

Country strategy

Croatia

September 2004 – December 2006



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STRATEGY FOR SWEDEN'S DEVELOPMENT COOPERATION WITH CROATIA 2004–2006

I. Introduction

The Government's country strategy establishes the direction of Sweden's development cooperation with Croatia for the period 2004–2006. The strategy has been drawn up at the Ministry for Foreign Affairs in conjunction with the other ministries concerned, based on background material from Sida and supplementary information from the agencies involved. Consultations have taken place in Croatia with representatives of the government and civil society. The overall objective for Sweden's development cooperation is to help create conditions that will enable the poor to improve their living conditions. Focus for development cooperation with Croatia is to support equitable and sustainable reforms that help the country develop closer ties with the EU and its integration into European cooperation structures.

II. Country analysis

Croatia has 4.4 million inhabitants. Its per capita GDP is just over USD 5000, which makes it one of the most developed countries in the region. Having had an authoritarian government since independence in 1991, Croatia acquired a democratic government in 2000, after which widespread reforms were initiated. The centre-left government taking office in 2000 had a clear EU orientation and did much to bring Croatia closer to the Union. After the change in power in 2000, considerable political, economic and social progress has been made. Croatia's primary foreign policy goals are accession to the European Union and membership of NATO. After the parliamentary election of November 2003, Croatia acquired a minority government led by the Croatian Democratic Union (HDZ) with parliamentary support that included minority representatives. The new government has continued the work of reform and its pace has been speeded up.

Respect for human rights and minority rights have significantly increased since 2000. Croatia has ratified all the relevant conventions and national legislation guarantees the necessary protection. Problems still remain in some areas, primarily with regard to refugee returns and related property issues as well as with access to an efficient judicial system. In practice, Croatian citizens of Serbian ethnicity and Roma suffer from extensive discrimination. Lack of compliance with constitutional and other legislation still occurs.

The judicial system needs to be fundamentally reformed to meet requirements for the protection of statutory rights. The need for structural reforms and adaptation to the market economy is considerable. Conditions must be created for all refugees wishing to do so to return to Croatia. In addition, the country must cooperate with

the International Criminal Tribunal for the former Yugoslavia (ICTY). Relations with neighbouring countries need to be improved.

In February 2003, Croatia applied for membership of the EU. On the basis of the EU Commission's Opinion, presented in April 2004, the European Council decided in June on candidate country status and later initiation of membership negotiations with Croatia. The Commission considers that Croatia satisfies the political criteria for membership (democracy, the rule of law, minority rights) and has the administrative capacity to adopt the *acquis communautaire* and negotiate on membership. The European Partnership for Croatia, adopted by the EU in September, formulates the reform requirements identified for the short- and medium-term that are necessary for closer ties with the EU. The Croatian government has accepted these guidelines.

A policy for economic stabilisation has contributed to a recovery. Since 2000, the growth rate has been an average of four per cent a year and inflation has been low. Despite this, unemployment continues at an unacceptably high level. The primary obstacles to rapid, sustainable economic growth in Croatia are considered to be lack of efficiency of the judicial system, inadequate financial legislation and weak real estate and land legislation. Unfavourable conditions for foreign investments, high labour costs and rigid labour legislation may be other major contributory factors.

Croatian policy aims at reforms in the financial sector to enable Croatian companies to be operative in the EU internal market from around 2007. To this end, discussions are in progress on extensive and radical reforms of public administration and financial legislation, deregulation, decentralisation and the privatisation of state-owned industries, particularly within the agricultural and tourism sectors.

The development of tourism of a high standard requires considerable investment in hotels, service and associated activities and in waste, water and sewage management. To be able to compete on EU agricultural and food markets in the long term and to secure viable rural areas, land reforms and land consolidation will be required.

Operations within traditional industries such as the metal, textile, shoe and food sectors have declined while the pharmaceutical industry has expanded somewhat. The situation for both the construction and shipbuilding industries has also improved considerably. The foreign trade deficit has been partially balanced by income from tourism and transfers made by Croatians living abroad. Foreign debt has grown increasingly rapidly, accounting for approximately 75 per cent of GDP at the end of 2003.

The grey economy is flourishing and the state loses many billions in tax revenues every year because of deficient routines for collecting taxes.

Those most affected by poverty in Croatia are young people and the long-term unemployed in the urban areas and people living in traditionally depopulated regions. Another affected group consists of older returnee refugees. Croatia has

adopted legislative amendments to make it easier for returnees but, in practice, true integration of the Croatian-Serbian minority has never been a priority. The present social insurance system is inadequate and will be fundamentally reformed, as of 2004. The aim is to strengthen the social safety net and increase social integration, particularly for the most vulnerable groups of society. The pensions system has recently been reformed. Pensions are low, but are now disbursed regularly.

Extensive international support to spread democratic values and human rights has, over the past ten years, resulted in a more open and well-developed non-governmental society.

With regard to human trafficking, Croatia is both a transit country and a country of destination.

Women suffer the effects of the relatively high unemployment to a greater extent than men and are more frequently found in low-pay jobs. There is, however, an expressed political will to promote greater gender equality and improve the situation of women in the country. Several strong women's organisations are working for change.

In the field of environment, Croatia is in great need of investment with regard to water, wastewater and solid waste management to bring it up to EU standards. More than one million people remain unconnected to a local authority water system. Extending water and wastewater management is particularly important for the quality of water in the Adriatic Sea and thus also essential to the tourist industry, which is one of Croatia's major sources of income.

The Stabilisation and Association process (SAp)

EU and Swedish policy regarding the countries in South-Eastern Europe is based on the premise that closer economic and political ties with the EU are the lynchpin of political stability and sustainable economic development in the region. The Stabilisation and Association process defines the direction for these countries in achieving closer cooperation with the EU with a view to future EU membership. The SAp is a framework of different instruments including bilateral stabilisation and association agreements between the EU and the countries in the region, preferential trade agreements and extensive financial support aimed at speeding up EU integration: Community Assistance for Reconstruction and Development and Stabilisation (CARDS). It also includes economic and political conditionality requirements including an annual review mechanism that monitors compliance with conditionality and requirements for regional cooperation. The Stability Pact for South-Eastern Europe supports the regional dimension of SAp and is an important supplement to this process.

To further strengthen SAp, the EU has taken the decision to draw up additional instruments. The most important of these will be the so-called European Partnerships established with each country. These partnerships formulate the most important priorities for each country's EU integration, based inter alia on the

EU Commission's annual review report. The countries themselves respond by drawing up their own programmes for how their national budgets and CARDS funds should be distributed to support the development of closer ties with the EU. In this way, long-term financial support for the reform process can be planned. More extensive political dialogue with the EU and access to some of the Union programmes and the Technical Assistance and Information Exchange Office (TAIEX) are other new elements of SAp. Through SAp, the EU can support these countries' rapprochement with the EU, but the main responsibility for ensuring that progress is made lies with the countries themselves.

The Croatian Ministry of European Integration is the national coordinator for EU integration with regard to all the other ministries. The ministry has line responsibility for CARDS and all other EU instruments, as well as for bilateral cooperation with the member states. The Minister for European Integration is also responsible for coordination of implementation of EU integration measures that fall under the areas of responsibility of several Croatian ministries, for example environmental commitments. A national integration strategy is in the process of being drafted to be used as a basis, from 2005, for a formal national plan for the adoption of the EU *acquis*. The government has defined its priorities for future development cooperation in a three-year plan. The plan contains a description of social and economic development in the country, the government's focus, needs within various sectors and information on the different donors' planned cooperation.

The Commission's Opinion, the European Partnership and the Croatian government's own planning represent a natural framework for Swedish development cooperation with Croatia in the forthcoming strategy period.

III. The strategy period 2001–2003

In 1992–2003, some SEK 330 million was allocated through the Swedish international development cooperation agency (Sida) to operations in Croatia. At the beginning, this meant humanitarian assistance owing to the war but support was soon directed at strengthening democracy and respect for human rights, both of which were fragile. In connection with the first country strategy in 2001, Sweden also began to support institutional capacity building in various sectors to help the country comply with EU norms. In recent years, support has amounted to approximately SEK 50 million a year.

Most of the work pertaining to human rights and democracy has been channelled through three organisations: the Swedish Helsinki Committee for Human Rights, the Olof Palme International Center and Woman to Woman, cooperating with their Croatian equivalents. Extensive cooperation on youth affairs has taken place since 1997 through the Swedish PRONI Institute of Social Education. PRONI will, however, be replaced as an implementation party after criticism in a Sida-initiated audit.

In a joint project with the Lutheran World Federation (LWF), Sida has supported a so-called integrated area programme for refugee returnees. The project is part of a regional initiative for refugee return and is having a direct impact on the refugee situation in Serbia and Montenegro and Bosnia and Herzegovina.

A cooperative project between the Croatian Bureau of Statistics (CBS) and Statistics Sweden (SCB) was initiated in 2001, with the purpose of introducing modern statistical methods that comply with EU norms.

In a joint Sida-Swedesurvey project, training initiatives to develop the property and land register have been supported. Sida has also begun support to larger projects for land consolidation as part of ongoing reforms in agriculture.

The largest and most important donor in Croatia is the European Union via the CARDS programme. This aims at supporting Croatia's participation in the SAp and the country's further integration with the EU. The programme's objectives are to support structural and economic reforms, to strengthen democracy and the rule of law and to promote reconciliation and the return of refugees.

For the period 2001–2004, the costs of the programme in Croatia amount to a total of EUR 257 million (approximately EUR 62 million per year). An additional EUR 197 million has been set aside to promote regional cooperation in the Western Balkans. Decisions on initiatives in Croatia have been taken in the following areas:

- democracy
- economic and social development
- justice and home affairs
- administrative reform and implementation of the SA-agreement, including the strengthening of Croatia's capacity as a cooperation partner
- the environment and natural resources

Implementation of CARDS 2001 projects in the sectors of justice and home affairs, civil society, economic development, science and technology and public administration has been initiated and operations for 2002 and 2003 are in the process of being procured and tendered for. Planning, preparations, tendering procedures and implementation in connection with these projects have therefore been considerably delayed.

Every month the EU Commission arranges meetings for consultation and the exchange of information on CARDS and bilateral initiatives.

Other donors of importance include the International Bank for Reconstruction and Development, the United Nations Development Programme, the USA, the Netherlands, Germany, the UK and Norway. These have supported smaller projects, primarily within the social sector and refugee return programmes, civil society and institutional capacity building. The pace of implementation of CARDS assistance is increasing to prepare the countries in the Western Balkans

for membership of the EU. As the EU increases its commitment in Croatia, most bilateral donors will be phasing out their assistance in the coming three to four years.

The World Bank has supported 22 completed projects in Croatia, costing a total of USD 1.2 billion. The Bank has recently initiated discussions with the new government on future cooperation. During the next three to four years, a volume of USD 200–300 million annually is planned.

According to the World Bank, Croatia needs supplementary support from bilateral donors in the form of technical assistance in areas where the EU Commission does not operate. Bilateral support is being sought for financing the bank's economic adjustment programme aimed at supporting Croatia in developing closer ties with the EU. Other important projects are investments in water and waste management. Similar projects are under preparation for towns and cities along the entire Croatian coast. Several projects are being planned aimed at creating more effective energy production and use, developing new sources of energy and helping to amend legislation in this sector so as to comply with the relevant *acquis*. The infrastructure, such as the railway sector, will be rationalised and privatised. For budgetary reasons, the new government will revise existing programmes, but there will be continuing scope for foreign investment in this sector.

Other important areas identified by the World Bank are reforms of the judicial system, the public sector and agriculture.

The Office of the UN High Commissioner for Refugees (UNHCR) and the Organisation for Security and Cooperation in Europe (OSCE) are represented in the country and under their respective mandates are supporting the Croatian government to live up to its commitments with regard to human rights, including refugee return and ethnic minorities. The OSCE mission and its field offices are playing a particularly supportive role in developing closer ties between Croatia and the European community of values. The International Criminal Tribunal for the former Yugoslavia has a cooperation office in Croatia and assists the government in its commitment to bring war criminals to justice.

IV. Guiding principles and general considerations with regard to Sweden's development cooperation with Croatia

The development of closer ties with the EU is the most important engine for the reforms that Croatia must implement in order to reduce poverty and promote democracy, good governance and respect for human rights. Most of Sweden's development cooperation with Croatia will therefore be focused on the country's EU adjustment and thus:

- be based on Croatia's own priorities and national plan for EU adjustment in the framework of the SAP and European Partnerships

- combine a long-term perspective with flexibility, be characterised as far as possible by local ownership and take the absorption capacity of the cooperation parties into consideration
- be increasingly focused on institution building and capacity development, where both central and local levels must be involved
- be coordinated with other donors, particularly with the EU Commission and the CARDS programme
- support initiatives that strengthen regional cooperation
- make use of experience of Swedish development cooperation with the new EU member countries and where possible, develop three-party cooperation between the latter, Sweden and Croatia
- be characterised by a close dialogue between the Swedish Ministry for Foreign Affairs and Sida at central and local levels.

Sweden is to support initiatives that encourage citizens to be involved and give them greater opportunities to influence the reform process in Croatia. Sweden will also support initiatives that promote human rights and the building and deepening of a culture of democracy. Gender equality, sustainable use of natural resources and environmental consideration should be integrated into all parts of the cooperation. Special efforts should be made to promote both gender equality and environmental sustainability.

Development cooperation should primarily be directed at capacity development. In connection with this, grants for investment and the purchase of equipment may be considered.

Parallel and co-financing of other donors' programmes should be actively considered when this leads to clear added value.

Future focus

The focus of development cooperation with Croatia is to support reforms that help the country develop closer ties with the EU and its integration into European cooperative structures. This means that the emphasis of development assistance is shifting in favour of measures to strengthen central structures and national processes affecting all sectors of society. As a result of this shift in emphasis, support to civil society will be reduced in favour of system reforms and the development of central and local institutions.

Support to refugee return via the LWF will be phased out during the strategy period. The part of the project devoted to reconstruction will be completed in the middle of the strategy period. Support to socio-economic components of this programme will continue until the end of 2005, when it will be phased out.

One of the primary tasks of Swedish development cooperation with Croatia is to support reforms that contribute to the creation of a well-functioning, transparent and democratic system of public administration, which can facilitate closer ties with the EU. Development cooperation must also promote growth and a sound economy by helping to strengthen the private sector and create better conditions for trade and foreign investment. Development cooperation must also contribute

to a transparent and well-functioning judicial system, which is essential both for efficient administration and for enabling the private sector to develop.

Twinning is a useful and often effective method of institution building. Swedish agencies' participation in CARDS twinning programmes should therefore be encouraged. Similarly, use must be made of experience of Swedish development cooperation with the new EU member countries and where possible, form a basis for three-party cooperation between the latter, Sweden and Croatia. In this connection, Sida should consider the establishment of a fund for institutional support for financing short-term technical development projects, aimed at EU adjustment. The Croatian government itself would suggest suitable projects to be financed by such a fund.

V. Prioritised areas of activity for Sweden's development cooperation with Croatia, 2004–2006

Based on the objectives and principles, experiences and general considerations defined above, Swedish development cooperation with Croatia for the period 2004–2006 will primarily be focused on the following areas:

- Democracy and good governance
- respect for human rights
- gender equality
- economic growth
- sustainable use of natural resources and environmental concern
- social development and security.

5.1. Democracy and good governance

5.1.1 Administrative reform

Support should be given to promote an efficient and transparent administration at central and local levels. Focus should be given to changing structures and enhancing the skills of public officials. Important areas to be given priority are political decision-making processes, financial administration, cooperation between ministries and consultations with civil society. This will be done through training and skills-development initiatives aimed at strengthening administrative capacity in ministries and public agencies. In general, this support will take place within the framework of administrative reform and supplement the efforts of other donors.

Cooperation should also seek to streamline systems for control and follow-up in public administration.

Sweden should consider support towards the establishment of policy divisions in key ministries. Institutional capacity building in the field of statistics should continue.

5.1.2 Strengthening the judicial system

Sweden's cooperation should help to strengthen the judicial system by supporting the development of sustainable institutional and administrative capacity in the agencies concerned. Cooperation must be marked by an active concern for the entire chain of justice.

Cooperation in the legal sector should follow the *Guidelines for Justice and Home Affairs, Western Balkans*, aimed at long-term, sustainable development in the legal sphere.

Stable rules on real property need to be modernised to define the rights, obligations and responsibilities of property owners and provide a basis for economic growth and for land use that is considerate and sustainable in the long term. Sweden should continue its support to building up efficient real estate and land registers with associated map records and real property formation and real estate pledges.

5.1.3 Corruption prevention

Cooperation must help prevent corruption, including that in the financial sphere. Support, via training initiatives for example, should thus be considered to promote public procurement procedures that are open and transparent.

5.2 Respect for human rights

Initiatives in the field of human rights must include the promotion of the rights and freedoms of persons belonging to national and/or ethnic minorities, in accordance with Croatian strategies in this field. To improve the living standards of the Roma and strengthen their role in society, Swedish initiatives must contribute to implementation of the Croatian government's strategy for Roma integration.

Support to independent mass media will also continue during the period. The aim of cultural cooperation and mutual cultural exchanges should be to promote cultural diversity, thereby strengthening the position of culture and democracy.

Swedish support for human rights in Croatia will decline during the strategy period in favour of greater support for implementing reforms in public administration.

5.3 Gender equality

Since a gender equality approach should inform all aspects of development cooperation, programmes that directly focus on strengthening women's role at all levels of society must be given further support.

5.4 Economic growth

Sweden should consider support to financial reforms aiming at restructuring and privatising state-owned companies. Sweden should also consider support to the development and implementation of certification and standardisation systems facilitating Croatian exports to the EU.

To promote entrepreneurship and company development, export and trade and to contribute to a stable framework for small- and medium-sized enterprises (SMEs),

Sweden should consider support to the development of trade and professional organisations in the business sector. Sweden should also consider support to skills-development efforts for SMEs.

5.5 Sustainable use of natural resources and environmental concern

Support within the field of sustainable use of natural resources and environmental consideration should be directed at institution-strengthening efforts to promote EU adjustment. This support could include initiatives to assist Croatia in adapting its legislation and efforts to reform agencies dealing with the environment.

5.6 Social development and security

Sweden should contribute to implementation of the extensive reforms being undertaken in the social sector. Different forms for institutional capacity building should be considered in close cooperation with other actors, such as the World Bank. The training of social workers continues to be relevant in this connection. Programmes that entail building up a social safety net for vulnerable groups are of particular interest.

Sweden should continue to promote initiatives to fight trafficking and support regional efforts to combat the spread of HIV/AIDS.

VI. Economic framework

Sweden has a flexible budgetary system for bilateral development cooperation with the countries in the Western Balkans. These funds are distributed among countries, sectors and actors according to need and their capacity to receive assistance. Efforts to promote reforms should be conditional on support for the reforms on the part of the Croatian government and parliament. Before new action is initiated, discussions should be held with the cooperation partners on the reforms and measures required for effective implementation. If political support is weak or if there is no desire to reform, the extent of Swedish support will be affected.

During the strategy period, development cooperation with Croatia will be phased out in connection with the country's growing integration with the EU. This phasing-out should take place at a pace and in forms that facilitate deeper cooperation, without government financing, of mutual interest to Swedish and Croatian partners. The phasing-out of development cooperation means that decisions on new initiative in Croatia after the conclusion of the strategy period will only be made in exceptional cases.

VII. Follow-up

Implementation of this strategy will be followed up in Sida's half-yearly reports that provide the basis for the six-monthly review meetings, to be held between the Swedish Ministry for Foreign Affairs and Sida.



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Cover: Editorial Office, The Ministry for Foreign Affairs

Printed by XBS Grafisk service, 2004

Article no: UD 04.053