

## **OVERVIEW OF THE IPARD PROGRAM FUNDS USAGE IN THE REPUBLIC OF CROATIA**

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### **Abstract**

The Instrument of Pre-Accession Assistance – IPA was offered as an aid to the Republic of Croatia for implementation of required reforms within its preparation for full membership in the European Union. The assistance is aimed to support the set-up of a system for efficient management of European Union funds. The IPA program was established by the EU Council Regulation no. 1085/2006, which defines general principles and assistance framework. Detailed provisions are defined in the Regulation no. 718/2007, made up of five components: IPA-TAIB, IPA-CBC, IPA-RD, IPA-HRD and IPARD. Financial framework of the Program is determined by the Multiannual Financial Framework of the European Commission - MFF for each participating country in the IPA components. The main objective of the IPARD program is to improve the agricultural sector and its market efficiency according to the EU standards, to implement preparatory activities for incorporation of agricultural and environmental measures and the LEADER, as well as to develop rural economy. The IPARD program in the Republic of Croatia is carried out through the Measure 101 “Investments in agricultural holdings to restructure and upgrade to the EU standards”, Measure 103 “Investments in processing and marketing of agriculture and fishery products to restructure and upgrade to the EU standards”, Measure 301 “Improvement and development of rural infrastructure”, Measure 302 “Development and diversification of rural economic activities” and Measure 202 “Preparation and implementation of local rural development strategies”. The objective of presented paper is to overview the usage of IPARD funds in the Republic of Croatia in the period 2010-2013.

**Key words:** *European Union, funds, IPARD program, Republic of Croatia*

### **Introduction**

The Republic of Croatia was officially granted a status of a candidate country for membership in the European Union on June 18, 2004, and thus gained the possibility to use pre-accession assistance in order to facilitate adjustment to EU standards and to prepare itself for EU membership. Pre-accession aid is a part of the European Union strategy, which is focused on specific needs of each candidate country within its process of preparing for membership in the European Union. The Republic of Croatia, as a candidate country for accession to the European Union, was approved the pre-accession funds for the PHARE, ISPA and SAPARD programs in the period of 2005-2006, as well as the IPA program, which was available from 2007-2013.

The Instrument for Pre-accession Assistance – IPA is a program of preparatory measures for Croatian joining to the EU in the period 2007-2013. The IPA program was established by the EU Council Regulation no. 1085/2006. Financial value in the stated period 2007-2013 was 11.468 bill. €. Indicative financial framework for IPA in 2007-2012 is presented in the Table 1.

**Table 1.** *Indicative financial framework for IPA 2007-2012 (in mil. €)*

<b>Multi-annual indicative financial framework for IPA in Croatia</b>		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Total</b>
I.	Transition Assistance and Institution Building	49.61	45.37	45.60	39.48	39.96	40.87	260,89
II.	Cross-border Cooperation	9.69	14.73	15.90	16.22	16.54	16.87	89,95
III.	Regional Development	45.05	47.60	49.70	56.80	58.20	59.35	316,70
IV.	Human Resources Development	11.38	12.70	14.20	15.70	16.00	16.04	86,02
V.	Rural Development	25.50	25.60	25.80	26.00	26.50	27.27	156,67
<b>Total</b>		<b>141.23</b>	<b>146.00</b>	<b>151.20</b>	<b>154.20</b>	<b>157.20</b>	<b>160.40</b>	<b>910.23</b>

Source: European funds for Croatian projects (2009), SDURF

The Croatian Parliament passed the Law on Ratification of the Framework Agreement between the Croatian Government and the European Commission on rules for cooperation concerning the European financial assistance for the Republic of Croatia and the implementation of assistance under the Instrument for Pre-Accession Assistance-IPA (Official Journal – OJ 10/07). The main components of the IPA program are Transition Assistance and Institution Building (35%), Cross-border Cooperation (7%), Regional Development (32%), Human Resources Development (8%) and Rural Development (18%).

In the period 2007-2012, the Component 5 through IPA –IPARD program provided a total of 156.67 million € (Table 1). Based on the Strategy of Agriculture and Fisheries of the Republic of Croatia (OJ 89/02), the Ministry of Agriculture, Forestry and Water Management defined long-term strategic objectives, such as follows: improved competitiveness and efficiency of primary agricultural, forestry and fishery production, improved competitiveness and efficiency of processing and marketing of agricultural, forestry and fishery production, improved quality and hygiene standards, as well as standards related to environment and animal welfare, additional employment opportunities and income for farmers and all who live in rural areas, which shall lead to improved living and working conditions, achievement of sustainable rural development through optimized and balanced economic development, environmental protection and social cohesion. As a continuation of the SAPARD program and in order to fulfill all objectives within the national strategy, the European Commission prepared the new IPARD program - Agriculture and Rural Development Plan 2007-2013. The program was evaluated positively by the Committee for Rural Development in Brussels on December 19, 2007, and on February 25, 2008 it was accepted by the European Commission. The program was implemented through three strategic priorities with specific technical assistance. Within Priority 1 beneficiaries are agricultural farms (family farms, small entrepreneurs and legal entities) as defined by the Law on Agriculture (OJ66/01, 83/02) and registered in the Registry of agricultural farms that are subject to VAT.

Within Priority 2 there are investments for landscaping and environment (Measure 1), as well as preparatory activities for implementation of rural development strategies (Measure 2). Beneficiaries within the Measure 1 are craftsmen and companies that are 100% privately owned and those that are up to 25% owned by the state and are in the VAT system. They classify as micro, small and medium enterprises as referring to the Act on subsidizing small enterprises (OJ29/02). Beneficiaries within the Measure 2 are local authorities, agricultural farms and farmers united in the Local Action Group (LAG). Within the Priority 3, there are investments planned for development of rural economy through the following measures: development of local infrastructure (unclassified roads, sewer systems, etc.) and support for rural tourism, construction of processing plants for dairy products and meat, traditional crafts, the use of renewable energy sources. Beneficiaries are local self-government units, municipalities and cities with population of up to 10.000 (Census 2001). The IPARD program funds are aimed to increase the competitiveness of sustainable producers by improving market efficiency and by meeting EU standards. This financial assistance is focused on development of rural economy, on increase of income and on increased employment in rural areas, by reducing at the same time gap between rural and urban areas". The objective of presented paper is to overview the usage of IPARD funds in the Republic of Croatia in the period 2010-2013.

### **Materials and methods**

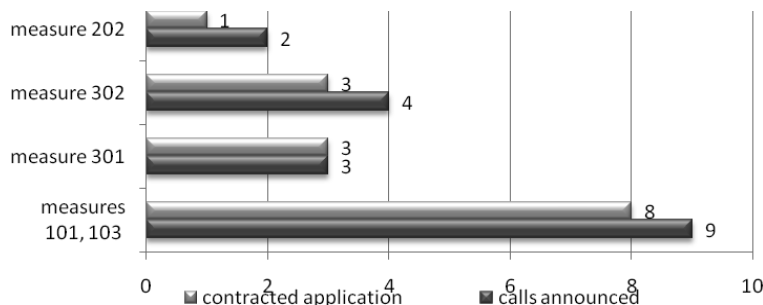
The most of performed analyses in the paper were made on the basis of the data published in the statistical publications of the Croatian Bureau of Statistics, Eurostat Bruxelles, annual reports on agriculture published by the European Commission, as well as publications of the Croatian Government and the Ministry of Agriculture, Forestry and Water Management of the Republic of Croatia. The data were processed and analyzed by the methods of descriptive statistics, and presented in tables and figures. The analysis results were processed with the MS Office - Excel 2010.

### **Results and discussion**

According to the Regulations on the scope and content of responsibilities and authorizations of entities responsible for management of the Instrument of Pre-Accession Assistance – IPA (OJ 34/08), the IPARD program is managed by the Directorate for Rural Development-Managing Authority for SAPARD /IPARD program, and carried out by the Paying Agency for Agriculture, Fisheries and Rural Development in Croatia. The IPARD Program in Croatia has been carried since beginning of 2010, for measures 101 "Investments in agricultural holdings to restructure and upgrade to the EU standards" and 103 "Investments in processing and marketing of agriculture and fishery products to restructure and upgrade to the EU standards". Since 2011, the measures 301 "Improvement and development of rural infrastructure" and 302 "Development and diversification of rural economic activities" have been implemented. Certain amount of funds (25.3 mil. €) from 2007 and 2008 is irreversibly lost due to the n+3rule<sup>1</sup>. Since the beginning of IPARD program implementation, there has been a total of 18 calls announced for measures 101, 103, 301, 302 and 202. The overview of calls is presented in the Figure 1.

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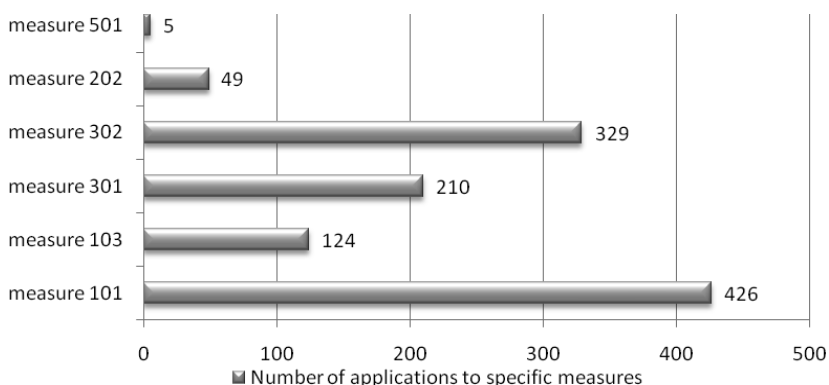
<sup>1</sup>financial means within European Union structural funds for certain beneficiary country have limited time for utilization, and after that time limit, funds are returned to the European Union budget



**Figure 1.** *Number of calls announced for specific measures*

Source: Report on the use of pre-accession assistance programs of the European Union

By the end of the reporting period, the Paying Agency for Agriculture, Fisheries and Rural Development in Croatia received 1.143 applications in total, which requested a total of 285.54 mil. € (Report on the use of pre-accession assistance programs of the European Union). Number of applications according to specific measure is shown in Figure 2.



**Figure 2.** *Number of applications to specific measures*

Source: Report on the use of pre-accession assistance programs of the European Union

In reference to the Report on the use of pre-accession assistance programs of the European Union, the most project contracts within the Measure 101 were signed in the fruit and vegetables sector (85 contracts), then meat sector (27 contracts), followed by investments in the milk production (20 contracts) and egg production (9 contracts), and sector of cereals and oil seeds (6 contracts). Within the Measure 103, the most project contracts were signed in the fruit and vegetable sector (18 contracts), the fishery sector (13 contracts), the meat sector (11 contracts), winemaking (7 contracts) and dairy (4 contracts). As of the Measure 302, the most contracted projects were referring to rural tourism sector (46 projects), traditional crafts and processing at agricultural farms (3 projects,

respectively) and one project for the sector of freshwater fishery and renewable energy sources, respectively.

For the Measure 301, there were 34 contracted projects. The highest number of contracts was signed in the sector of sewerage and wastewater management (18 contracts), local unclassified roads (16 contracts). Referring to the Report on the use of pre-accession assistance programs of the European Union, out of the total number of contracted projects since the beginning of the Program period (292), the most of them were contracted for the County of Istria (44 projects, 15.07%) and the Osijek-Baranja County (42 projects; 14.38%), while the least projects were contracted for the Šibenik-Knin County (1; 0.003%) and Krapina-Zagorje County and the City of Zagreb (3 projects, 0.01%, respectively).

Since the beginning of IPARD implementation, Croatia has been allocated financial funds in the amount of 129.4mil. €. A total of 292 projects were contracted in the value of 65.06 mil. €. In the reporting period, Croatia has used 50.28% of funds from the IPARD program (Table 2).

**Table 2.** *Financial indicators of IPARD program implementation from 2007- 30<sup>th</sup> June 2013 (in mil. €)*

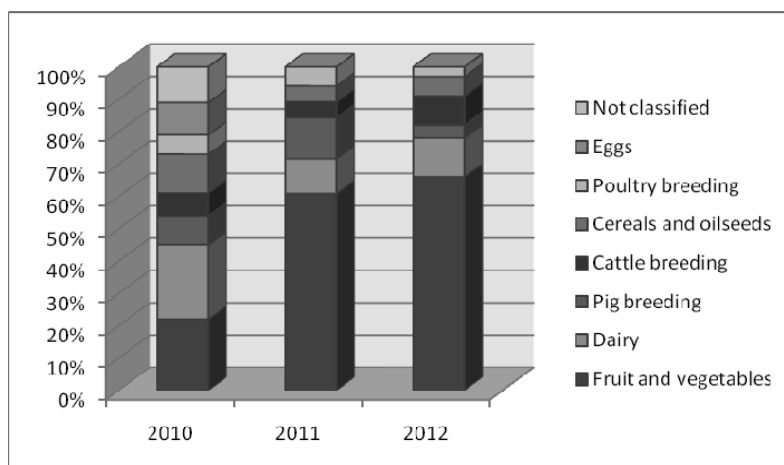
	<b>101</b>	<b>103</b>	<b>301</b>	<b>302</b>	<b>501</b>	<b>Total</b>
<b>Total allocated funds</b>			129.4			<b>129.4</b>
<b>Total contracted funds</b>	24.49	26.45	11.11	2.99	0.02	<b>65.06</b>
<b>Total contracted / Total allocated</b>						<b>50.28%</b>
<b>Total funds received from EC</b>	7.83	7.80	0.25	0.42	0	<b>39.79*</b>
<b>Total paid to beneficiaries</b>	7.89	9.13	1.05	0.42	0	<b>18.48</b>
<b>Total paid/ Total contracted funds</b>	32.22%	34.50%	9.41%	14.07%	0.00%	<b>28.40%</b>
<b>Total paid / Total allocated funds</b>						14.28%
<b>Total paid / Total allocated</b>						30.75%
<b>Total validated</b>	7.83	7.80	0.25	0.42	0	<b>39.79*</b>
<b>Total validated / Total contracted</b>	31.97%	29.49%	2.25%	14.07%	0.00%	<b>25.06%</b>
<b>Total validated /Total allocated</b>						<b>12.60%</b>

\*advance payment of 23.49 mil. € included

Source: Report on the use of pre-accession assistance programs of the European Union

### **Presentation of the IPARD Program according to the production sectors**

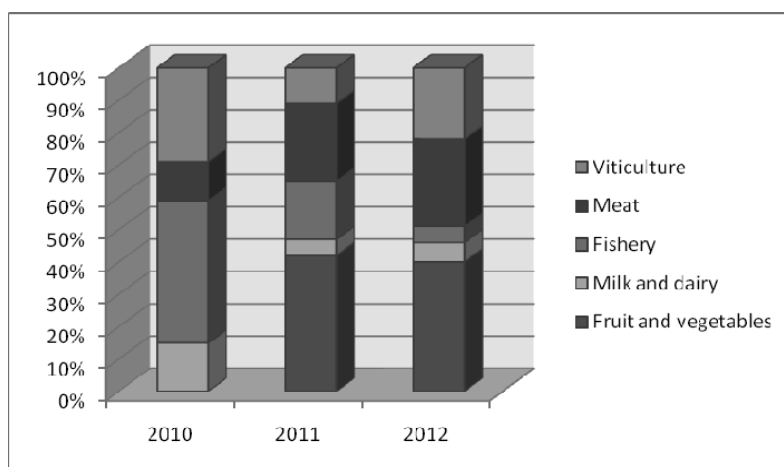
If considering their objectives, the Measure 101 and Measure 103 were mostly recognized by potential beneficiaries of IPARD, whose primary business activity refers to animal husbandry. The relative portions of representation per production sectors and years for the Measure 101 are shown in Figure 3.



**Figure 3.** Relative portions of representation per production sectors and years for the Measure 101, Source: Annual Report on the implementation of IPARD in Croatia

The figure showing a three-year representation per production sectors and years for the Measure 101 indicates that there were 126 applications within the sector of fruit and vegetables, 32 applications for dairy sector, 20 applications within the pig breeding sector, 18 within cattle breeding sector, 11 for the poultry breeding sector and sector of cereals and oilseeds and 9 applications within the egg production sector (Annual Report on the implementation of IPARD in Croatia). The analysis by sectors for the year 2010 indicates that there was a greater portion of applications within the sector of animal husbandry (54%) if compared to 2011 and 2012 (36% and 37%, respectively). In Croatia, the sector of animal husbandry takes up about 36% of the total value of agricultural production, which reflects in a balanced trend of applications in 2011 and 2012 compared to the total value of livestock production in the Republic of Croatia (the ratio of the number of applications within the sector of animal husbandry and total value of livestock production is 1:1).

Referring to the Annual Report on the implementation of IPARD in Croatia for the Measure 103, the largest portion of applications (31%) was marked in the sector of fruit and vegetable processing, followed by the fishery sector and meat and viticulture sector (Figure 4.). There were significantly less received applications in the meat processing sector than in the fruit and vegetable sector, but it took up larger portion in the total amount of grants received. The largest amount of requested grants in 2012 was in the meat sector (~ 45%) and in the sector of fruit and vegetables (30%). In 2010, relative portions in number of applications to the Measure 103 in sectors of animal husbandry were within milk and dairy 15%, meat 12%, and fishery 44%. In the first year of implementing the Measure 103, there were no applications for the fruit and vegetable sector. In 2011 and 2012, relative portion of applications in the meat sector amounted to 24% and 27%, respectively, while portions in the number of applications in the milk and dairy sector reduced to 5% and 7%, respectively.



**Figure 4.** *Relative portions of representation per production sectors and years for the Measure 103*  
 Source: Annual Report on the implementation of IPARD in Croatia

IPARD program achieved much better results in its implementation than the SAPARD program. For example, in one call within the Measures 101 and 103, there were more grants awarded than in the entire SAPARD program. Portion of small-scale projects within the Measure 101 was significantly increased, so that there was 2.75 times more contracted projects within the Measure 101 in comparison with the Measure 103, while within the SAPARD program number of contracted projects in these two measures was equal. Referring to the grant support, the ratio increased from 0.35:1 to 0.88:1. The project success rate rose from 42% in the SAPARD program to 58% in the IPARD program, and if excluding the Measure 301, the average project success rate is 70%.

## Conclusion

If considering previous experiences with the implementation of the SAPARD program, the Republic of Croatia was better prepared to use funds from the IPARD program. In the reported period the group of potential beneficiaries of the European Union funds has developed, project calls within specific measures were more often announced, project success rate within individual calls increased, and amounts of awarded grants also increased. Since the Republic of Croatia was awarded full membership status in the EU on July 1, 2013, it has become eligible to apply for grants from much wealthier European Union structural funds for agriculture, food industry, fishery and rural development, such as the European Agricultural Fund for Rural Development – EAFRD, as well as the European Maritime and Fisheries Fund - EMF. Within these structural funds there are grants awarded for development projects that contribute to promotion of European society and economy competitiveness and help to reduce gaps between developed and less developed parts of the EU.

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