing items (net)	..	-171	2,605	4,055
Changes in net reserves	..	-467	-697	-2,306
Memo:				
Reserves including gold (US\$ millions)	..	616	5,886	8,192
Conversion rate (DEC, local/US\$)	..	3.6	7.9	6.7



EXTERNAL DEBT and RESOURCE FLOWS

	1983	1993	2002	2003
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	..	2,486	15,413	21,573
IBRD	..	89	611	762
IDA	..	0	0	0
Total debt service	..	325	2,967	2,864
IBRD	..	43	52	86
IDA	..	0	0	0
Composition of net resource flows				
Official grants	..	0	60	..
Official creditors	..	-52	165	196
Private creditors	..	12	2,352	3,922
Foreign direct investment	..	102	591	1,685
Portfolio equity	..	0	-260	837
World Bank program				
Commitments	..	0	202	0
Disbursements	..	1	126	155
Principal repayments	..	33	30	58
Net flows	..	-33	95	97
Interest payments	..	9	22	28
Net transfers	..	-42	73	69



CROATIA

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- SELECTED CITIES AND TOWNS
- ⊙ COUNTY (ŽUPANIJA) CAPITALS
- ⊕ NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- RAILROADS
- COUNTY (ŽUPANIJA) BOUNDARIES
- INTERNATIONAL BOUNDARIES

