

GOVERNMENT OF CROATIA

MINISTRY OF REGIONAL DEVELOPMENT, FORESTRY AND WATER
MANAGEMENT

CROATIA SOCIAL AND ECONOMIC RECOVERY PROJECT

OPERATIONAL MANUAL

VOLUME 1 COMMUNITY INVESTMENTS
(COMPONENT 1)

FINAL VERSION
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Table of contents

TABLE OF FIGURES.....	IV
ACRONYMS.....	V
LIST OF ANNEXES	VII
1. ORGANIZATION OF COMPONENT COMMUNITY INVESTMENT.....	1
1.1. ORGANIZATION OF COMPONENT	1
1.2. OBJECTIVES AND OUTCOMES.....	2
1.1.1. Objectives	2
1.1.2. Results	2
1.1.3. Specific outcomes and indicators	2
1.1.4. Involved entities	4
1.3. SPECIFIC REGULATIONS	4
1.1.5. CSERP Environmental policy	4
1.1.6. Land acquisition and resettlement rules	6
2. SOCIAL INCLUSION SUBPROJECTS (SC 1).....	12
2.1. SUBCOMPONENT ORGANIZATION.....	12
2.2. REPARTITION OF FUNDS	12
2.3. ELIGIBILITY	13
2.3.1. Eligible applicants and Partners	13
2.3.2. Eligible Activities: activities for which an application may be made	14
2.3.3. Non eligible Activities.....	16
2.3.4. Eligible expenses.....	16
2.4. SPECIFIC REQUIREMENTS.....	16
2.4.1. Financial ceiling	16
2.4.2. Duration	17
2.4.3. Beneficiary Contribution	17
2.4.4. Sector conformity.....	17
2.4.5. Operation plan requirements	17
2.5. SUBPROJECTS SELECTION CRITERIA AND SELECTION	18
3. ECONOMIC REVITALIZATION SUBPROJECTS (SC 2.1).....	23
SUBCOMPONENT 2.1: FINANCIAL SUPPORT (IN THE FORM OF GRANTS) TO EXISTING SME-S AND COOPERATIVES	23
3.1. REPARTITION OF FUNDS.....	24
3.2. ELIGIBILITY	24
3.2.1. Eligible applicants.....	24
3.2.2. Eligible subprojects.....	24
3.2.3. Non eligible subprojects	25
3.2.4. Eligible expenses.....	25
3.3. SPECIFIC REQUIREMENTS	26
3.3.1. Financial ceiling	26
3.3.2. Duration	26
3.3.3. Rules for CSERP co-financing	26
3.3.4. Beneficiary contribution	29
3.4. SUBPROJECTS SELECTION CRITERIA AND SEQUENCY	30
3.4.1. Selection criteria	30
3.4.2. Project selection and approval sequency (process).....	34
4. ECONOMIC REVITALIZATION SUBPROJECTS (SC 2.2).....	36
SUBCOMPONENT 2.2: SUPPORT FOR NEW SME S AND COOPERATIVES.....	36

ACTIVITY 2.2.1: GRANTS (START-UP CAPITAL) FOR NEW COOPERATIVES	36
4.1. REPARTITION OF FUNDS	37
4.2. ELIGIBILITY	37
4.2.1. Eligible applicant.....	37
4.2.2. Eligible subprojects.....	37
4.2.3. Non eligible subprojects	38
4.2.4. Eligible expenses.....	38
4.3. SPECIFIC REQUIREMENTS	39
4.3.1. Financial Ceiling	39
4.3.2. Duration	39
4.3.3. Rules for Project co-financing.....	39
4.3.4. Beneficiary Contribution	39
4.4. SUBPROJECTS SELECTION CRITERIA	40
ACTIVITY 2.2.2: CAPACITY BUILDING FOR COOPERATIVES AND SMES	44
4.5. REPARTITION OF FUNDS	44
4.6. BACKGROUND AND JUSTIFICATION ON THE COOPERATIVE SECTOR	44
4.7. IMPLEMENTATION PROCESS	45
4.7.1. The offer	45
4.7.2. Diagnostic review.....	45
4.7.3. Outsourcing implementation	46
4.8. ELIGIBILITY	46
4.8.1. Eligible applicants.....	46
4.8.2. Eligible beneficiaries	47
4.8.3. Eligible activities	47
4.8.4. Non eligible subprojects	48
4.8.5. Eligible expenses.....	48
4.9. SPECIFIC REQUIREMENTS	48
4.9.1. Financial Ceiling	48
4.9.2. Duration	49
4.9.3. Beneficiary Contribution	49
4.10. SUBPROJECTS SELECTION CRITERIA	49
5. SMALL COMMUNITY INFRASTRUCTURE SUBPROJECTS (SC 3)	52
5.1. REPARTITION OF FUNDS	52
5.2. ELIGIBILITY	53
5.2.1. Eligible activities: activities for which an application may be made.....	54
5.2.2. Non eligible activities	56
5.2.3. Eligible expenses.....	57
5.3. SPECIFIC REQUIREMENTS	57
5.3.1. Financial ceiling	57
5.3.2. Duration	58
5.3.3. Beneficiary contribution	58
5.3.4. Sector conformity.....	58
5.3.5. Operation and maintenance plan	58
5.4. SUBPROJECT SELECTION CRITERIA AND SELECTION PROCESS	59
6. SUBPROJECT CYCLE	65
6.1. STEPS	65
6.2. CALENDAR	66
6.3. STEP 1: PREPARATION OF A PROPOSAL	67
6.3.1. Local process.....	67
6.3.2. Preparation of the request	67
<i>Contents of a request</i>	67
6.4. STEP 2: SUBMISSION PROCESS	68
6.4.1. local non objection (letters of support)	68
6.4.2. administrative analysis	68

<i>Review decisive issues</i>	68
6.4.3. Environmental assessment	69
<i>Specific guidelines</i>	69
<i>Screening instructions</i>	70
<i>EIA</i>	71
<i>EMP</i>	72
6.4.4. Feasibility form.....	72
6.5. STEP 3: SELECTION AND APPROVAL	72
6.5.1. Selection / approval committees.....	72
<i>Regional level</i>	72
<i>National level</i>	73
6.5.2. Selection Process.....	73
6.5.3. Approval.....	74
6.6. STEP 4: CONTRACTING.....	74
6.6.1. Accountability mechanisms	74
6.6.2. Contracting clauses	75
6.6.3. Beneficiary's responsibility	76
6.7. STEP 5: IMPLEMENTATION.....	76
6.7.1. Financial arrangements	76
6.7.2. Supervision	77
6.7.3. Social services implementation process	77
<i>Procurement process</i>	77
<i>Contracting</i>	78
<i>Payments</i>	78
6.7.4. Economic revitalization implementation process.....	78
<i>Procurements</i>	78
<i>Loans by participating banks (associated to the program)</i>	78
<i>Services and infrastructures</i>	79
<i>Processes and flows of funds</i>	79
6.7.5. Infrastructures: implementation process	80
<i>Technical design</i>	80
<i>Procurement process</i>	80
<i>Contracting</i>	80
<i>Payments to contractors</i>	81
<i>Addendum to contracts</i>	81
<i>Hand-over and certification</i>	81

Table of figures

FIGURE1.	ORGANIZATION OF COMPONENT 1	1
FIGURE2.	COMPONENT 1: EXPECTED OUTCOMES AND INDICATORS	3
FIGURE3.	ENTITIES INVOLVED IN SUBPROJECT CYCLE	4
FIGURE4.	DESIGN OF SUB-COMPONENT 1	12
FIGURE5.	ELIGIBLE SOCIAL SERVICES SUBPROJECTS	16
FIGURE6.	SUB-COMPONENT 1: SELECTION CRITERIA	18
FIGURE7.	DESIGN OF SUBCOMPONENT 2.1	23
FIGURE8.	ELIGIBLE ECONOMIC REVITALIZATION SUBPROJECTS 2.1	25
FIGURE9.	NON ELIGIBLE SUB PROJECTS, SUB-COMPONENT 2.1	25
FIGURE10.	FINANCIAL SUPPORT SELECTION CRITERIA (SC 2.1).....	32
FIGURE11.	DESIGN OF SUB-COMPONENT 2.2	36
FIGURE12.	ELIGIBLE SUBPROJECTS: GRANTS FOR NEW COOPERATIVES	38
FIGURE13.	NON ELIGIBLE COOPERATIVES AND SME/ CRAFTS SUBPROJECTS	38
FIGURE 14.	FINANCIAL SUPPORT SELECTION CRITERIA (SC 2.2.).....	43
FIGURE15.	ELIGIBLE TRAINING ACTIVITIES	48
FIGURE16.	NON ELIGIBLE COOPERATIVES AND SME/ CRAFTS SUBPROJECTS	48
FIGURE17.	CAPACITY BUILDING SELECTION CRITERIA: SMES & COOPERATIVES	50
FIGURE18.	DESIGN OF SUB-COMPONENT 3	52
FIGURE19.	ELIGIBLE SOCIAL INFRASTRUCTURES	54
FIGURE20.	ELIGIBLE SOCIO-ECONOMIC INFRASTRUCTURES.....	55
FIGURE21.	ELIGIBLE ENVIRONMENTAL INFRASTRUCTURES	55
FIGURE22.	NON ELIGIBLE SUBPROJECTS	56
FIGURE23.	INFRASTRUCTURE SUBPROJECT SELECTION CRITERIA	61
FIGURE24.	SUBPROJECT CYCLE	65
FIGURE25.	SUB-PROJECT CYCLE CALENDAR	66
FIGURE26.	FLOW OF FUNDS.	79

Acronyms

ASSC	Area of Special State Concern
BSP	Business Services Providers
CARDs	Community Assistance for Reconstruction Development and Stabilization
CBO	Community Based Organization
CCU	County Coordination Unit
CICs	Citizen Information Center
CPP	Community participation procurements
CQ	Consultant qualification
CROMAC	Croatian Mine Action Center
CSERP	Croatia Social Economic Recovery Project
EA	Environmental assessment
EIB	European Investment Bank
EU	European Union
GPN	General Procurement Notice
HAMAG	Croatian Agency for Small Businesses
HSZ	Croatian Cooperative Federation
IBRD	International Bank For Reconstruction and Development
ICB	International Competitive Bidding
ICB	International Competitive Bidding ()
IDA	International Development Association
IS	International shopping
IT	Information Technology
LC	Least Cost Selection
LIB	Louis Berger
LTU	Long Term Unemployed
M&E	Monitoring Evaluation
MIS	Monitoring Information System
MSAs	Mine Suspected Areas
MRDFWM	Ministry of Regional Development, Forestry and Water Management
NCB	National Competitive Bidding
NCB	National Competitive Bidding
NGO	Non Governmental Organization
NMAP	National Mine Action Plan
NS	National Shopping
NSRD	National Strategy for Regional Development
O&M	Operation and management
PCU	Project Coordination Unit
PMU	Program Management Unit
PPP	Public-Private Partnerships
PTSs	Project Technical Surveys
QC	Qualification of Consultants
QCB	Quality-Based Selection
QCBS	Quality Cost-Based Selection
RCU	Regional Coordination Unit
ROP	Regional Operational Plan
SBD	Standard Bidding Documents
SC	Steering Committee
SME	Small and Medium Enterprises
SOE	Statements of Expenses

SOPs	Standard Operating Procedures
SS	Single Source Selection
SWOT	Strengths Weaknesses opportunity and threat
TA	Technical assistance
TOR	Terms of Reference
WB	World Bank

List of annexes

Volume 1:

- Annex 1. Recommendations for environmental assessment
- Annex 2. Desk environmental checklist
- Annex 3. Field environmental checklist
- Annex 4. Environmental checklist by sector
- Annex 5. Environmental management plan format
 - 1- Proposal form, social inclusion subprojects
 - 2-Proposal form, economic revitalization subprojects
- Annex 6. 3-Proposal form, small infrastructure
- Annex 7. Guidelines for preparation of a proposal
- Annex 8. Application reception confirmation form
- Annex 9. Desk subproject review
- Annex 10. Field subproject review
- Annex 11. Environmental subproject review
- Annex 12. Selection Committee forms
- Annex 13. Contract for subprojects (SC 1 and SC 3)
- Annex 14. Subproject reporting forms
- Annex 15. Subproject monitoring form
- Annex 16. Technical works supervision
- Annex 17. Provisional handover certificate (works)
- Annex 18. Final handover report (works)
- Annex 19. Subproject completion report
- Annex 20. Community small procurement guidelines and forms
- Annex 21. Expropriation Act
- Annex 22. The rule book on environmental impact assessment.

Volume 2

- Annex 1. Timing for actions.
- Annex 2. Monthly reporting table

Volume 3

- Annex 1. Identification form, capacity building organism.
- Annex 2. Capacity building tools
- Annex 3. Trainer evaluation report

- Annex 4. Contractor consultant evaluation
- Annex 5. Self evaluation by participants

Volume 4

- Annex 1. TOR PCU Executive Director.
- Annex 2. TOR PCU M&E specialist
- Annex 3. TOR PCU Regional and local specialist
- Annex 4. TOR PCU Procurement specialist
- Annex 5. TOR PCU Accountant
- Annex 6. TOR PCU Social development specialist
- Annex 7. TOR PCU Civil engineer
- Annex 8. TOR PCU Financial manager
- Annex 9. TOR PCU SME & cooperative economist
- Annex 10. New staff orientation outline
- Annex 11. Project implementation plan
 - 1- Planning
 - 2- Monitoring
- Annex 12. M&E activities implementation plan
- Annex 13. Community communication process
- Annex 14. CSERP communication Plan
- Annex 15. TOR impact assessment study
- Annex 16. Procurements of goods and works
- Annex 17. Consultant selection

CHAPTER

1. Organization of component Community investment

1.1. ORGANIZATION OF COMPONENT

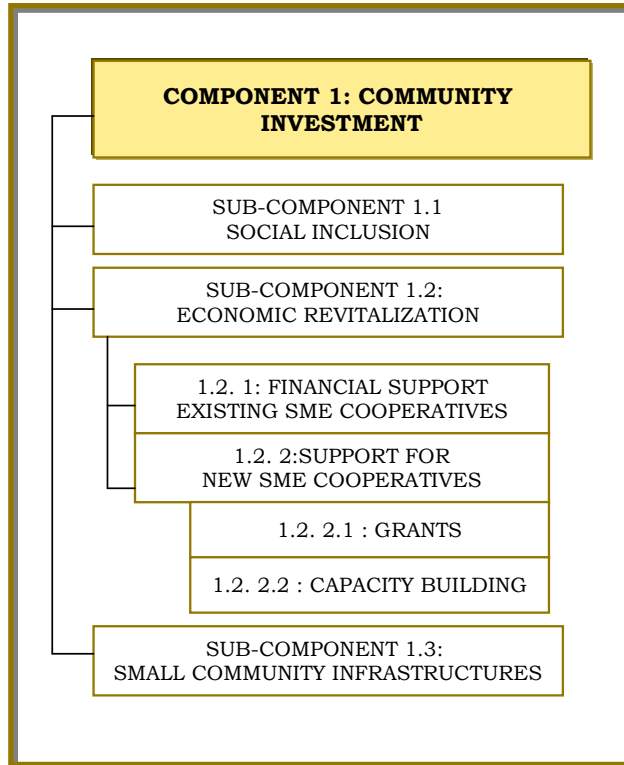


Figure1. Organization of Component 1

1. The Component is divided in 3 subcomponents:

- Subcomponent 1: Social inclusion. The subcomponent will improve access by the war-affected, disadvantaged or vulnerable persons and other citizens in the Areas of Special State Concern to community-based services; and promote new community-based initiatives and activities.
- Subcomponent 2: Economic revitalization. The subcomponent will support the development of farm and off-farm income generation activities in local communities. It will contribute to increased opportunities for businesses and incentives for different war affected groups;
- Subcomponent 3: Small community infrastructures. The subcomponent will address the need for rehabilitation of small-scale social and economic infrastructure at the local level.

1.2. OBJECTIVES AND OUTCOMES

1.1.1. OBJECTIVES

2. Main objectives are:

Community level:

- (i) Social and socio-economic: (i) To promote social integration, inclusion and reconciliation by targeting opportunity and need in both rural and urban areas across ASSC, paying particular attention to vulnerable groups, the areas most affected by the war and areas where community infrastructure is weak.
- (ii) Economic: to promote: (i) economic growth, income and profits gained from economic activities; (ii) employment within the communities; and (iii) direct or indirect involvement of target groups in local and regional economic activities; (iv) Building the productive capacity of existing cooperatives and of small and medium sized enterprises; (v) supporting the start-up of new cooperatives (vi) capacity building for cooperative development and SME support services.
- (iii) Human capital development: (i) To bring communities to work together in designing and implementing common subprojects which yield tangible, visible and immediate improvements of local living conditions, thus building trust and sustainable confidence in the reconciliation; and (ii) to enhance communities' capacity to maintain in a sustainable manner, infrastructure facilities and services they decide to implement.

Local self government and county levels:

- (iv) To create new opportunities for collaboration between local self governments, counties and the communities;
- (v) To improve local and regional self government and community capacity to implement socio economic infrastructures and services;
- (vi) To intensify information exchanges between local self-governments, counties and communities.

1.1.2. RESULTS

3. Expected results are:

- An improved quantity and quality of community based social services and empowerment initiatives;
- 50 to 75 percent of cooperatives and other economic (SME) subprojects supported by CSERP remain economically viable 3 years after CSERP support;
- Improved quality of project-rehabilitated public utilities and community infrastructure

1.1.3. SPECIFIC OUTCOMES AND INDICATORS

4. Targeted outcomes and their respective indicators are:

SUB COMPONENT	OUTCOMES	INDICATORS
1.1: SOCIAL INCLUSION	<ul style="list-style-type: none"> - Improved access to sustainable community based social services; - Improved empowerment initiatives by marginalized and war affected groups in ASSC; - Increased beneficiary participation 	<ul style="list-style-type: none"> - Increase in inter-ethnic beneficiary participation in community based social services and empowerment initiatives; - Increased citizens participation in local decision-making for social inclusion programs - Increase in percentage of subprojects implemented by civil society
1.2 ECONOMIC REVITALIZATION	<ul style="list-style-type: none"> - Sustainable income generation activities developed in local communities; - More economic opportunities for local entrepreneurs, cooperatives, war affected and other disadvantaged groups - Productive capacity of the SME and Cooperative sectors increased 	<ul style="list-style-type: none"> - Improved access to credit by farmers, producers, SMEs and cooperatives (number of projects financed). - Significant employment generated and income increase for the beneficiary farmers or entrepreneurs through project support
1.3 COMMUNITY INFRASTRUCTURE	<ul style="list-style-type: none"> - Improved access to selected public utilities and community infrastructure, through community involvement in the process of identifying local priorities and rehabilitation needs 	<ul style="list-style-type: none"> - Increase in inter-ethnic beneficiary participation and access to community infrastructure - More and better services and public utilities delivered through the project

Figure2. Component 1: Expected outcomes and indicators

1.1.4. INVOLVED ENTITIES

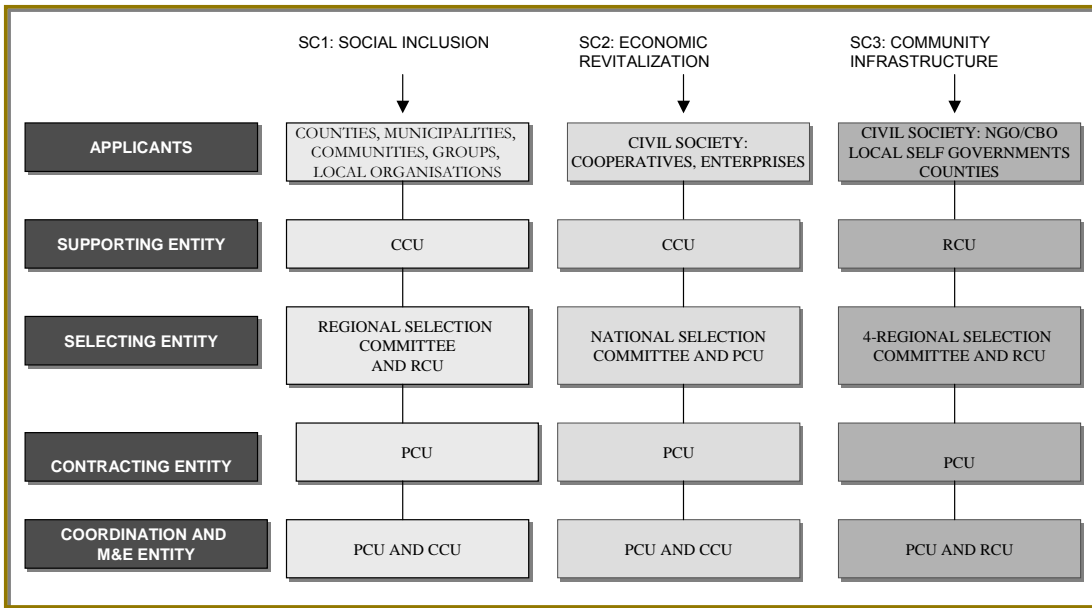


Figure3. Entities involved in subproject cycle

5. The following entities are involved in the component subproject cycles

- (i) Applicants:
 - ✓ Civil society: cooperatives, associations, private enterprises, community based organizations, etc.
 - ✓ Local self governments: towns and municipalities (either as one unit or as a joint application)
 - ✓ Counties authorities;
- (ii) Supporting and administrative review entity: County and Regional Coordination Units of the CSERP (CCU or RCU);
- (iii) Selecting entity: Regional or National selection committee of the CSERP
- (iv) Contracting entity: Project Coordination Unit (PCU);
- (v) Coordination and M&E entity: CCU or RCU and PCU.

1.3. SPECIFIC REGULATIONS

1.1.5. CSERP ENVIRONMENTAL POLICY

General guidelines

6. All community-based projects have to be in compliance with local environmental rules and regulations, as well as with environmental policy of the World Bank. Environmental assessment (EA) and monitoring will be required at certain points of the preparation and implementation cycle.

7. Stakeholders will be consulted on a case-by-case basis, depending on the nature of the proposed project, during the screening process, during the development of plans to address potential environmental impacts, and during subproject supervision to assess environmental aspects of subprojects. Typically, RCU staff will hold discussions on-site with the applicants, the community and the municipality preparing environmental assessments when required. When possible, experts within the local self-governments will participate directly in the preparation of environmental assessments and plans. Applicants must obtain all necessary permits and clearances from the local self-government before final approval by the PCU of any project proposal. During project implementation, follow-up technicians will monitor the quality of works, including environmental standards, of a number of selected projects of a different typology.

8. Exchange of information regarding the environmental issues and permitting shall be achieved. Informative center and networking of projects (at least so far good environmental practice is concerned) shall be organized. This could be facilitated by the PCU. Information about the environmental measures, EIA outlook, and best environmental practice shall be exchanged between Counties. MEPPPC and County environmental departments shall be invited to participate in the organization. This shall help the Counties to build better capacity to continue this type of exchange with project proponents also beyond the project.

9. Specific guidelines are detailed in the subproject cycle, point 6.2.3

National regulating bodies

10. The Environment Protection Agency was established in 2002. Its main task is environmental data management.

11. The Fund for Environment Protection and Energy Efficiency was established in January 2004, and is mandated to finance preparation, implementation and development of programs, projects and similar activities in the sector for preservation, sustainable use, protection and improvement of environment.

12. The State Institute for Nature Protection was established in 2003 as a state body responsible for implementation of nature protection policy and providing adequate technical expertise primarily for the Nature Protection Division within the Ministry of Cultural Affairs, MEPPPC and Ministry of Regional Development, Forestry and Water Management.

13. The MEPPC is authorized to issue location and building permits and oversee environment impact assessment procedures. Some authorities (importance from the standpoint of this project) have been transferred to the regional level to county offices, while others have been transferred to the local government and self-government level. For example in compliance with the Law on Waste, local self-government is responsible for municipal waste management (organization, collection, disposal, financing) while counties are responsible for industrial waste disposal. The management of hazardous waste has been raised to the state level.

14. The Environment Impact Assessment has been prescribed by articles No. 25 to 32 of (NN 82/94). The procedure is defined by the (NN 27/2000) (Volume 1, Annex 22)

15. After the Environmental Impact Assessment has been elaborated, the location permit and the building permit for CSERP foreseen subprojects are issued at the state level via

County offices (1). Under very precise conditions (if the proposed activity is clearly identified in physical plans), a location permit isn't needed.

International Framework

16. There are several international conventions that are relevant for this project. Direct international obligations are arising from the Barcelona Convention (Lika/Dalmatia), and the other one arising from Danube Convention (Eastern Slavonia, Western Slavonia, Banija/Kordun).

17. Namely, in accordance with the provisions of the Protocol for the Protection of the Mediterranean Sea against Pollution from Land-Based Sources (LBS Protocol), Croatia is strictly obliged to limit the pollution from land-based sources into the Mediterranean marine environment. In this case via the Adriatic River Basin. Similar obligations are related to the protection of Danube River Basin.

18. Indirect obligations arise from the United Nations Framework Convention on Climate Change (UNFCCC) i.e. the Kyoto Protocol is the decrease the emission of greenhouse gases. Croatia has the first National Report on Climate Changes, but the Protocol has not been ratified yet.

19. In compliance with the Ramsar Convention concerning nature protection, designated wetland and water ecosystems are considered especially endangered. Thus, one of the priorities of the Environment Protection Strategy and the National Environment Action Plan is establishing of the Wetlands Policy (an obligation arisen from the Ramsar Convention).

1.1.6. LAND ACQUISITION AND RESETTLEMENT RULES

Introduction

20. Specific sites for investment under the CSERP not known in advance. Rather, they will be determined during implementation, based on requests from municipalities, subject to financial, environmental and social assessment. It is possible, though extremely unlikely, that land may need to be expropriated. Land may need to be expropriated for the renovation and rehabilitation of kindergartens, primary schools, potable water systems, local level irrigation systems, micro hydropower stations on irrigation channels; public markets, slaughterhouses or storage facilities etc.

21. The land acquisition and resettlement caused by the project will be carried out following well-established procedures specified in Croatian laws and Statutes relating to purchase and expropriation, which comply with World Bank Operational Policy (OP) 4.12 and Bank Procedures (BP) 4.12. These procedures are specified in the Program Operational Manual, which also provides detailed instructions regarding documentation and impact assessment.

22. The following investment activities will be considered ineligible for funding:

- Subproject proposals that would involve acquiring land on which there are illegal encroachers (who have constructed buildings or are carrying out agricultural or commercial activities) and the encroachers may be displaced by the land acquisition process.

1. ¹ The EIA-procedure, including the public hearing is going to be organized on county and municipal level – in the project proposed area. For particular investments (large scale plant and interventions), Building permits could be issued also by the Ministry.

- Subproject proposals that would involve multiple (competing) claims to land where the subproject seeks to invest.
- Subproject proposals that involve land where either of the above situations occurred within the previous two years.

23. For any investment that would require land acquisition, application documentation will include a Land Acquisition Plan for the specific site, which describes steps taken prior to the application and outlines specific steps to be taken during preparation and implementation to assure compliance with the Property and Other Property Rights Act (published in the Croatian Official Gazette, Narodne Novine 91/96, 68/98 137/99, 22/00, 73/00, 145/01 the Expropriation Act (Narodne Novine, 9/94, 35/94, 112/00, 114/01), General Administrative Procedure Act (Narodne Novine 53/91, 103/96) and the World Bank's OP/BP 4.12.

Expropriation procedure

24. In the Republic of Croatia expropriation is the only exception to the principle of inviolability and confinement of private property that is determined in the Constitution of the Republic of Croatia (Article 48). The process of expropriation is specified in detail in the Expropriation Act that enables government institutions to acquire private property for projects that are deemed to be of state interest, while protecting the interests of those whose assets are expropriated. Three principal provisions guide the process, which must be completed before civil works can be carried out on the site:

- Minimize expropriation
- Substitute land and residences, if feasible and mutually acceptable
- Provide cash compensation according to market prices.

25. If not otherwise regulated by a separate law, real property may be expropriated when necessary for construction of facilities or carrying out works "in the interest of the Republic of Croatia" and when it is deemed that the real property to be proposed for expropriation will provide higher benefit when used for other purposes than the benefits resulting from the prevailing use of the real property. Real property may be expropriated because of construction works or building of economic infrastructure facilities (traffic, telecommunication, water management, energy), health, educational or cultural facilities, industrial, energy, traffic and telecommunications facilities, facilities to be used by Croatian judiciary system, the military and the police, as well as for exploration and exploitation of minerals and other natural resources.

26. The expropriation procedure must be carried out within two years from the date the interest of the Republic of Croatia has been established.

27. It is carried out only after settlement negotiations have proved unsuccessful.

28. There are two types of expropriation. "The Complete Expropriation" gives a beneficiary the right of ownership on expropriated land. "The Incomplete Expropriation" gives a beneficiary the right of servitudes (right of way and similar rights). The entire process is public and transparent.

29. The establishment "of the Republic of Croatia interest" may take place either for the specific facilities in individual procedures hold before the Government of Croatia or some type of structures may be declared being "of the Republic of Croatia interest" in legislation procedure – under the law. Without the establishment of "interest of the Republic of Croatia", property cannot be expropriated; it can be acquired only through willing buyer/willing seller arrangements. Once an investment is designated or declared under law as being of "Republic of Croatia interest", the public or private entity managing the investment is authorized to apply for expropriation according to regulations before the State Office for the

Rights of Property – local branches (SORPs). The implementing entity can also commission another entity to manage the process on its behalf.

30. In each subproject case, the SORP is the entity responsible for the land acquisition. The process includes the following steps:

- (i) Public announcement and publication of plans
- (ii) Notification of landowners when the tentative alignment is set
- (iii) Compilation of maps and precise acquisition needs once the alignment is adopted
- (iv) Preliminary assessment of the value of the required land and structures (land and structures)
- (v) Notification of owners and invitation to negotiate, including providing a statement of owners rights, presentation of alternatives, and estimated valuation of standing crops, trees with economic value, and other structures or assets.

31. If the negotiations are concluded satisfactorily,

- (i) For cash compensation, a contract is drafted and signed, payment is concluded and the land is transferred and registered
- (ii) For exchange, a swap site is agreed, purchased and transferred to the new owner, who transfers the expropriated site

32. If the negotiations are not concluded satisfactorily, (and the deal is not made), then the expropriation beneficiary submits the proposal for expropriation of the real property to the responsible SORP that enacts the decision on expropriation as requested. If the owner disagrees with the financial offer and the amount of land to be expropriated, he or she can appeal the decision to the Ministry of Justice within 15 days of the submission of the decision on expropriation to the owner. If the owner is dissatisfied with the decision of the Ministry, the owner has 30 days to appeal to the County Court, which holds an open hearing before rendering a final Decision.

- (i) If the first Decision is not challenged, it becomes final after 15 days and the property can be entered immediately upon payment.
- (ii) If owners are not located, or if co-owners have not agreed among them how to share the compensation, payment is made to an escrow account and the property can be entered immediately.
- (iii) If the owner appeals to the Ministry of Justice or the County Court, the beneficiary of expropriation will make payment to the owner according to the Decision of the Ministry or the Court, respectively, and can enter the property immediately thereafter.

Project Procedures

33. In addition to following and documenting the expropriation procedures indicated above, each sub-borrower will carry out two additional steps.

- First, once the tentative alignment is identified, the SORP will hold a public consultation to discuss the expropriation and its implications, to which all property owners whose lands will be affected by the expropriation will be invited by mail. The content and results of the consultation will be recorded in minutes that are maintained in the subproject file and made available to the social assessment team and Bank supervision missions.

- Second, the expropriation beneficiary will prepare a Land Acquisition Plan and submit it prior to effectiveness of the proceeds under the sub-loan agreement. The Plan will include details about any steps taken prior to the effectiveness of the proceeds under the sub-loan agreement, such as notification or consultation with owners, and description of the land acquisition process. This should include the following: an estimate of the amount of land that will be acquired, the number of owners, if available, breakdown of (i) freely acquired lands; (ii) lands subject to Complete Expropriation; and (iii) lands subject to Incomplete Expropriation, breakdown showing the percentage of each affected parcel that will be subject to Complete Expropriation (to the extent available), and any substantial assets to be affected, such as homes or structures; and designation of people and entities responsible for implementing the land acquisition program and lines of authority. This will be reviewed by the PCU (the Project Coordination Unit acting as the implementing agency) and submitted to the Bank for review and approval. The Plan will be updated as information is available, particularly data regarding specific acquisition details and compensation, and monitored by PCU as well as Bank supervision missions.

34. All possible steps must be taken to avoid or minimize land acquisition and relocation. References to the Government Office for the Rights of Property (GORP) in the following text refer to the office and its local branches. References to the PCU apply to the implementing entity for the Project. References to assets refer to surface assets (standing crops, productive trees, etc.) and buildings. The entities that will manage the assets in which there will be an investment through the project may be public, private and civil society entities, depending upon the nature of the grant.

Actions

35. Whenever expropriation may be needed, the following measures will be taken:

- (i) The GORP will post a public announcement in the most accessible newspaper or a bulletin board that citizens regularly consult.
- (ii) The GORP will organize and hold a public hearing to discuss the selected option, possibility of finding the substitute real estate (land), procedures and schedule for continuing work, and to answer questions about related issues.
- (iii) The GORP will prepare minutes of the hearing, with a complete record of issues raised, the responses offered and agreed follow-up steps.
- (iv) The GORP will hear the parties and in case of no dispute between the parties it will carry out the hearing for mutually agreed establishment of the compensation, and also agreement by negotiation can be reached.
- (v) The expropriation beneficiary prepares an expropriation plan, which has to be in line with the physical plan for that area. Along with expropriation plan, data on the proprietors, whose land and assets are submitted to expropriation, shall be enclosed (lists of each parcel to be affected, the amount of the parcel to be expropriated, and an inventory of the specific assets, etc.).
- (vi) The expropriation beneficiary shall ensure, through GORP, evidence on the state and value of the land and assets for which the expropriation is proposed. e. g., expert findings, and opinions, etc.
- (vii) The GORP contacts each proprietor of real estate, makes an offer to compensate the proprietor of land and assets subject to negotiation. The GORP informs the proprietor, whose land and assets are submitted to expropriation, of the expropriation plan in easy to understand language.

- (viii) The GORP will commission an independent assessment of the market value of land that is submitted to expropriation, and other assets of each parcel to be affected and amount of compensation to be offered to the proprietor and render a decision. If the expropriation requires the demolition of inhabited buildings, or the remaining land around an inhabited building is too small to enable existing inhabitants to carry on their daily lives conveniently, the GORP must give the landowner a choice either to (i) receive compensation for the inhabited building and remaining land at fair market value; or (ii) receive another inhabitation, acceptable to the landowner, in exchange for the building to be vacated, as well as receive compensation for the land and other assets, excluding the value of the building.
- (ix) The GORP will instruct the proprietor of land and assets that he has the right to request the GORP to expropriate the remainder of the parcel, at the same compensation rate as the designated parcel, if he does not have an economic interest in using the un-expropriated portion of the land.
- (x) The GORP shall, after completed hearing and submission of evidence and facts established, pass the decision on approval of the proposal for expropriation and on the basis of proposal for expropriation, the expropriation procedure will be ex officio recorded in land register.
- (xi) If the proprietor of land accepts the decision, the decision sets the terms for a contract between the beneficiary of expropriation and proprietor of land; the two parties sign the contract; the beneficiary of expropriation pays the proprietor of land; or transferees for exchange, a swap sites which is agreed; and the GORP processes documentation to transfer ownership to the beneficiary of expropriation.
- (xii) If the proprietor of land disagrees with the decision on approval of the proposal for expropriation or with the decision on the compensation (disagrees with the amount of land and assets to be expropriated or with financial offer etc.), appeal against the decision can be field to the Ministry of Justice. The appeal must be filed within 15 days from the date when the proprietor of land has received the decision.
- (xiii) If the proprietor of land disagrees with the decision of the Ministry of Justice the proprietor has 30 days to appeal to County Court.
- (xiv) The beneficiary of expropriation may not be given the possession of the expropriated land before he has fulfilled the obligation towards the former proprietors
- (xv) If negotiations/agreement are concluded satisfactorily (paragraph iv), the GORP has to draft contract, for cash compensation. After payment is concluded, land could be transferred and registered to the beneficiary of expropriation. For exchange a swap site is agreed, purchased and transferred to the new proprietor, who transfers the expropriate site.
- (xvi) When the parcels to be expropriated are identified and values are assessed, the expropriation beneficiary submits a land acquisition/resettlement plan to the PCU, which includes the following:
 - ✓ an estimate of the amount of land that will be acquired, the number of owners, if available,
 - ✓ breakdown of: (i) freely acquired lands (ii) lands subject to Complete Expropriation and (iii) lands subject to Incomplete Expropriation,
 - ✓ breakdown showing the percentage of each affected parcel that will be subject to Complete Expropriation (to the extent available), and

- ✓ any substantial assets to be affected, such as homes or structures; and designation of people and entities responsible for implementing the land acquisition program and lines of authority.

The expropriation beneficiary reports semi - annually on the status of land acquisition, providing updated information in an additional column regarding the final price paid to the landowners.

The expropriation beneficiary reports semi - annually on the status of resettlement/displacement, indicating the choices made by affected households and progress in completing the acquisition, substitution, if relevant, and resettlement.

36. The **Expropriation Act** may be found in **Volume 1, Annex 21**.

CHAPTER
2. Social inclusion subprojects (SC 1)



Figure4. Design of subcomponent 1

2.1. SUBCOMPONENT ORGANIZATION

1. This subcomponent will be implemented through several calls for proposals over the duration of CSERP.
2. A call for proposal is a formal act of the CSERP Management that invites potential beneficiaries to apply for a grant that would co-finance activities to promote the social inclusion in the ASSC.
3. Each year there will be one or more call for proposals according to the available financial resources and to the already allocated resources.
4. The expression “subproject” indicates an application that has been selected to be financed.

2.2. REPARTITION OF FUNDS

5. This subcomponent will have a geographical pre-allocation at regional level. The financial pre - allocation will be included in the call for proposals.
6. Multiple submissions: Taking into consideration the geographical distribution foreseen, and in order to avoid territorial concentration in specific areas within counties, the following limits will be applied for the **entire duration of the CSERP**.
 - A maximum of 4 subprojects per beneficiary;
 - No more than two projects per beneficiary per each call for proposals; and
 - Maximum co-financing ceilings from the project as specified in 2.4.1 (financial ceiling) with respect to Euro 100,000 per municipality over the life of the project.

2.3. ELIGIBILITY

2.3.1. ELIGIBLE APPLICANTS AND PARTNERS

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7. Eligible applicants and partners of applicant(s) are counties (županije), towns (gradovi), municipalities (općine), NGOs (NVO-i), associations (udruge), foundations (zaklade) and public institutions (javne ustanove)². Each eligible applicant is entitled to apply for a grant provided that the project proposal directly addresses the needs of the CSERP target groups.

8. The CSERP target groups must be the direct recipients of the benefit of the subprojects submitted to the PCU. Admissible groups include in priority:

- War affected: internally displaced persons, refugees; returning persons;
- Unemployed, specially long-term unemployed (LTU);
- Settlers;
- Vulnerable groups (ex.: disabled, elderly);
- Children and youth;
- Women

It is important to note that the target group must reside in an ASSC class I, II or III, while the applicant can reside also outside the ASSC (e.g. an NGO from Zagreb can apply to implement activities in favor of long term unemployed who reside in an ASSC. In case the link between the applicant and the target group is not clear, it is necessary that the applicant demonstrates its “connection” with the selected target group, e.g. application in partnership with a legally constitute local organization that is linked to the target group that will be the direct recipient of the benefit of the subproject.). In case the direct recipient of the benefit is an organization that is entitled to apply, the applicant (or the partner) and the direct recipient of the benefit can be the same organization.

9. The applicants may not participate in calls for proposals or be awarded grants if:

- (a) they are bankrupt or being wound up, are having their affairs administered by the courts, have entered into an arrangement with creditors, have suspended business activities, are the subject of proceedings concerning those matters, or are in any analogous situation arising from a similar procedure provided for in national legislation or regulations;
- (b) they have been convicted of an offence concerning professional conduct by a judgement which has the force of *res judicata* (i.e., against which no appeal is possible);
- (c) they are guilty of grave professional misconduct proven by any means which the CSERP Management can justify;
- (d) they have not fulfilled obligations relating to the payment of social security contributions or the payment of taxes in accordance with the Croatian legal provisions.
- (e) they have been the subject of a judgment which has the force of *res judicata* for fraud, corruption, involvement in a criminal organization or any other illegal activity detrimental to the Croatia's financial interests;

2. ² e.g. Universities, open universities (belonging to local or state authorities), public schools, public kindergartens, public elderly homes, public libraries, etc.

- (f) they have been declared to be in serious breach of contract for failure to comply with their contractual obligations in connection with a procurement procedure or other grant award procedure financed by the Croatian government.

Applicants are also excluded from participation in calls for proposals or the award of grants if, at the time of the call for proposals, they:

- (g) are subject to a conflict of interests;
- (h) are guilty of misrepresentation in supplying the information required by the CSERP Management as a condition of participation in the call for proposals or fail to supply this information;
- (i) have attempted to obtain confidential information or influence the evaluation committee or the CSERP Management during the evaluation process of current or previous calls for proposals.

In the cases referred to in points (a), (c), (d), (f), (h) and (i) above, the exclusion applies for a period of two years from the time when the infringement is established. In the cases referred to in points (b) and (e), the exclusion applies for a period of four years from the date of notification of the judgment.

2.3.2. ELIGIBLE ACTIVITIES: ACTIVITIES FOR WHICH AN APPLICATION MAY BE MADE

10. An application in order to be eligible for financing must contribute to the achievement of the Objective of the CSERP project and must be in line with the development priorities included in the ROPs elaborated by the counties. In the case of the counties that have not yet adopted a ROP, the application will only have to contribute to the achievement of the Objective of the CSERP.

11. The CSERP project Development Objective is to support the economic and social revitalization of disadvantaged and war affected areas as a way to increase social cohesion.

12. The table below includes examples of the types of activities that can be included in an application. Applications are not limited to these activities, and other relevant activities will be considered.³

SECTOR	ELIGIBLE ACTIVITIES
COMMUNITY EDUCATION/ CULTURE	<ul style="list-style-type: none"> ✓ Non-formal education programs promoting reconciliation, cultural revitalization, and social and economic initiatives at the community level; ✓ Parents-school association programs in ethnically divided communities ✓ Training for teachers on issues of social cohesion and reconciliation; ✓ Support to multimedia, communication and cultural centers; ✓ Capacity building for civil society organizations which deliver social integration services; ✓ Support development of partnership between schools and industry /commerce and which help young people prepare for the world of work

3. ³ Some of the activities included in the table are a bit generic, like for instance “Support to multimedia, communication and cultural centers”. In any case, anyway, the contents of the activity should be in line with the Objective of the CSERP and within the County priorities if existing.

	<ul style="list-style-type: none"> ✓ Pre-school and after school projects in areas of greatest disadvantages
DISPLACED PEOPLE AND REUNIFICATION	<ul style="list-style-type: none"> ✓ Psycho-social support to vulnerable groups, especially for families of ex-combatants and displaced people, ✓ Programs to assist returning families in resettling in their communities; ✓ Programs to assist displaced families to integrate with alternate communities; ✓ Programs to support inter-ethnic activities such as sports events, and open market places; ✓ Legal counseling for returnees and other vulnerable groups; ✓ Advice, counseling and support services for victims, their relatives and those who care for them
SOCIAL SERVICES FOR FAMILY	<ul style="list-style-type: none"> ✓ Projects to assist family with young children ✓ Projects aimed at families with children with special needs and ethnic minority families ✓ Projects aimed at single parent families
SOCIAL SERVICES FOR WOMEN	<ul style="list-style-type: none"> ✓ Counseling services (including legal counseling) and/or training in for women who suffer domestic violence; ✓ Targeted programs for women, especially women's self-support groups in rural areas. ✓ Prequalification and training for unemployed women
SOCIAL SERVICES FOR CHILDREN AND YOUTH	<ul style="list-style-type: none"> ✓ Implementation of community services for children: kindergarten operation, music lessons, foreign languages, sports, etc.; ✓ Improvement of services and capacity building for crèches ✓ Mother-child care services; ✓ Support to youth centers ✓ Support for projects which provide access to information, particularly through new technologies ✓ Drug prevention and rehabilitation ✓ Crime prevention

SOCIAL SERVICES FOR ELDERLY PEOPLE	<ul style="list-style-type: none"> ✓ Programs for the elderly (ex.: home care services (social / medical), ✓ Home placements programs for the elderly individuals. ✓ Cultural/entertainment programs in community centers, meals on wheels chiropody and/ or eye care services; ✓ Programs for non-pensioned elderly such as development of small self-employment programs; ✓ Training and capacity for service providers.
SOCIAL SERVICES FOR DISABLED AND MARGINALIZED PEOPLE	<ul style="list-style-type: none"> ✓ Programs to support community based day care centers for the disabled and other marginalized and vulnerable groups of the population; ✓ Programs for the disabled such as home care services (social and medical) ✓ Prequalification and training (skill enhancement)

	<p>programs for marginalized groups.</p> <ul style="list-style-type: none"> ✓ Fund raising campaigns to support programs for the disabled (home visiting services, recreational activities, vocational training, access to public buildings, etc.) ✓ Specific medical services for disabled people and increased access to appliances such as wheelchairs; ✓ Advocacy campaigns and information dissemination; ✓ Prevention and treatment of alcoholic abuse programs. ✓ Prevention and treatment of social delinquency and substance (drug) addictions ✓ Training and capacity building for service providers. ✓ Shelter for the homeless (overnight lodging) ✓ Programs to support their mainstreaming into other activities
SOCIAL SERVICES FOR UNEMPLOYMENT	<ul style="list-style-type: none"> ✓ Support for projects which provided services, employment opportunities and experience for people who have been distanced from the labor market ✓ Community projects for employment

Figure5. Eligible social services subprojects

2.3.3. NON ELIGIBLE ACTIVITIES

13. Activities that do not respect the national legislations are not eligible.

2.3.4. ELIGIBLE EXPENSES

14. Expenditures acceptable in a subproject proposal include:

- (i) Provision of goods, services, equipment and, exceptionally, vehicles for working purposes.
- (ii) Travel costs.
- (iii) Personnel.
- (iv) Technical services and locally initiated surveys/assessments.
- (v) Administrative and consumable costs.
- (vi) VAT for those organizations that according to the law consider the VAT as a cost and not as a credit towards the tax administration
- (vii) In each call for proposals a detailed budget template will be elaborated and made available to the potential beneficiaries. Expenditure limits for each category of expenditure will be established in the call for proposals.

2.4. SPECIFIC REQUIREMENTS

2.4.1. FINANCIAL CEILING

15. In case of subprojects implemented in ASSC class I by applicants that are based in ASSC class I, the maximum co-financing rate is equal to 90% of the total cost of the

subproject, provided that the cost of the subproject is not above €100,000. In case of subprojects whose cost is above €100,000, the CSERP will finance up to a maximum of € 90,000.

16. In case of subprojects implemented in ASSC class I by applicants that are based outside ASSC class I, the maximum co-financing rate is equal to 85% of the total cost of the subproject, provided that the cost of the subproject is not above €100.000. In case of subprojects whose cost is above €100.000, the CSERP will finance up to a maximum of € 85.000.

17. In case of subprojects implemented in ASSC class II and III, the maximum co-financing rate is equal to 85% of the total cost of the subproject, provided that the cost of the subproject is not above € 100.000. In case of subprojects whose cost is above €100.000, the CSERP will finance up to a maximum of €85.000.

18. The CSERP will not finance subprojects with a budget under € 15.000.

2.4.2. DURATION

19. The implementation period of a subproject shall normally not exceed 24 months, renewable for another 12 months if clear justification is provided for. In any case a subproject can not last more than the duration of the CSERP. In the second call for proposals maximum allowable project duration will be 12 months.

2.4.3. BENEFICIARY CONTRIBUTION

20. The beneficiary's contribution is a mandatory prerequisite to a subproject's approval. As it was explained in paragraph 2.4.1, the beneficiary contribution must be at least 10% of the cost of the subproject in the ASSC class I if the beneficiary is based in the ASSC class I too and 15 of the subproject cost in the other cases.

21. The admissible contributions are:

- Monetary contributions from any source, except the contractors.

2.4.4. SECTOR CONFORMITY

22. All social inclusion initiatives must respect the statutory norms of the concerned line ministry and/or local/regional self-governments if applicable. The RCU and CCU staff should be available for the applicants if necessary during the preparation stage of their proposals according to the rules and procedures established in the calls for proposals.

2.4.5. OPERATION PLAN REQUIREMENTS

23. Particular importance will be given to the sustainability of social subprojects. This aspect will be taken in consideration in the evaluation of the applications. The requests for implementation or rehabilitation of social services will specify which mechanisms are foreseen by the community organizations to maintain and to develop them. The sound maintenance and sustainability plan for the subproject includes an estimated budget, sources of income and a schedule of operation.

2.5. SUBPROJECTS SELECTION CRITERIA AND SELECTION

24. In order to range, prioritize and select the social inclusion subprojects, the CSERP will establish a system of points to analyze the relevance of the proposal in terms of social inclusion impact.

25. Any single project proposal will have to obtain a minimum of 60 points to be approved by CSERP. Besides, a minimum of 12 and 30 points has to be obtained by fulfilling respectively criteria 1 and 2. Projects who do not meet neither criteria 1 or 2 will not be approved.

26. The applications will be evaluated according to the grid below:

Selection grid

Section	Maximum Score
1. Financial and operational capacity	20
1.1 Do the applicant and partners have sufficient experience of project management ?	5
1.2 Do the applicant and partners have sufficient technical expertise ? (notably knowledge of the issues to be addressed.)	5
1.3 Do the applicant and partners have sufficient management capacity ? (including staff, equipment and ability to handle the budget for the action)?	5
1.4 Does the applicant have stable and sufficient sources of finance ?	5
2. Relevance	40
2.1 How relevant is the proposal to the objectives and to one or more of the priorities of the call for proposals?	15
2.2 How relevant to the particular needs and constraints of the target group? In Particular: <ul style="list-style-type: none"> ➤ Enhance the inter-ethnic dialogue, through the realization of common projects ➤ Decrease the relight rate of returnees (sustainability); or promote return ➤ Decrease of ethnic-related incidents in the return communities where project component is implemented. ➤ Increase assistance to children, youth, women and families, and war affected groups ➤ Increase assistance to unemployed ➤ Increase of cross-municipal cooperation ➤ Increase of social inclusion of especially vulnerable groups, such as alcoholics, drug abusers, disabled elderly, etc. ➤ Reduce social exclusion, especially in local communities of return ➤ Strengthen local governments and enabling them to enhance equitable distribution of resources in co-operation with civil society groups. ➤ Improve the quantity and quality of the social services to local communities ➤ Improve the integration of the poorest, most vulnerable social groups. 	15
2.3 How clearly defined and strategically chosen are those involved (Applicant and/or Partners and/or target group)	5
2.4 Does the proposal contain specific elements of added value , such as innovative approaches, models for good practice?	5
3. Methodology	20

3.1 Are the activities proposed appropriate, practical, and consistent with the objectives and expected results?	5
3.2 How coherent is the overall design of the action? (in particular, does it reflect the analysis of the problems involved and take into account external factors?)	5
3.3 Are all the actors (Applicant, Partner(s) and target group) adequately involved?	5
3.4 Does the proposal contain objectively verifiable indicators for the outcome of the action?	5
4. Sustainability	10
4.1 Is the action likely to have a tangible impact on its target groups?	5
4.2 Are the expected results of the proposed action sustainable : - financially (<i>how will the activities be financed after the CSERP funding ends?</i>) - institutionally (<i>will structures allowing the activities to continue be in place at the end of the subproject implementation? Will there be local "ownership" of the results of the subproject?</i>) - at policy level (<i>what will be the structural impact of the action — e.g. will it lead to improved legislation, codes of conduct, methods, etc?</i>)?	5
5. Budget and cost-effectiveness	10
5.1 is the ratio between the estimated costs and the expected results satisfactory?	5
5.2 Is the proposed expenditure necessary for the implementation of the action?	5
Maximum total score	100

Score attribution tool

Section	Score system
1. Financial and operational capacity	MAX 20
1.1	5 points can be given only in case every member of the partnership has a previous experience in the management of a grant.
1.2	5 points can be given only in case every member of the partnership has knowledge of the issues to be addressed.
1.3	5 points can be given only in case the applicant or one of the partners has managed in the previous three years a grant with a budget at least equal to the one of the present project.
1.4	5 points can be given only in case the applicant has had in the previous three years a turnover at least three times the budget of the present project.
2. Relevance	MAX 40
2.1	15 points can be given exclusively to the project proposals that are directly addressing the CSERP Objective and at least one County priority. If the County has not a ROP, 15 points can be given to the project proposals that

	<p>directly address the CSERP Objective.</p> <p>A maximum of 12 points can be given to the project proposals that are directly addressing the CSERP Objective, but not any County priority.</p>
2.2	<p>15 points can be given exclusively to the projects addressing needs and constraints related to the ethnic issues.</p> <p>Projects addressing need and constraints different from the ethnic ones, but listed under 2.2, can receive a maximum of 12 points.</p>
2.3	5 points can be given exclusively to applications proposed by a partnership that has in its "core business" the activities to be implemented.
2.4	5 points can be given exclusively to applications that can be considered as pilot projects.
3. Methodology	MAX 20
3.1	5 points can be given exclusively to applications that propose activities that are strictly necessary to implement the project and that clearly address the targets to be achieved.
3.2	5 points can be given exclusively to the applications that have assumptions, proposed activities and results to be achieved fully coherent one with the others.
3.3	<p>5 points can be given exclusively to applications that include partners from ASSC belonging to more than one county, provide that the proposed partnership includes organizations that are going to be adequately involved in the project implementation, e.g. in the application each organization should have a clearly identified role and set of activities to implement.</p> <p>If the applicant has no partners the score will be 1.</p>
3.4	5 points can be given exclusively to applications that include results that can be clearly measured.
4. Sustainability	MAX 10
4.1	5 points can be given exclusively to applications that clearly explain how the project will change substantially the quality of the life of the addressed target group.
4.2	5 points can be given exclusively to the applications that clearly explain how the results of the subprojects will be maintained in the future.
5. Budget and cost-effectiveness	MAX 10
5.1	5 points can be given exclusively to the applications that have the best ratio between estimated costs and expected results. It will be necessary to compare structure of the costs and expected results of the different applications in order to attribute the score. The top 20% of the applications will receive 5 points. The bottom 20 % of the applications will receive 1 point.
5.2	5 can be given exclusively to the applications that have budgets with clear quantification of the costs (no lump sum) and that include only costs clearly linked to the activities to be implemented.
Maximum total score	MAX 100

Figure6. Subcomponent 1: Selection criteria

27. Regional Approval Committees are tasked with reviewing subprojects in their region and selecting them for financing. Regional Approval Committee members are nominated by their respective counties. Members selected for the committee come from various stakeholder

groups and have to represent counties, cities or municipalities from the Areas of Special State Concern, cooperatives, non-governmental organizations, Croatian Chamber of Economy, national minorities and crafts people. Among the individuals proposed for the Regional Approval Committees, regional CSERP office selects seven members. UNHCR representative is a member of the Committee but only as an observer.

28. Regional Approval Committees delegate to CSERP management responsibility for the technical appraisal of the applications. CSERP appoints two assessors from the CSERP staff who are in a non-hierarchical relationship relative to each other, to appraise each project. Each assessor will score the applications on the basis of the above selection grid. The overall score will be an average of the two assessors' scores. Projects that have received a substantially different assessment by the two independent assessors will be appraised by a third assessor, identified by CSERP management. If the third reviewer's score falls between the scores of the two original assessors, the highest two scores will be averaged to arrive at the final score. If the third reviewer's score is higher than that of the higher of the two original assessors, then the two highest scores will be averaged. Similarly, if the third reviewer scores the project lower than the lower score of the two original assessors, then the two lowest scores will be averaged.

29. Regional Approval Committee will identify a subgroup of its members (at least 2) that will score a sample of 10% of the applications to judge the correctness of the assessment done by the assessors. Highest score reviewed by assessors will be financed only if approval committee judges that the selection of applications was in line with its review of the 10% sample. Under no circumstances a member of the approval committee belonging to an organization who applied for a grant can be selected by the Approval Committee to score the 10% sample. In case two or more projects address the same needs of the same target group, only the project that has received the highest score will be financed.

30. In the selection process committee members have to take into account the following limitations:

- Maximum two subprojects per beneficiary in social inclusion subcomponent can receive a CSERP grant;
- Portion financed by CSERP should not exceed HRK 612.000 for subprojects implemented in ASSC, categories II and III, i.e. HRK 648.000 Kuna for subprojects implemented in ASSC, category I;
- Eligible applicants are counties, cities, municipalities, non-governmental organizations, associations, foundations, and public institutions;
- Eligible partners are to meet the same criteria as applicants;
- Target groups should be selected among war affected persons: displaced, returnees, settlers, refugees, unemployed, particularly long-term unemployed, socially marginalized groups (elderly, disabled, etc.), children and women etc.

The final list of selected subprojects has to reflect the following:

1. **Geographic concentration** (in a municipality maximum 2 subprojects can be financed with the total allocated funds not exceeding 100.000 Euros or HRK 720.000);
2. **Beneficiaries** (care should be taken that needs of various target groups are being respected, namely that the projects do not always target the same type of beneficiaries);
3. **Applicants** (for the sake of capacity building of the three groups of applicants – regional and local self-government, public institutions, and NGOs – care should be taken that projects submitted by applicants from all three groups are selected, namely not to finance only the projects submitted by one type of applicant in the given area).

31. In order to secure high quality of their work, Committee members will be provided with these guidelines minimum 7 days before the meeting.
32. PCU will check the final list of selected subprojects to assess whether the required criteria are met. Should there be considerable deviation from the criteria, PCU will, in consultation with Regional Units, make corrections by replacing the inappropriate subproject(s) with other(s) on the list in order to acquire required balance
33. Finally the list of subprojects selected for financing will be considered approved if it is accepted by majority of Committee members. The work of the Committee will be valid if a minimum of 5 members are present.
34. A copy of the assessment reports prepared by the assessors and a list of the selected projects prepared by the selection committee will be forwarded to the World Bank for information.

CHAPTER

3. Economic revitalization subprojects (SC 2.1)



Figure7. Design of subcomponent 2.1

Subcomponent 2.1: Financial support (in the form of grants) to existing SME-s and cooperatives

Subcomponent organization

1. This subcomponent will be implemented through at least two calls for proposals.
2. A call for proposal is a formal act of the CSERP Management that invites existing potential SME-s and Cooperatives to apply for a grant that would co-finance activities to promote the economic revitalization in the ASSC.
3. Each year there will be one or more call for proposals according to the available financial resources and to the already allocated resources.
4. The expression “subproject” indicates an application that has been selected to be financed.

3.1. REPARTITION OF FUNDS

5. The amount allocated for the economic revitalization projects will be dealt with as one Fund that will be financially handled at central level. Unlike other subprojects of Component 1 (Community Investments for social inclusion and small community infrastructure), *there will be no a priori geographical distribution* of the fund, but a mechanism that will introduce a certain element of competition amongst counties and beneficiaries.

6. The total available fund (€ 18.5 million) will be divided in a minimum of 2 tranches. The first tranche of 8 million Euros was distributed during the first call for proposals, while the second tranche will amount to 10.5 million Euros. In the second call for proposals, in 2008, the competition will be open for existing small companies, crafts and cooperatives only. During the first period (2007), and in order to ensure a fair distribution of funds, counties were able to receive **up to 15%** of the resources available for that period, i.e. up to €1.200.000, until the first tranche was exhausted.

7. The allocation pattern after the first CFP was taken into account for the 2nd CFP, so that initially available funding is equally accessible to all counties. Final decision on applications to be funded will be in line with the quality of proposals received. This means that once all project applications received during the second call for proposals are evaluated and selected for financing within the financial boundary of their county, a strong preference for further financing will be given to those applications that enhance employment of marginalized groups and increase the linkages among companies in the area where the applicant is active.

It is important to note that medium sized companies will not be able to compete in the second call for proposals. However, in the second CFP the competition for funding will be open for crafts as well.

3.2. ELIGIBILITY

3.2.1. ELIGIBLE APPLICANTS

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8. Eligible applicants are:

- (i) Established and **especially** expanding small enterprises, cooperatives, and crafts
- (ii) **Cooperatives** with periodic introduction of new members (importance of status and internal rules);
- (iii) Private enterprises (small enterprises) with productive activities relevant for local/regional economic development;
- (iv) Crafts with productive activities (crafts in trade will not be eligible to compete for funding);
- (v) Any firm, craft or cooperative applying for financial support will have been registered for at least 2 years and will provide the last two **financial statements** (minimum requirements).
- (vi) Those new cooperatives who have applied and received a start-up grant under subcomponent 2.2 (activity 1) of the CSERP program (see below) during the last 18 months are not eligible for an additional grant under this subcomponent 2.1.

3.2.2. ELIGIBLE SUBPROJECTS

9. The subprojects will contribute to increased opportunities for small businesses and cooperatives and incentives in the Areas of Special State Concern of the selected counties. This will enhance social cohesion by creating a more secure base for community revitalization.

10. Income generating subprojects providing essential goods and services to the population will have priority. Eligible subprojects include:

SECTOR	ELIGIBLE SUBPROJECT
PRODUCTIVE ACTIVITIES AND SERVICES	<ul style="list-style-type: none"> ✓ Expansion of productive activities in all economic sectors: agriculture, livestock, other rural related activities (organic food, eco- tourism) and crafts ✓ SMEs and cooperatives in the fields of industry and services, ✓ Cooperative trade with agricultural input and output
PROCESSING	<ul style="list-style-type: none"> ✓ Agro-processing and agro-industry
INNOVATION , R& D	<ul style="list-style-type: none"> ✓ New and innovative production technologies ✓ Energy costs efficiency projects ✓ Information Technology projects
OTHER	<ul style="list-style-type: none"> ✓ Capital Investments and joint ventures with national or international partners ✓ Business clusters and networks

Figure8. Eligible economic revitalization subprojects 2.1

11 The above is not an exhaustive or exclusive list of eligible projects. Other initiatives or proposals presented by the beneficiaries may be accepted by the CSERP, as long as they match the established objectives and the selection criteria

3.2.3. NON ELIGIBLE SUBPROJECTS

SECTOR	NON ELIGIBLE SUBPROJECT
PROVISION OF GRANTS AND LOANS TO ESTABLISHED SMES AND COOPERATIVE	<ul style="list-style-type: none"> ✓ Purchase of any type of used machinery, equipment or vehicles ✓ Refinancing of outstanding debts the applicant has with third parties or with the Bank ✓ Lease or purchase of land ✓ Payments of profits or recuperation of investments made by members of cooperatives or other associations ✓ Trade, such as retail commerce, common urban shops; does not apply to cooperatives, ✓ Projects that are not environmentally friendly

Figure9. Non eligible subprojects, subcomponent 2.1

3.2.4. ELIGIBLE EXPENSES

12 Expenditures available in a subproject proposal include:

- (i) New machinery and equipment
- (ii) Working capital (in the form of specific raw materials or production inputs), instead of machinery or equipment – in no case liquid cash will be granted.
- (iii) For cooperative trade with agricultural input and output
- (iv) Training costs and some specific management related expenditures

13 No disbursement of any equipment/machinery related grant should be made before basic infrastructure (water, electricity) and building permits are or will unequivocally available. Special attention should be paid to the investment dynamics of the business plan when approving the timing of disbursement for machinery and equipment.

3.3. SPECIFIC REQUIREMENTS

3.3.1. FINANCIAL CEILING

14 The **total investment value range** for consideration by the CSERP for each individual subproject proposal will be between € 100.000 and € 500.000. Any subproject above € 500.000 will be eligible, as long as the firm is an SME or a Cooperative, but will be dealt with in terms of the financial contribution ceiling of CSERP as an € 500.000 proposition. The PCU contribution to a subproject financing will not be less than € 27.000 (i.e. 27% of a total project value of an € 100.000 subproject) or exceed € 135.000 (or 27% of a total project value of an € 500.000 subproject).

15 Given the bottom-up nature of the CSERP and its objective of empowering local communities /organizations, there will be two thresholds of approval for the economic – financial support – projects:

- Subprojects with a total investment value of up to €300.000 (i.e. requiring a CSERP contribution up to €81.000) will be screened and selected by regional approval committees
- Subprojects with a total investment value of above €300.000 (i.e. requiring a CSERP contribution between €81.001 and € 135.000) will be approved by a national-level committee.

This subcomponent does not have a pre-approved geographic financial allocation, as the intention is to support sustainable ideas and projects. However, in order to avoid concentration of funds in one area, the limit per county was set at 1.200.000 Euros (HRK 8.640.000) during the first call for proposals. Due to the increase of available funding for this subcomponent, total available amount per county will be approximately 1.425.000 Euros.

3.3.2. DURATION

16 The implementation period of any subproject associated with a loan will be determined by the loan repayment period (grace period + installments) as established in the respective existing credit line from which the loan was awarded.

17 For those grants not associated with a loan, their implementation period should not exceed 12 months in the second CFP.

3.3.3. RULES FOR CSERP CO-FINANCING

Nature of eligible grants portions

18 As mentioned before, for the existing SMEs and Cooperatives (minimum two years of existence), the CSERP will finance in the form of grants up to a maximum of 27% of the total value / investment of any single subproject. When associated with a commercial bank loan, the CSERP's contribution to the project will be subdivided into (the following example refers to the maximum value of the project, i.e. € 500.000):

Breakdown of project contributions	Amount in €	Amount in %
1. Total value of the project	500.000	100 %
2. Beneficiaries' own contribution (compulsory)	50.00	10 %
3. Eligible Grant(s) to be provided by CSERP, of which	135.000	27 %
3.1 <u>Grant A</u> (Equipment/machinery/working capital)	112.500 – 135.000	22,5 -27 %
3.2 <u>Grant B</u> (soft management measures) optional	22.500	Up to 4,5 %
4. Remaining amount (1 minus (2+3)) from Loan or other source of funding (see below)	315.000	63%

19 The remaining 63% of the total project value (€ 315.000) will be:

- ✓ Either a **credit** through one of the participating banks (with or without HAMAG guarantee).
- ✓ Or another source of funding (such as leasing), donation or own capital, of which
 - (a) Part of the loan (if necessary or applicable) is guaranteed by HAMAG
 - (b) The rest of the loan is guaranteed with own collateral (2 to 1)

20 Maximum ceiling of HAMAG guarantee

The maximum guarantee provided by HAMAG in the ASSC is HRK 2.100.000 (~~€292.000~~). If the commercial loan would be under €417,000 (HRK 3.000.000) , then HAMAG could provide up to 70% of the guarantee (up to €292.000 or HRK 2.100.000). **However, notwithstanding the value of the loan, HAMAG will in no case guarantee more than 70% of its value.** In other words, the applicant has always to provide 30% of collateral (2 to 1) for any single loan, even if the loan is less than HRK 3.000.000.

So, to retake our example

Breakdown of project contributions	Amount in €	Amount in %
1. Total value of the project	500.000	100 %
2. Beneficiaries' own contribution (compulsory)	50.00	10 %
3. Eligible Grant(s) to be provided by CSERP, of which	135.000	27 %
3.1 <u>Grant A</u> (Equipment / machinery/working capital)	112.500 – 135.000	22,5 - 27%
3.2 <u>Grant B</u> (soft management measures) optional	22.500	Up to 4,5%
4. Remaining amount (1 minus (2+3)) from Loan or other source of funding (see below)	315.000	
5. Guarantee to be provided by HAMAG (maximum)	292.000	58%

possible)		
6. Collateral to be provided by applicant (2 to 1)	23.000	5%

Processes required

21 In the cases when a loan is involved, the Croatian Agency for Small Businesses (HAMAG) may (if necessary) guarantee up to 70% of the loan, or up to €292.000 (HRK 2.100.000), which is the maximum. However, and in order not to lessen the responsibility of the borrower, the participating banks will request a collateral equivalent to at least 30% of the total value of the loan to the borrower (2 to 1).

22 When required, the credits will be disbursed by banks in which the Government of Croatia (HBOR) has a scheme whereby it subsidizes the interest rates, and therefore can influence the bank's willingness and interest in recovering the loans.

23 It is recommended that the investment or business plans for all economic recovery projects be prepared by the beneficiary in consultation with a Business Services Providers (BSP) or a certified private consultant or, for the cooperatives, the regional cooperative alliance or national Federation. Notwithstanding the above, the entrepreneur or the Cooperative can develop the business plan on its own, if he/she wishes to do so.

24 All grant requests (as a response to the Call for Proposals) will be sent directly to the CSERP for evaluation.

The Grant portions: definitions.

25 Type A Grant: 22.5 - 27% grant: can be used only to purchase new machinery, equipment or working capital (in the form of production inputs or raw materials – no liquid cash) linked to the SME or Cooperative sector of activity – for example, private vehicles are not eligible.

26 Type B Grant: up to 4.5% **optional** grant for “soft” / management purposes, (on a reimbursable cost basis) that may include:

- Production quality or Intellectual Property protection (certificates, attests, patents, licenses, industrial property protection)
- Minor costs for business registration fees
- Acquisition / introduction of computer equipment, technical and industrial software, financial and management information systems, internet connections, network servers, web pages, etc.
- Management Training courses for senior staff that are provided by recognized training institutions or certified business consultant individuals
- New products design costs
- Special marketing costs, such as catalogues, promotion brochures, participation in fares (according to reasonable standard costs)
- Market surveys and member surveys
- External consultancy services

Disbursements

27 If linked to a commercial loan, this grant will be paid by the CSERP, through the commercial bank that approved the loan, **only after at least 50% (half) of the bank loan has been disbursed** (if applicable) As it involves only new machinery, equipment or production inputs, **the CSERP will pay bills (invoices) to the providers, through the bank that provided the loan - i.e. no cash will be delivered to the SME or Cooperative.**

28 In case there is no commercial loan involved, the CSERP will pay bills (invoices) only to the providing firms, i.e. no cash will be delivered to the SME or Cooperative.

29 In exceptional cases, and only if (i) the machinery has been bought as foreseen in the business plan; (ii) has been bought on a date after the official submission of the project proposal to the CSERP and (iii) the grant has been approved by the CSERP; then there is the possibility of reimbursing the SME or Cooperative for the equipment /machinery purchased under those circumstances.

30 Grants type B will be paid **within the first 6 months after the project has started for projects selected in the second CFP** in one of the following forms:

- As a direct reimbursement in cash to the entrepreneur, or
- In the form of an advance to the principal of the loan, thus decreasing the debt from the SME or the cooperative to the bank

The CSERP program will decide, on a case by case basis, which is the best option to reimburse the entrepreneur (cash or advance to the principal of the loan)

31 The payment to the small enterprise, craft or cooperative will be done if the client meets the following two conditions:

- (i) It is operating in line with good business practice, and has paid all interests due to the bank during the grace period (in case there has been a loan).
- (ii) It has spent the funds foreseen for "soft" management purposes, as described before, and provides full evidence of the expenses incurred into.

32 The period of 12 months for reimbursement of the grants has been established for the following reasons:

- The purpose of the grants is to strengthen the competitiveness of the SMEs or Cooperatives, and therefore the CSERP wishes these investments to be carried out as early as possible (specially those related to the "soft" management measures);
- Some of the small enterprises, crafts or cooperatives will ask a reimbursement of the grants in the early stages of their investment, as soon as they have disbursed the funds;
- Finally, considering the total duration of the CSERP project (4 years) and that this subcomponent (financial support) will be divided in 2 tranches, it is much better for all grants to be disbursed during the lifespan of the project.

3.3.4. BENEFICIARY CONTRIBUTION

33 The beneficiaries' contribution for this subcomponent will also be a mandatory prerequisite to a subproject's approval. **The minimum mandatory beneficiary contribution will be 10% of total subproject cost for existing small enterprises, crafts, and cooperatives, in cash.** To ensure equity and transparency, the decision will be based on: (i) the business plan prepared by the

beneficiary and (ii) the evaluation made by the Regional and National Approval Committee on the impact the proposal will have in terms of the economic revitalization of the area.

34 The beneficiary's own initial contribution of 10% to the project cannot be used at the same time as a collateral for the part of the loan the beneficiary has to ensure in the credit scheme.

3.4. SUBPROJECTS SELECTION CRITERIA AND SEQUENCY

3.4.1. SELECTION CRITERIA

35 In order to range, prioritize and select the projects, the CSERP will establish a system of points to analyze the relevance of the proposal and its impact in terms of local economic recovery.

36 Any single project proposal will have to obtain a minimum of 60 points to be approved by the Project. Besides, a minimum of 45 points has to be obtained by fulfilling respectively criteria 1 and 2, while criteria 1.1 and 1.4 (10 points) are compulsory and excluding. Projects who do not meet neither criteria 1 or 2 will not be approved. The applications will be evaluated according to the grid below:

Selection grid

Section	Maximum Score
1. Financial and operational capacity	20
1.1 Does the SME or Cooperative has provide evidence that it exists for at least two years?	5
1.2 Does the applicant has previous technical and management experience to carry out the project (in the proposed sector)?	5
1.3 Does the applicant have sufficient management capacity? (including staff, equipment, turnover, and ability to handle the budget for the action)?	5
1.4 Does the applicant have sufficient sources of co-finance?	5
2. Relevance	30
2.1 How relevant is the proposal to the objectives and to one or more of the priorities of the call for proposals and the County ROP priorities?	5
2.2 How relevant is the proposal in particular to the following desired results and/or impact indicators: <ul style="list-style-type: none"> - Project that improves integrated chains of production - Enhanced production and business development capacity - Increased industrial, processing or agro-industrial output (added value) - Increased investment in the County by, for example, establishing joint-ventures with national or foreign firms. - Increase Business Networking activity or business clusters - Job creation: <ul style="list-style-type: none"> • Employment created in firms or institutions that would not have existed without the project (SME investment rate). • Employment safeguarded that would have been lost without the project (SME survival rate) • Employment of vulnerable groups - Improve marketing environment - Increase New Products marketed - Are export-oriented businesses; or substitute imports. - Introduce new / innovative technologies 	20
2.3 Does the proposal contain specific elements of added value , such as innovative approaches, technologies, models for good practice? In particular,	5

<p>does the project address any of the following issues:</p> <ul style="list-style-type: none"> ✓ Decreased pollution. ✓ Use alternative, renewable or more environmental friendly energy. ✓ Reduced cost for final product / user (reduction in energy costs) ✓ Introduce new information technology (IT) services 	
3. Methodology	20
3.1 Are the investments and activities proposed appropriate, practical, and consistent with the objectives and expected results?	10
3.2 Does the proposal contain objectively verifiable results indicators for the proposed investment (what is the result of the investment?)	10
4. Sustainability	15
4.1 Is the action likely to have a tangible impact on the economic revitalization of the area?	10
4.2 Are the expected results of the proposed action financially sustainable : <i>(how will any further necessary investments be financed after the CSERP funding ends?)</i>	5
5. Budget and cost-effectiveness	15
5.1 is the ratio between the estimated costs and the expected results satisfactory?	10
5.2 Is the proposed expenditure necessary for the implementation of the action?	5
Maximum total score	100

Score attribution tool

Section	Score system
1. Financial and operational capacity	MAX 20
1.1	3 points if the SME or Cooperative has at least two years of existence, 4 points if it has between 3 and 5 years, and 5 points only if it has more than 5 years of existence.
1.2	5 points can be given only if the SME or Cooperative has previous technical and management experience in the proposed sector of activity (see 3.3.2 Eligible Subprojects)
1.3	3 points can be given in case the SME or Cooperative has managed in the previous three years a similar investment; 4 points can be given if the budget of that previous investment was at least equal to the one of the present project.; 5 points can only be given if the budget of that previous investment was higher than the one of the present project.
1.4	5 points can be given only in case the applicant will give his own contribution (10%) in cash.
2. Relevance	MAX 30

2.1	5 points can be given exclusively to the project proposals that are directly addressing the CSERP Objective and at least one County ROP priority. A maximum of 3 points can be given to the project proposals that are directly addressing the CSERP Objective, but not linked to any County ROP priority.
2.2	20 points can be given exclusively to the projects addressing at least two of the desired results / impact indicators listed under 2.2 of the Selection grid. Projects addressing only one of the desired results /impact indicators listed under 2.2 of the Selection grid can receive a maximum of 10 points.
2.3	5 points can be given exclusively to applications addressing at least one of the issues mentioned under 2.3 of the Selection grid.
3. Methodology	MAX 20
3.1	10 points can be given exclusively to the applications that have proposed activities that are clear, practical, consistent with the expected results to be achieved; and that are fully coherent one with the others.
3.2	10 points can be given exclusively to applications that include results that can be clearly measured (objective indicators).
4. Sustainability	MAX 15
4.1	10 points can be given exclusively to applications that clearly explain how the project will promote economic revitalization in the ASSC, provide employment and/or substantially improve the quality of the life of the addressed target group.
4.2	5 points can be given exclusively to the applications that clearly explain how the results of the subprojects will be maintained in the future; and how any further necessary investments will be financed and by whom.
5. Budget and cost-effectiveness	MAX 15
5.1	10 points can be given exclusively to the applications that have the best ratio between estimated costs and expected results (see business plan, C/B, IRR, NPV). It will be necessary to compare structure of the costs and expected results of the different applications in order to attribute the score. The top 25% of the applications will receive 10 points. The rest will receive 7 points.
5.2	5 can be given exclusively to the applications that have budgets with clear quantification of the costs (no lump sum) and that include only costs clearly linked to the activities to be implemented.
Maximum total score	MAX 100

Figure 10. Subcomponent 2.1: Selection criteria

37 Regional Approval Committees are tasked to review subprojects in their Region and select them for financing. Regional Approval Committee members are nominated by their respective counties. Members selected for each regional committee come from various stakeholder groups and have to represent counties, cities or municipalities from the Areas of Special State Concern, cooperatives, non-governmental organizations, Croatian Chamber of Economy, national minorities and crafts people. Among the individuals proposed by their respective counties, regional CSERP office selects seven members for each committee. UNHCR representative is a member of the Committee but only as an observer.

38 Regional Approval Committees will delegate to CSERP management responsibility for the technical appraisal of the applications. CSERP will appoint two assessors from the CSERP staff who are in a non-hierarchical relationship relative to each other, to appraise each project. Each assessor will score the applications on the basis of the above selection grid. The overall score will be an average of the two

assessors' scores. Projects that have received a substantially different assessment by the two independent assessors will be appraised by a third assessor, identified by CSERP management. If the third reviewer's score falls between the scores of the two original assessors, the highest two scores will be averaged to arrive at the final score. If the third reviewer's score is higher than that of the higher of the two original assessors, then the two highest scores will be averaged. Similarly, if the third reviewer scores the project lower than the lower score of the two original assessors, then the two lowest scores will be averaged.

39 The Approval Committee will identify a subgroup of its members (at least 2) that will score sample of 10% of the applications to judge the correctness of the assessment done by the assessors. Highest score reviewed by assessors will be financed only if approval committee judges that the selection of applications was in line with its review of the 10% sample. Under no circumstances a member of the approval committee belonging to an organization who applied for a grant can be selected by the Approval Committee to score the 10% sample. In case two or more projects address the same needs of the same target group, only the project that has received the highest score will be financed.

40 Regional Approval Committees will only select economic revitalization projects valued up to 300.000 E (2.160.000 Kuna). National Selection Committee will select projects whose value exceeds this sum⁴.

41 **National Approval Committee** tasked with the selection of economic revitalization projects is composed of 7 members: two representatives of the Regional Development, Forestry and Water Management, one representative of the Ministry of Economy, Labor, Entrepreneurship, one representative of the Ministry of Agriculture, Fisheries and Rural Development, one representative of HAMAG, one representative of Croatian Employment Services, and one representative of the Croatian Chamber of Economy. The decisions on awarding grants will be made by majority vote.

42 Grants awarded under the economic revitalization subcomponent will be of significant value and would considerably enhance the work of firms and cooperatives that receive such awards. As the final recipients of the grants are private firms and cooperatives which through increased profitability will increase their own private gains, it is essential that the selection process takes into account the ability of the projects to:

- Increase or keep the present employment level in the given area;
- Increase employment of target groups (women, youth, long-term unemployment, disabled, returnees);
- Introduce new products or technologies which will improve the production sustainability;
- Enable a high quality presence in the market for the existing production;
- Facilitate linkages among cooperatives for a joined presence in the market;

The list of selected subprojects has to take into account the following criteria:

- Maximal value of CSERP financed portion in the project will be 27%;
- Minimal value of the project proposed for financing has to be HRK 720.000 (100.000 Euros) while CSERP portion varies between HRK 194.000 (27.000 Euros) and HRK 972.000 (135.000 Euros) for small enterprises and cooperatives;
- In the second CFP crafts can also compete for funding. Their projects have to be of minimum value of HRK 154.000 with CSERP contribution starting at HRK 40.000. The maximum value of projects proposed by crafts is also HRK 3.600.000.
- Eligible applicants are small enterprises, crafts, and cooperatives which are operational for a minimum of two years;
- Eligible partners are those who meet the same criteria as the applicants;

⁴ This amount represents the total value of the project. CSERP grant can only cover 27% which total value is between 100.000,00 E and 500.000,00 E, namely maximum 135.000,00 E.

- The selected projects have to enhance economic growth, total turnover and income, promote employment, improve efficiency of the existing cooperatives and be in line with strategic orientation of the given area (in accordance with ROP);
- Funds granted to eligible projects are not to exceed the total HRK 10.250.000 per county.

43. In order to secure high quality of their work, Committee members will be provided with these guidelines minimum 7 days before the meeting.

44. Finally the list of subprojects selected for financing will be considered approved if it is accepted by majority of Committee members. The work of the Committee will be valid if a minimum of 5 members are present.

45. The list of short-listed proposals submitted by cooperatives (both the primary and reserve list) will be provided to the Croatian Cooperative Federation for review and comments. Their input will be taken into account for the preparation of the final grant recipient list for cooperatives. If necessary, the national-level committee members will be contacted again to provide their concurrence if some changes are introduced to their original proposal.

46. A copy of the assessment reports prepared by the assessors and a list of the projects selected for financing prepared by the selection committees will be forwarded to the World Bank for information.

3.4.2. PROJECT SELECTION AND APPROVAL SEQUENCY (PROCESS)

47. The SME or Cooperative willing to benefit from the scheme will have to follow the following steps:

- Engage / work together with a Business Services Provider (LEDA, Center for SMEs, RDA, accredited private consultant, etc) to prepare a Business Plan. The SME or Cooperative will have to clearly include in the Business Plan the grant(s) that, in principle, it would like to get from the CSERP. Notwithstanding the above, the entrepreneur or the Cooperative can develop the business plan on its own, if he/she wishes to do so.
- **If linked to a commercial banking loan**, the procedure will be the following
 - a. Submit the proposal to the corresponding CSERP level (regional or national) for analysis and approval of the grant portion (s).
 - b. Once approved by the CSERP, if a commercial loan is a pre-condition for the implementation of the subproject, the beneficiary will follow the next steps
 - b.1) Immediately contact the commercial bank of his choice and submit all necessary documentation– including the beneficiary's collateral / mortgage (30% of the loan)-, the Business Plan and the CSERP Letter of Award – so that the Bank knows that, in the financial construction, the CSERP award has been granted.
 - b.2) Once approved by the Bank, and if required, contact HAMAG to request a Guarantee Letter to up to 70% of the loan (maximum HRK 2.100.000)
 - b.3) With the approval of both the commercial Bank and HAMAG (if necessary), contact the CSERP for the disbursement of the grants
 - c. After approval and **disbursement of a substantial part of the loan** (at least half) by the commercial bank, submit to the CSERP the bill corresponding to the machinery and equipment (Grant A) for direct payment to the supplier.

- d. Within the first 18 months of grace period, after a visit / approval on behalf of the CSERP field staff (CCU), including the submission of written evidence (i.e contracts and bills), request the payment of grant B to the CSERP
 - **If not linked to a commercial banking loan**, the procedure will be the following:
- e. Submit the request for Grant A (Equipment and Machinery and/or Working Capital) to the CSERP (RCU or CCU) together with the business plan, and evidence of the additional source of funding (leasing, factoring contract, other lending mechanism)
- f. Within the first 6 months of the project implementation, after a visit / approval on behalf of the CSERP field staff (CCU), including the submission of written evidence (i.e. contracts and bills), request the payment of grant B to the CSERP.

CHAPTER

4. Economic revitalization subprojects (SC 2.2)

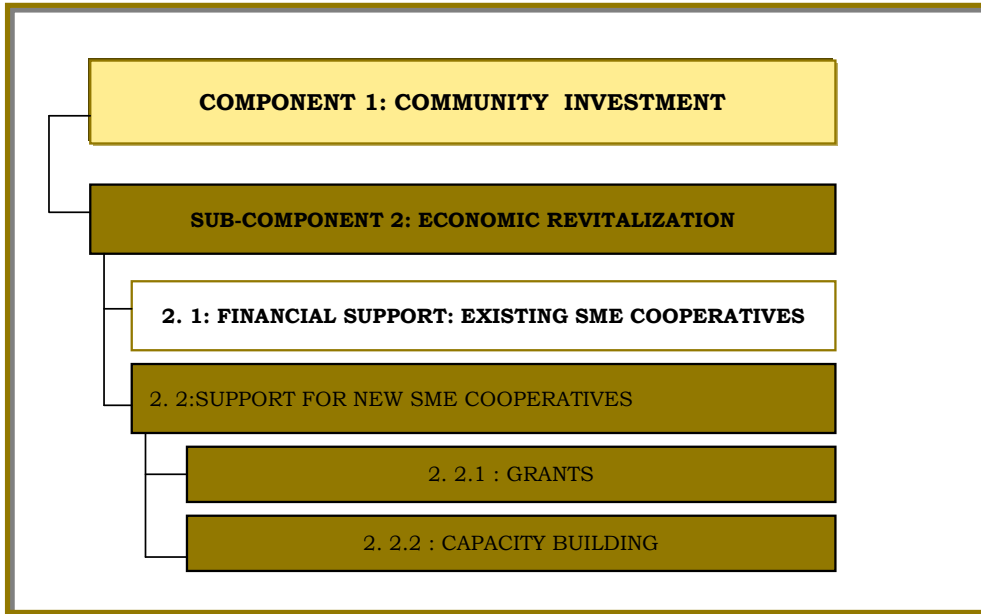


Figure11. Design of subcomponent 2.2

Subcomponent 2.2: Support for new SME s and cooperatives

Activity 2.2.1: Grants (start-up capital) for new cooperatives

Subcomponent activity organization

1. This subcomponent activity will be implemented through one call for proposals.
2. A call for proposal is a formal act of the CSERP Management that invites potential **new Cooperatives** to apply for a grant that would co-finance activities to promote the economic revitalization in the ASSC.
3. The expression “subproject” indicates an application that has been selected to be financed.

4.1. REPARTITION OF FUNDS

5 Geographic distribution: The subcomponent 2.2.1 will have a geographic (regional) pre-allocation, on the basis of the results of the territorial assessment.

Group of Counties	Financial Allocation in Euro
Lot 1 - Dubrovačko-neretvanska, Ličko-senjska, Splitsko-dalmatinska, Šibensko-kninska and Zadar	€ 850.000
Lot 2 - Bjelovarsko-bilogorska, Karlovačka and Sisačko-moslavačka	€ 800.000
Lot 3 - Brodsko-posavska, Osječko-baranjska, Požeško-slavonska, Virovitičko-podravska and Vukovarsko-srijemska	€ 850.000

6. The total budget for grants (start-up capital) for new cooperatives is € 2.5 million.

This will allow the CSERP to disburse funds under the economic recovery grant scheme for those cooperatives in the counties that (a) have good project proposals and (b) are ready to implement them.

However, and notwithstanding the above territorial pre-allocation, and in case there are no or a very limited number of proposals from one or more counties belonging to one of the above-mentioned regions - due to insufficient quality or number of proposals received - the CSERP Management reserves the right to reallocate the remaining available funds from that region to proposals coming from other regions.

4.2. ELIGIBILITY

4.2.1. ELIGIBLE APPLICANT

7 Eligible applicants are:

- Only new cooperatives for the grant-funded start-up capital

Those new cooperatives who have applied and received a start-up grant under this subcomponent 2.2 (activity 1) of the CSERP program will not be able, during the following 18 months, to be eligible for an additional grant under subcomponent 2.1 (see above).

4.2.2. ELIGIBLE SUBPROJECTS

8 The subprojects will contribute to increased opportunities for new cooperatives – i.e. those who are registered for less than 24 months - in the different war affected and economically disadvantaged areas. This will enhance social cohesion by creating a more secure base for community revitalization.

9 The new cooperatives will provide essential goods and services to the population, thereby contributing to the economic revitalization of their regions. Eligible subprojects include:

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SECTOR	ELIGIBLE SUBPROJECT
PROVISION OF GRANTS TO NEW COOPERATIVES	<ul style="list-style-type: none"> ✓ Construction or reconstruction of business premises ✓ New productive activities in agricultural, livestock, and agricultural fields (and niche markets such as organic food, rural tourism and others) ✓ Partnership and market linkages between multiple cooperatives ✓ Agro-processing ✓ Rehabilitation, repair or equipment of small and medium scale facilities which were well functioning prior to the war, as long as they have been legally and transparently transferred to the new cooperative ✓ Trade with agricultural input and output

Figure12. Eligible subprojects: grants for new cooperatives

10 The above is not an exhaustive or exclusive list of eligible projects. Other initiatives or proposals presented by the beneficiaries may be accepted by the PCU and the Steering Committee of the CSERP, as long as they match the established objectives and the selection criteria

4.2.3. NON ELIGIBLE SUBPROJECTS

SECTOR	NON ELIGIBLE SUBPROJECT
GRANTS	<ul style="list-style-type: none"> ✓ Purchase of any type of used machinery, equipment or vehicles; ✓ Refinancing of outstanding debts the applicant has with third parties or with the Bank ✓ Lease or purchase of land or cooperative premises ✓ Payments of profits or recuperation of investments made by members of cooperatives or other associations ✓ Hiring of regular staff for the new Cooperatives

Figure13. Non Eligible cooperatives and SME/ crafts subprojects

4.2.4. ELIGIBLE EXPENSES

11 Expenditures available for a start-up capital grant proposal include:

- Premises construction, reconstruction or adaptation (up to 40%)
- New Machinery and Equipment
- Raw Materials and other production inputs

4.3. SPECIFIC REQUIREMENTS

4.3.1. FINANCIAL CEILING

12. The CSERP will not finance any subproject (grant for start-up) for an amount of less than € 25.500 or HRK 184.000 (i.e. 85% of a total project value of € 30.000 or HRK 216.000) or that exceeds € 64.000 or HRK 460.000 (or 80% of a total project value of € 80.000 or HRK 576.000). Any subproject above €80.000 or HRK 576.000 will be eligible, as long as it is a new Cooperative, but will be dealt with in terms of the financial contribution ceiling of CSERP as a € 80.000 or HRK 576.000 proposition. In other words, the CSERP contribution to a new Cooperative will not be less than €25.500 or HRK 184.000 (i.e. 85% of a total project value of an €30.000 or HRK 216.000) or will not exceed € 64.000 or HRK 460.000 (or 80% of a total project value of an €80.000 or HRK 576.000 or more).

4.3.2. DURATION

13 The implementation period of a subproject shall not, in principle, exceed 12 months

4.3.3. RULES FOR PROJECT CO-FINANCING

14 The CSERP will finance up to a maximum of 85% of the total value / investment of any single project, according to the following scale:

- Projects from €30.000 or HRK 216.000 up to €55.000 or HRK 396.000: 85% grant – The beneficiary has to contribute with a minimum of 15%, in cash.
- Projects from €56.000 or HRK 396.000 up to €80.000 or HRK 576.000: 80% grant – The beneficiary has to contribute with a minimum of 20% in cash.
- Up to 5% of the total grant value can be allocated to soft management purposes. This is labeled Grant type B. Payments of Grant Type B will be reimbursed in cash to the applicant, in line with the conditions further stipulated in this section of the guidelines. Payment will be made to a bank account or sub-account which identifies the funds paid by the CSERP Management .

4.3.4. BENEFICIARY CONTRIBUTION

15. Conditions: The beneficiaries' contribution for part of this subcomponent will also be a mandatory prerequisite to a subproject's approval. The lower limit of the requirement will be 15% and the higher limit 20% of total subproject cost, depending of the total amount of the new investment. To ensure equity and transparency, the decision will be based on: (i) the business plan prepared by the newly established cooperative (ii) the support at the regional level of both HSZ (Croatian Cooperative Association) and the regional or sectoral cooperative union, (iii) the evaluation made by the CSERP on the impact the proposal will have in terms of the economic revitalization of the area. See 4.5 below for more details.

16. The admissible contributions are:

- Buildings, premises, equipment, machinery or other in-kind contributions
- Monetary contributions, including other donor's grants or credits from financial institutions

- Works that can be accounted for, carried out by the new Cooperative

4.4. SUBPROJECTS SELECTION CRITERIA

17. In order to range, prioritize and select the projects, the CSERP will establish a system of points to analyze the relevance of the proposal and its impact in terms of local economic recovery. Any single proposal will have to obtain a minimum of 60 points to be approved by the Project. A minimum of 45 points has to be obtained by either fulfilling criteria 1 or 2. Meeting criteria 1.1 and 1.3 is compulsory and non-compliance the basis for automatic exclusion. Projects that do not meet neither criteria 1 or 2 will not be approved. Besides, another minimum of 15 points has to be obtained from fulfilling criteria 3 or 4. The applications will be evaluated according to the grid below:

18. Scoring:

The selection criteria are divided into sections and subsections. Each subsection will be given a score: lower the score, lower the quality of the proposal.

Note on Section 1. Financial and operational capacity

If the total average score is less than 10 points for section 1, the Approval committee will reject the proposal. Please note that criteria 1.1 and 1.4 are mandatory and, if non compliant, excluding factors

Note on Section 2. Relevance

If the total average score is less than 20 points for section 2, the Approval committee will reject the proposal.

Note on total score.

No subproject scoring less than 60 points will have a grant awarded.

Provisional selection

Following the evaluation, a table listing the proposals ranked according to their score and within the available financial envelope will be established as well as a reserve list following the same criteria.

19. The applications will be evaluated according to the grid below:

Selection grid

Section	Maximum Score
1. Financial and operational capacity	20
1.1 What is the skill level of cooperative management to run its daily operations?	5
1.2 Do the applicants (new members of the Cooperative) have any previous technical and management experience to carry out the project (in the proposed sector)?	5
1.3 Does the applicant have sufficient sources of co-finance?	5

1.4 The new cooperative will have how many members (not cooperants)	5
2. Relevance	30
2.1 How relevant is the proposal to the objectives and to one or more of the priorities of the call for proposals and the County ROP?	5
2.2 How relevant is the proposal in particular to the following desired results and/or impact indicators: <ul style="list-style-type: none"> ✓ Project that improve integrated chains of production ✓ Enhanced production and business development capacity ✓ Increased industrial, processing or agro-industrial output (added value) ✓ Increased investment in the County by, for example, establishing joint-ventures with national or foreign firms. ✓ Increase Business Networking activity or business clusters ✓ Job creation: <ul style="list-style-type: none"> • Employment created in the new Cooperative that would not have existed without the project. • Employment safeguarded that would have been lost without the new Cooperative) • Employment of vulnerable groups <ul style="list-style-type: none"> ✓ Improve marketing environment ✓ Increase New Products marketed ✓ Are export-oriented businesses; or substitute imports. ✓ Introduce new / innovative technologies ✓ Introduce new information technology (IT) services 	20
2.3 Does the proposal contain specific elements of added value , such as innovative approaches, technologies, models for good practice? In particular, does the project address any of the following issues: <ul style="list-style-type: none"> ✓ Decreased pollution. ✓ Use alternative, renewable or more environmental friendly energy. ✓ Reduced cost for final product / user (reduction in energy costs) ✓ Introduce new information technology (IT) services 	5
3. Methodology	20
3.1 Are the investments and activities proposed appropriate, practical, and consistent with the objectives and expected results?	10
3.2 Does the proposal contain objectively verifiable results indicators for the proposed investment (what is the result of the investment?)	10
4. Sustainability	15
4.1 Is the action likely to have a tangible impact on the economic revitalization of the area?	10
4.2 Are the expected results of the proposed action financially sustainable : <i>(how will any further necessary investments be financed after the CSERP funding ends?)</i>	5
5. Budget and cost-effectiveness	15
5.1 is the ratio between the estimated costs and the expected results satisfactory?	10
5.2 Is the proposed expenditure necessary for the implementation of the	5

action?	
Maximum total score	100

Score attribution tool

Section	Score system
1. Financial and operational capacity	MAX 20
1.1	5 points only if manager(s) have relevant education or have attended appropriate trainings for strategic and operational planning, financial management, etc. - 3 points if they only limited capacity to run the cooperative
1.2	5 points can be given only if the members of the new Cooperative have previous technical and management experience in the proposed sector of activity (see 4.3.2 Eligible Subprojects)
1.3	4 points can be given in case the new Cooperative has its own contribution according to the required ceiling (15 to 20%) by the CSERP. 5 points can only be given if the own contribution of the new cooperative is above the minimum requirement of the CSERP.
1.4	1 point in the case the new cooperative has only 3 members as required by Law; 2 points if it has between 4 and 10 members; 3 points if it has between 11 and 15 members; 4 points if it has between 16 and 20 members; 5 points can be given only in case the applicant has more than 20 members. Cooperants are not counted as members.
2. Relevance	MAX 30
2.1	5 points can be given exclusively to the project proposals that are directly addressing the CSERP Objective and at least one County ROP priority. A maximum of 3 points can be given to the project proposals that are directly addressing the CSERP Objective, but not linked to any County ROP priority.
2.2	20 points can be given exclusively to the projects addressing at least two of the desired results / impact indicators listed under 2.2 of the Selection grid. Projects addressing only one of the desired results /impact indicators listed under 2.2 of the Selection grid can receive a maximum of 15 points.
2.3	5 points can be given exclusively to applications addressing at least one of the issues mentioned under 2.3 of the Selection grid.
3. Methodology	MAX 20
3.1	10 points can be given exclusively to the applications that have proposed activities that are clear, practical, consistent with the expected results to be achieved; and that are fully coherent one with the others.
3.2	10 points can be given exclusively to applications that include results that can be clearly measured (objective indicators).

4. Sustainability	MAX 15
4.1	10 points can be given exclusively to applications that clearly explain how the project will promote economic revitalization in the ASSC, provide employment and/or substantially improve the quality of the life of the addressed target group.
4.2	5 points can be given exclusively to the applications that clearly explain how the results of the subprojects will be maintained in the future; and how any further necessary investments will be financed and by whom.
5. Budget and cost-effectiveness	MAX 15
5.1	7 points can be given exclusively to the applications that have the best ratio between estimated costs and expected results (see investment plan, C/B, IRR, NPV). It will be necessary to compare structure of the costs and expected results of the different applications in order to attribute the score. The top 25% of the applications will receive 10 points.
5.2	5 can be given exclusively to the applications that have budgets with clear quantification of the costs (no lump sum) and that include only costs clearly linked to the activities to be implemented.
Maximum total score	MAX 100

Figure 14. Subcomponent 2.2: Selection criteria

20 Regional Approval Committees will delegate to CSERP management responsibility for the technical appraisal of the applications. CSERP will appoint two assessors from the CSERP staff who are in a non-hierarchical relationship relative to each other, to appraise each project. Each assessor will score the applications on the basis of the above selection grid. The overall score will be an average of the two assessors' scores. Projects that have received a substantially different assessment by the two independent assessors will be appraised by a third assessor, identified by CSERP management. If the third reviewer's score falls between the scores of the two original assessors, the highest two scores will be averaged to arrive at the final score. If the third reviewer's score is higher than that of the higher of the two original assessors, then the two highest scores will be averaged. Similarly, if the third reviewer scores the project lower than the lower score of the two original assessors, then the two lowest scores will be averaged.

21 The Approval Committee will identify a subgroup of its members (at least 2) that will score sample of 10% of the applications to judge the correctness of the assessment done by the assessors. Highest score reviewed by assessors will be financed only if approval committee judges that the selection of applications was in line with its review of the 10% sample. Under no circumstances a member of the approval committee belonging to an organization who applied for a grant can be selected by the Approval Committee to score the 10% sample. In case two or more projects address the same needs of the same target group, only the project that has received the highest score will be financed.

22 The list of selected subprojects has to take into account the following criteria:

Maximal value of CSERP financed portion in the project will be 85%, i.e. HRK 460.000 (64.000 Euros);

Minimal value of the project proposed for financing has to be HRK 216.000 (30.000 Euros) while CSERP portion varies between HRK 184.000 (25.500 Euros) and HRK 460.000 (64.000 Euros);

Eligible applicants are new cooperatives which are operational for up to two years;

The selected projects have to enhance economic growth, total turnover and income, promote employment, improve efficiency of the existing cooperatives and be in line with strategic orientation of the given area (in accordance with ROP);

In order to secure high quality of their work, Committee members will be provided with these guidelines minimum 7 days before the meeting.

Finally the list of subprojects selected for financing will be considered approved if it is accepted by majority of Committee members. The work of the Committee will be valid if a minimum of 5 members are present.

A copy of the assessment reports prepared by the assessors and a copy of the evaluation report prepared by the selection committee will be forwarded to the World Bank for information.

Activity 2.2.2: capacity building for cooperatives and SMEs

Subcomponent activity organization

24 This subcomponent activity will be implemented through several calls for proposals.

25 A call for proposal is a formal act of the CSERP Management that invites existing and new SMEs, crafts and Cooperatives to apply for a grant that would increase or consolidate their knowledge and capabilities to manage their respective businesses, and thereby contribute to the economic revitalization in the ASSC.

26 Each year there will be one or more call for proposals according to the available financial resources and to the already allocated resources.

27 The expression "subproject" indicates an application that has been selected to be financed.

4.5. REPARTITION OF FUNDS

28 Of the total budget allocation for this subcomponent, 17% (€ 1.5 million) will be bound to capacity building for cooperative and SME/crafts in the project areas. At least 70% of this budget will be spent on cooperative development

29 However, it has been agreed during the World Bank Appraisal Mission that, if during the first 24 months of the implementation of the CSERP program, there is an evident need to increase the financial allocation for this subcomponent, funds should automatically be re-allocated either from Activity 1 of subcomponent 2.2 (Start-up Grants for new Cooperatives) or even from subcomponent 2.1 (Financial Support for existing SMEs and Cooperatives)

4.6. BACKGROUND AND JUSTIFICATION ON THE COOPERATIVE SECTOR

30 There is no doubt that ASSCs desperately need well-functioning cooperatives in almost all sectors because of a severe lack of economic activities, employment opportunities and

social services. Cooperatives in ASSCs face the same constraints as SMEs and other private sector players: the business conditions are often highly inadequate. Besides, cooperatives are facing the additional difficulty that there is very little social capital in the ASSC, especially in those that have been affected by war and ethnic tensions. However, successful and sustainable cooperatives depend on the existence of large groups of people who trust each other, have common objectives and interests, and have the drive and motivation to take initiative instead of waiting for the state or outsiders to act.

31 In addition, cooperatives all over Croatia face serious reputation issues. The population at large and many decision makers consider cooperatives a remnant of the socialist past, i.e., a discredited form of organization that is irrelevant to building a modern market economy.

32 One of the first tasks to be tackled by the CSERP would be to launch an awareness and education campaign with the aim of clarifying the nature of modern cooperatives, the role they can sensibly play in the various sectors, and how they can be established and should operate, etc. A lot of preparatory work for such a declaration has been done already in the context of the EU CARDS program by drafting "A Strategy for the Development of the Cooperative Sector in Croatia".

4.7. IMPLEMENTATION PROCESS

4.7.1. THE OFFER

33 **Preparation activities** of the PCU under subcomponent will include:

A training needs assessment in order to clearly identify the exact requirements in terms of cooperative and SMEs management training

Prepare training materials adapted to the Croatian context and to the level of training (new SMEs/ cooperatives or existing ones) or to the target audience (managers, accountants, coop members)

Provide the training sessions and evaluate their impact

- As far as cooperatives are concerned the PCU will delegate these tasks to the national Federation.

34 The CSERP will launch Calls for Proposals for such a purpose. This will include business advisory services and training initiatives that will be designed on the basis of the lessons learned from similar activities that have been implemented to date. The Regional Coordination Units (RCU) and regional cooperative alliances will also engage in knowledge sharing on entrepreneurship as a means of building local capacity for business development.

4.7.2. DIAGNOSTIC REVIEW

35 Following receipt of an application for participation in the support program, project staff ⁵ would take the applicant through a diagnostic review and preparatory phase. Staff, assisted by consultants, if necessary, would collect and analyze data on the existing/proposed operations of the cooperative with a view to identifying its development potential and constraints.

⁵ In cooperatives case, this refers to regional cooperative alliances and national federation

36 For the cooperatives/groups selected, the member mobilization phase would follow. This phase aims at activating the members, encouraging them to identify the service and activities that the cooperative should undertake for their benefit, and making them aware of their role as true owners of the cooperative.

37 After having obtained the relevant data on the cooperative, the leader/management of the cooperative group, together with a Business services provider selected by the group/cooperative, will develop the business plan which includes:

- the objectives and targets to be reached over the medium-term;
- the actions that need to be taken to achieve the objectives and targets;
- the resources needed for implementation and how they are to be acquired;
- a system for monitoring implementation of the business plan.

4.7.3. OUTSOURCING IMPLEMENTATION

38 The Federation of cooperative may be chosen for all capacity building activities related to the cooperatives.

39 However, the cooperative Federation and the regional alliance will have to meet similar qualification criteria in terms of member participation, efficiency, etc. as described above for village cooperatives. This means that, in order to quickly become an efficient service provider, the Federation itself will have to go through a similar development program as outlined above for the village cooperatives (i.e., institutional analysis, drafting of a business plan, support for the implementation of the business plan, etc.). In addition, the cooperative federation and alliances would have to ensure that only genuine cooperatives are allowed to become members.

40 In the long run, the cooperative apex and service organizations would have to be able to fund all their services through membership contributions and client fees. However, such financial self-sufficiency would take a number of years to achieve since (i) the financial capacity of many village cooperatives is still limited, and (ii) the needs of the same cooperatives in terms of support services are almost unlimited.

4.8. ELIGIBILITY

4.8.1. ELIGIBLE APPLICANTS

41 Since it might not be possible to provide direct support to all village-level cooperatives, the project will develop a system by which: (i) the project would focus on cooperatives with the highest potential to make the best use of project support, and (ii) its resources and efforts would be multiplied, especially through the use of regional service providers.

42 Criteria for selecting cooperatives and groups would include:

- current rate of member participation and commitment as reflected in the number of members participating in the Cooperative, the amounts of capital contributions, etc.
- the prospect of the cooperative/group being able to become a financially and operationally viable unit.

43 Eligible applicants are:

- New and existing cooperatives and SMEs for training and capacity building
- Cooperatives with periodic introduction of new members (importance of status and internal rules) for management training
- Associations and Federations linked to the Cooperative and SME sectors

4.8.2. ELIGIBLE BENEFICIARIES

44 The beneficiaries will be SMEs, crafts, the existing cooperatives and those which are in process of constitution, the Chambers of Commerce and the Chambers of Crafts in the targeted counties. The Project will address the training needs of both those cooperatives, SME/crafts that have recently been constituted with the support of the CSERP (see above), as well as those that are already operating in the country but feel the need to improve their managerial skills. Therefore, the managers of cooperatives and SMEs will be amidst the most important target group within these activities.

45 Other beneficiaries of this subcomponent may be the national and regional partners that will participate in the activities, such as the Croatian Cooperative Federation (HSZ) and its regional branches, the Ministry of Agriculture, the Ministry of Economy, Croatian Agency for Small Business (HAMAG). The project will involve all these partners in its project activities whenever appropriate.

4.8.3. ELIGIBLE ACTIVITIES

46 The purpose of these non-financial services is to help cooperatives to reach a level of maturity in terms of organizational development, management capabilities, and business capacities that will enable them to borrow from commercial banks or existing credit lines.

47 The subprojects will contribute to increased opportunities for new and existing cooperatives and SMEs in the different war affected and economically disadvantaged areas. This will enhance social cohesion by creating a more secure base for community revitalization.

48 Support to be made available under the SCERP project may include, besides concrete investments (Activity 1- Grants), and depending on the needs identified during the diagnostic review, specific capacity-building and soft measures (Activity 2) as the examples provided in figure 16.

49 In addition to the project support to the cooperative-specific development process described above, the program should identify and design support activities which may be needed by most cooperatives and which, therefore, can be provided through a different approach to *groups of cooperatives rather than individually to each client*. Because of lower per-unit costs these group programs would benefit a much larger number of cooperatives than the expensive individual support services. Examples are provided in figure 16:

SECTOR	ELIGIBLE SUBPROJECT
CAPACITY BUILDING FOR COOPERATIVES AND SME/CRAFTS	<p><u>General:</u></p> <ul style="list-style-type: none"> ✓ Provision of technical assistance, ✓ Provision of SME and cooperative education / training; ✓ Information campaigns, ✓ Strengthening of financial intermediation through specialized cooperatives (access to the existing banking sector) <p><u>Following diagnostic review of an individual cooperative:</u></p>

	<ul style="list-style-type: none"> ✓ regular on-site consultations and guidance with a view to addressing business plan implementation constraints, and on-the-job training to management and staff; ✓ preparation of additional strategies and analyses in order to facilitate plan implementation, such as marketing strategies, feasibility studies and financial analyses of investment projects; ✓ preparation of loan applications to financial institutions in case external financing is required for project implementation; ✓ design and implementation of business management systems, including systems for accounting and financial management; ✓ design and implementation of training courses for staff and board members of the cooperative; and ✓ participation in member information meetings. <p><u>Groups of cooperatives:</u></p> <ul style="list-style-type: none"> ✓ a program for member information, ✓ management and supervisory board training, and training of managers
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Figure15. Eligible training activities

50 The above is not an exhaustive or exclusive list of eligible projects. Other initiatives or proposals presented by the beneficiaries may be accepted by the PCU and the Steering Committee of the CSERP, as long as they match the established objectives and the selection criteria

4.8.4. NON ELIGIBLE SUBPROJECTS

SECTOR	NON ELIGIBLE SUBPROJECT
TRAINING	<ul style="list-style-type: none"> ✓ Hiring of regular staff for the Cooperatives or the SMEs ✓ Operational or current costs of Cooperatives or SMEs

Figure16. Non Eligible cooperatives and SME/ crafts subprojects

4.8.5. ELIGIBLE EXPENSES

51 Eligible expenses are all costs related to training events such as workshops, seminars, lectures, study tours and similar.

4.9. SPECIFIC REQUIREMENTS

4.9.1. FINANCIAL CEILING

52 The total value range for each individual capacity building or training proposal for Cooperatives or SMEs will be between € 20.000 and € 100.000. Capacity building proposals will be regrouped for efficiency and cost effectiveness.

4.9.2. DURATION

53 The implementation period of a subproject shall not, in principle, exceed 12 months (18 months in very exceptional cases)

4.9.3. BENEFICIARY CONTRIBUTION

54 The Beneficiary institution (s) will normally be required to provide 10% of the total costs of the capacity-building or training proposal - **except in the case of new SMEs or Cooperatives**, where no counterpart contribution will be requested.

4.10. SUBPROJECTS SELECTION CRITERIA

55 In order to range, prioritize and select the capacity building subprojects, the CSERP will establish a system of points to analyze the relevance of the proposal.

56 Any single subproject proposal will have to obtain a minimum of 70 points to be approved by CSERP. Besides, a minimum of 25 points has to be obtained by either fulfilling criteria 1 or 2. Projects that do not meet neither criteria 1 or 2 will not be approved.

57 The system will assign points according to the following grid:

Selection grid

Section	Maximum Score
1. Justification	30
1.1.a For SMEs, does the project has the written support of a local Business Services Provider (center for SMEs, LEDA, Center for Entrepreneurship, etc.) (or)	10
1.1.b For Cooperatives, does the project have the written support of HSZ (who will evaluate the project and the cohesiveness of the group of members) and/or the regional /sectoral alliance)	
1.2 Does the applicant have sufficient sources of co-finance (if applicable)?	10
1.3 Is the training need clearly justified and identified?	10
2. Relevance	50
2.1 How relevant is the proposal to the objectives and to one or more of the priorities of the call for proposals and the County ROP priorities?	10
2.2 How relevant is the proposal in particular to the following desired results and/or impact indicators: <ul style="list-style-type: none"> ✓ Improved business management systems, including systems for accounting and financial management ✓ Management and supervisory board improved management capacity ✓ Improved capacity for business planning and financial analysis of investment projects, including loan applications to financial institutions ✓ Enhanced marketing abilities, including marketing analysis and strategies ✓ Enhanced inter-ethnic cooperation through the realization of common activities ✓ Enhanced environmental awareness 	25
2.3 Does the training / capacity building proposal contain specific elements of added value , such as innovative approaches, technologies, models for good	15

practice? In particular, does the project address any of the following issues: <ul style="list-style-type: none"> ✓ Enhanced environmental awareness / decreased pollution. ✓ Use alternative, renewable or more environmental friendly energy. ✓ Reduced cost for final product / user (reduction in energy costs) ✓ Introduce new information technology (IT) services 	
3. Coherence and Methodology	20
3.1 Is the proposed training request necessary / clearly linked to the current or future activities of the SME, the craft or the Cooperative?	10
3.2 Does the request contain objectively verifiable indicators for the training request results (what will be the result of the training?)	10
Maximum total score	100

Score attribution tool

Section	Score system
1. Financial and operational capacity	MAX 30
1.1.a	10 points only if it has the written support of the Local Business Services Provider - 5 points if they do not have that written support..
1.1.b	10 points only if it has the written support of the regional / sectoral cooperative alliance or the National Federation - 5 points if they do not have that written support.
1.2	10 points can be given only if (a) the applicant provides the necessary co-funding (10%) (b) it is a new SME or Cooperative, which automatically gets the 10 points, as no co-financing is required.
1.3	10 points can be only given if the training request has been clearly identified and is fully justified
2. Relevance	MAX 50
2.1	10 points can be given exclusively to the project proposals that are directly addressing the CSERP Objective and at least one County ROP priority. A maximum of 5 points can be given to the project proposals that are directly addressing the CSERP Objective, but not linked to any County ROP priority.
2.2	25 points can be given exclusively to the projects addressing at least two of the desired results / impact indicators listed under 2.2 of the Selection grid. Projects addressing only one of the desired results /impact indicators listed under 2.2 of the Selection grid can receive a maximum of 15 points.
2.3	15 points can be given exclusively to applications addressing at least one of the issues mentioned under 2.3 of the Selection grid.
3. Coherence and Methodology	MAX 20
3.1	10 points can be given exclusively to the applications where the training request has a clear link to the present and future activities of the SME, craft or Cooperative

3.2	10 points can be given exclusively to applications that include results that can be clearly measured (objective indicators).
Maximum total score	MAX 100

Figure17. Capacity building selection criteria: cooperatives and SMEs

CHAPTER

5. Small community infrastructure subprojects (SC 3)

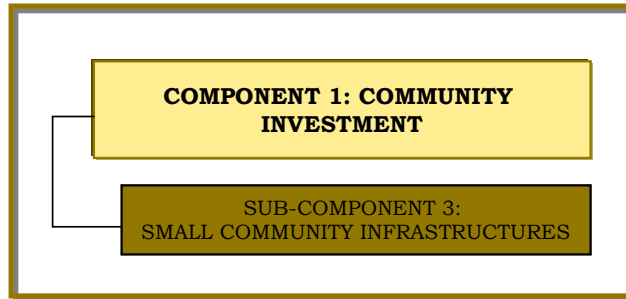


Figure18. Design of subcomponent 3

Subcomponent organization

1. This subcomponent will be implemented through several calls for proposals over the duration of CSERP.
2. A call for proposal is a formal act of the CSERP Management that invites potential beneficiaries to apply for a grant that would co-finance activities to promote the realization of small community infrastructures in the ASSC.
3. Each year there will be one or more call for proposals according to the available financial resources and to the already allocated resources.
4. The expression “subproject” indicates an application that has been selected to be financed.

5.1. REPARTITION OF FUNDS

5. This subcomponent will have a geographical pre-allocation at regional level. The financial pre - allocation will be included in the call for proposals.
6. **Multiple submissions.** The following limits would be applied per community infrastructure project along the entire duration of the CSERP:
 - A maximum of 4 subprojects per beneficiary, and /or
 - A maximum of two subprojects for call for proposals and/or
 - Maximum co-financing ceilings from the project as specified in 5.4.1 (financial ceiling) with respect to Euro 200.000 per municipality over the life of the project.
7. The CSERP will finance community infrastructure projects that exclusively benefit the ASSC.

5.2. ELIGIBILITY

8. The applicant or the partner can not be an individual, a private enterprise or a cooperative. Eligible applicants are:

Decentralized governments: 70% of budget allocation

- ✓ County authorities
- ✓ Town and municipalities
- ✓ Civil society and business associations: 30% of budget allocation
- ✓ NGOs (NVO-i),
- ✓ Associations (Udruga),
- ✓ Foundations (zaklade),
- ✓ Public Institutions (javne ustanove)⁶
- ✓ Chambers of Commerce
- ✓ Chambers of Crafts
- ✓ Employers Associations
- ✓ Trade Unions

9. After the first 18 months of CSERP operation, this percentage will be reviewed and any necessary modifications will be approved by the SC and IDA.

10. The CSERP target groups must be the direct recipient of the benefit of the subprojects submitted to the RCU / PCU. Admissible groups include in priority:

- War affected: Internally displaced persons, refugees; returning persons;
- Unemployed, specially Long Term Unemployed (LTU);
- Settlers;
- Vulnerable groups (ex.: disabled, elderly);
- Children and Youth;
- Women

It is important to note that the target group must reside in an ASSC class I, II or III, while the applicant can reside also outside the ASSC (e.g. an NGO from Zagreb can apply to implement activities in favor of long term unemployed who reside in an ASSC. In case the link between the applicant and the target group is not clear, it is necessary that the applicant demonstrates its "connection" with the selected target group, e.g. application in partnership with a legally constitute local organization that is linked to the target group that will be the direct recipient of the benefit of the subproject.). In case the direct recipient of the benefit is an organization that is entitled to apply, the applicant (or the partner) and the direct recipient of the benefit can be the same organization.

11. The applicants may not participate in calls for proposals or be awarded grants if:

- (a) they are bankrupt or being wound up, are having their affairs administered by the courts, have entered into an arrangement with creditors, have suspended business activities, are the subject of proceedings concerning those matters, or

4. ⁶ e.g. Public schools, public kindergartens, public elderly homes, public libraries, etc.

are in any analogous situation arising from a similar procedure provided for in national legislation or regulations;

- (b) they have been convicted of an offence concerning professional conduct by a judgement which has the force of *res judicata* (i.e., against which no appeal is possible);
- (c) they are guilty of grave professional misconduct proven by any means which the CSERP Management can justify;
- (d) they have not fulfilled obligations relating to the payment of social security contributions or the payment of taxes in accordance with the Croatian legal provisions.
- (e) they have been the subject of a judgment which has the force of *res judicata* for fraud, corruption, involvement in a criminal organization or any other illegal activity detrimental to the Croatia's financial interests;
- (f) they have been declared to be in serious breach of contract for failure to comply with their contractual obligations in connection with a procurement procedure or other grant award procedure financed by the Croatian government.

Applicants are also excluded from participation in calls for proposals or the award of grants if, at the time of the call for proposals, they:

- (g) are subject to a conflict of interests;
- (h) are guilty of misrepresentation in supplying the information required by the CSERP Management as a condition of participation in the call for proposals or fail to supply this information;
- (i) have attempted to obtain confidential information or influence the evaluation committee or the CSERP Management during the evaluation process of current or previous calls for proposals.

In the cases referred to in points (a), (c), (d), (f), (h) and (i) above, the exclusion applies for a period of two years from the time when the infringement is established. In the cases referred to in points (b) and (e), the exclusion applies for a period of four years from the date of notification of the judgment.

5.2.1. ELIGIBLE ACTIVITIES: ACTIVITIES FOR WHICH AN APPLICATION MAY BE MADE

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12. An application in order to be eligible for financing must contribute to the achievement of the Objective of the CSERP project and must be in line with the development priorities included in the ROPs elaborated by the counties. In the case of the counties that have not yet adopted a ROP, the application will only have to contribute to the achievement of the Objective of the CSERP
13. The CSERP project Development Objective is to support the economic and social revitalization of disadvantaged and war affected areas as a way to increase social cohesion.
14. The activities are admissible only if (i) they respond to a collective priority need and will serve the target groups previously identified, (ii) their scale in terms of population served, cost/benefit ratio and O&M costs is justified, (iii) meet the line ministry's technical norms and standards (design, size) and they are ready to be implemented, i.e. the necessary technical documentation, the bill of quantities and (for new constructions) the building permit is in the availability of the applicant. Only in case of infrastructure to be realized in

mined suspected areas, it is possible to apply without the availability of the technical documentation⁷. The table below includes examples of the types of activities that can be included in an application. Applications are not limited to these activities, and other relevant activities will be considered.

Social infrastructures

SECTOR	EXAMPLES OF ELIGIBLE ACTIVITIES
EDUCATION	<ul style="list-style-type: none"> ✓ Renovation, rehabilitation and construction of kindergartens; ✓ Rehabilitation of primary schools; ✓ Renovation, rehabilitation of special school for disabled children, art, music, and sport schools; ✓ Provision of school furniture, electrification, heating systems; ✓ Renovation of technical schools or centers
HEALTH AND SOCIAL PROTECTION	<ul style="list-style-type: none"> ✓ Renovation, rehabilitation of homes for elderly and for veterans; ✓ Renovation/rehabilitation of primary health care facilities; and ✓ Village pharmacies
COMMUNITY SERVICES	<ul style="list-style-type: none"> ✓ Renovation and rehabilitation of children's playgrounds; and ✓ Renovation and rehabilitation of community centers (including libraries, community halls, clubs, etc.)

Figure19. Eligible social infrastructures

Socio-economic infrastructures (provided that they respond to a collective need)

SECTOR	EXAMPLES OF ELIGIBLE ACTIVITIES
WATER SUPPLY	<ul style="list-style-type: none"> ✓ Renovation, rehabilitation and construction of potable water systems; ✓ Renovation, rehabilitation and construction of local level irrigation systems, including reservoirs and ✓ Systems for collection of source water, construction or renovation of retention ponds, reservoirs.
TRANSPORT, ACCESS AND ENERGY	<ul style="list-style-type: none"> ✓ Rehabilitation of village, feeder or neighborhood roads, access roads to isolated villages, public access roads to agricultural lands and farms (including small bridges, drainage, culverts, buzzards, retaining walls, ditches); ✓ Construction or rehabilitation of energy-generating facilities for small communities (micro hydro-power stations on irrigation channels and

⁷ Infrastructures to be realized in mine suspected areas will be selected with a special procedure: selection of the project (on the basis of a feasibility study and rough estimation of the cost) in the year N, request to CROMAC to realize the de-mining in the year N, and realization of the infrastructure project in the year (and with the funds) N+1. In the last year of the CSERP implementation, projects in mine suspected areas will no longer be selected.

	<p>water pipelines, bio-energy plants, etc.)</p> <ul style="list-style-type: none"> ✓ Rehabilitation of telecommunication lines for isolated villages.
COLLECTIVE PRODUCTION INFRASTRUCTURE	<ul style="list-style-type: none"> ✓ Rehabilitation of local public markets, slaughterhouses, warehouses or storage facilities, ✓ Renovation, rehabilitation and construction of minor local irrigation systems (excluded farm irrigation systems)

Figure20. Eligible socio-economic infrastructures

Sanitation and environmental infrastructure

SECTOR	EXAMPLES OF ELIGIBLE ACTIVITIES
SANITATION	<ul style="list-style-type: none"> ✓ Renovation, rehabilitation and construction of small scale sewage systems (only upon the condition of having the system connected to the main sewage network or the presence of a filtration plant/ecological system downstream) and storm canals; ✓ Protection against agricultural pollution, systems for a correct separation of wastewater, manure retention systems; pastoral wells.
ENVIRONMENTAL INFRASTRUCTURE	<ul style="list-style-type: none"> ✓ Erosion control activities (terracing, drainage canals, rehabilitation of anti-hail facilities);

Figure21. Eligible environmental infrastructures

5.2.2. NON ELIGIBLE ACTIVITIES

15. The following activities are not eligible under this subcomponent:

SECTOR	NON ELIGIBLE ACTIVITIES
ORIZZONTAL	<ul style="list-style-type: none"> ✓ Rehabilitation of syndicates or political parties offices; ✓ Rehabilitation of Mosques, chapels, other religious buildings; ✓ The purchase of vehicles, motorcycles for any public or private service (unless it is necessary for the implementation of a subproject in the health sector, e.g. vehicles for the transport of elderly people) ✓ Purchase of land on which there are illegal encroachers (who have constructed buildings or are carrying out agricultural or commercial activities) and the encroachers may be displaced by the land acquisition process. ✓ Proposals that would involve multiple (competing) claims to land where the subproject seeks to invest. ✓ Proposals that involve land where either of the above situations occurred within the previous two years.
INVESTMENT IN	<ul style="list-style-type: none"> ✓ Any activity

COMMERCIAL PRIVATE FACILITIES	
OTHERS	<ul style="list-style-type: none"> ✓ Any activity that threatens the environmental protection or encourages the reject of certain social or ethnic groups; ✓ An action that duplicates other projects or activities sponsored by other institutions; ✓ Any activity which does not respect the national legislation or the regional development planning or trends;

Figure22. Non eligible subprojects

5.2.3. ELIGIBLE EXPENSES

16. Expenditures available for small community infrastructure projects may include:

- (i) Earthworks
- (ii) Construction, reconstruction or adaptation of buildings / premises
- (iii) Construction and other materials (pipelines, electrical, transformers)
- (iv) Small machinery and equipment
- (v) Basic furniture, equipment and materials for schools and health centers
- (vi) VAT for those organizations that according to the law consider the VAT as a cost and not as a credit towards the tax administration
- (vii) Technical assistance for preparation of project documentation⁸ and for on site supervision
- (viii) In each call for proposals a detailed budget template will be elaborated and made available to the potential beneficiaries. Expenditure limits for each category of expenditure will be established in the call for proposals.

5.3. SPECIFIC REQUIREMENTS

5.3.1. FINANCIAL CEILING

17. In case of subprojects implemented in ASSC class I by applicants that are based in ASSC class I, the maximum co-financing rate is equal to 90% of the total cost of the subproject, provided that the cost of the subproject is not above € 200.000. In case of subprojects whose cost is above € 200.000, the CSERP will finance up to a maximum of € 180.000.
18. In case of subprojects implemented in ASSC class I by applicants that are based outside ASSC class I, the maximum co-financing rate is equal to 85% of the total cost of the subproject, provided that the cost of the subproject is not above € 200.000. In case of

⁸ The technical assistance for the preparation of the project documentation will be considered as a cost only if the applicant has already paid for the cost of the projects. In other words only if the cost of the project preparation can be considered as an in-kind contribution of the beneficiary. In case of infrastructures to be realized in mined areas, the cost of the project, in order to be considered as an in-kind contribution, will have to be sustained by the applicant before receiving any financial support for the realization of the infrastructure.

subprojects whose cost is above € 200.000, the CSERP will finance up to a maximum of € 170.000.

19. In case of subprojects implemented in ASSC class II and III, the maximum co-financing rate is equal to 85% of the total cost of the subproject, provided that the cost of the subproject is not above € 200.000. In case of subprojects whose cost is above € 200.000, the CSERP will finance up to a maximum of € 170.000.

20. The CSERP will not finance subprojects with a budget under € 50.000.

Under no circumstances an infrastructure works shall be divided into several consecutive phases in order to avoid exceeding the maximum size limit.

5.3.2. DURATION

21. The implementation period of a subproject shall not exceed 12 months, except if determining is a pre-requisite for the implementation of the project (see Operational Manual 2).

5.3.3. BENEFICIARY CONTRIBUTION

22. The beneficiary's contribution is a mandatory prerequisite to a subproject's approval. As it was explained in paragraph 5.4.1, the beneficiary contribution must be at least 10% of the cost of the subproject in the ASSC class I if the beneficiary is based in the ASSC class I too and 15 of the subproject cost in the other cases.

23. The admissible contributions are:

- Monetary contributions from any source except the contractors,
- As an in-kind contribution, provision of technical documentation and specifications, (if applicable, cost evaluated and corroborated with corresponding credentials) up to 7,5% project value.

5.3.4. SECTOR CONFORMITY

- All the infrastructures must respect the statutory and technical norms of the concerned line ministry and/or self-government if applicable.

5.3.5. OPERATION AND MAINTENANCE PLAN

24. The requests for implementation or rehabilitation of infrastructure must specify which mechanisms are foreseen by the community organizations to maintain and to develop them. Normally, this will be done by transferring the operation and maintenance to the existing local, inter- municipal or regional bodies, such as the Water Companies (vodovod), the Communal Enterprises (komunalno poduzece) or the corresponding regional structure of the line ministry. The sound maintenance and sustainability plan for the subproject includes an estimated budget, sources of income and a schedule of operation. The Applicant will have to include in the application a memorandum of understanding signed by the organization that is going to take care of the Operation and Management of the project that specifies the obligation of both parties.

25. The following operation and maintenance (O&M) arrangements are considered acceptable:

- Local government budget allocation to cover the O&M costs;

- User's fees (e.g. water or irrigation schemes);
- Fees or revenues collected by the inter-municipal or regional body for managing the infrastructure.
- Staff funding by local or state government (e.g.: school);
- A combination of the above.

26. The operation and maintenance plan should include the following items:

- (i) Description of required maintenance works, and frequency,
- (ii) Manpower requirements for these works,
- (iii) Estimated yearly cost,
- (iv) Average cost per beneficiary,
- (v) Description of how fees will be collected to cover minimum operation and maintenance costs.
- (vi) In case of private management, a model of the management contract;
- (vii) For local or state management, a written agreement of the authority in charge of O&M or staff.

27. For the rehabilitation of public infrastructures, the line ministry (or local self government authority) involved has to commit itself to the provision of the staff and equipment necessary for sustainable operation. If another institution will be accountable, the maintenance and operation plan must present the capacity of the responsible institution/organization. Any contribution emanating from the local self-government must appear as a separate line in the annual budget.

5.4. SUBPROJECT SELECTION CRITERIA AND SELECTION PROCESS

28. In order to range, prioritize and select the small community infrastructures subprojects, the CSERP will establish a system of points to analyze the relevance of the proposal and its impact in terms of rehabilitation and community inclusion impact.

29. Any single project proposal will have to obtain a minimum of 60 points to be approved by CSERP. Besides, a minimum of 12 and 20 points has to be obtained by fulfilling respectively criteria 1 and 2. Projects who do not meet neither criteria 1 or 2 will not be approved.

30. The applications will be evaluated according to the grid below:

Selection grid

Section	Maximum Score
1. Financial and operational capacity	20
1.1 Do the applicant and partners have sufficient experience of project management ?	5
1.2 Do the applicant and partners have sufficient technical expertise ? (notably knowledge of the issues to be addressed.)	5
1.3 Do the applicant and partners have sufficient management capacity ? (including staff, equipment and ability to handle the budget for the action)?	5
1.4 Does the applicant have stable and sufficient sources of finance ?	5
2. Relevance	30
2.1 How relevant is the proposal to the objectives and to one or more of the priorities of the call for proposals?	10
2.2 How relevant to the particular needs and constraints of the target group? In Particular: <ul style="list-style-type: none"> ➤ Enhance the inter-ethnic dialogue, through the realization of common projects ➤ Decrease the relight rate of returnees (sustainability); or promote return ➤ Decrease of ethnic-related incidents in the return communities where project component is implemented. ➤ Increase assistance to children, youth, women and families, and war affected groups ➤ Increase assistance to unemployed ➤ Increase of cross-municipal cooperation ➤ Increase of social inclusion of especially vulnerable groups, such as alcoholics, drug abusers, disabled elderly, etc. ➤ Reduce social exclusion, especially in local communities of return ➤ Strengthen local governments and enabling them to enhance equitable distribution of resources in co-operation with civil society groups. ➤ Improve the quantity and quality of the social services to local communities ➤ Improve the integration of the poorest, most vulnerable social groups. 	10
2.3 How clearly defined and strategically chosen are those involved (Applicant and/or Partners and/or target group)	5
2.4 Does the proposal contain specific elements of added value , such as innovative approaches, models for good practice?	5
3. Methodology	20
3.1 Are the activities proposed appropriate, practical, and consistent with the objectives and expected results?	5
3.2 How coherent is the overall design of the action? (in particular, does it reflect the analysis of the problems involved and take into account external factors?)	5
3.3 Are all the actors (Applicant, Partner(s) and target group) adequately involved?	5
3.4 Does the proposal contain objectively verifiable indicators for the outcome of the action?	5
4. Sustainability	15

4.1 Is the action likely to have a tangible impact on its target groups?	10
4.2 Are the expected results of the proposed action sustainable : - financially (<i>how will the activities be financed after the CSERP funding ends?</i>) - institutionally (<i>will structures allowing the activities to continue be in place at the end of the subproject implementation? Will there be local "ownership" of the results of the subproject?</i>) - at policy level (<i>what will be the structural impact of the action — e.g. will it lead to improved legislation, codes of conduct, methods, etc?</i>)?	5
5. Budget and cost-effectiveness	15
5.1 is the ratio between the estimated costs and the expected results satisfactory?	10
5.2 Is the proposed expenditure necessary for the implementation of the action?	5
Maximum total score	100

Score attribution tool

Section	Score system
1. Financial and operational capacity	MAX 20
1.1	5 points can be given only in case every member of the partnership has a previous experience in the management of a grant.
1.2	5 points can be given only in case every member of the partnership has knowledge of the issues to be addressed.
1.3	5 points can be given only in case the applicant or one of the partners has managed in the previous three years a grant with a budget at least equal to the one of the present project.
1.4	5 points can be given only in case the applicant has had in the previous three years a turnover at least three times the budget of the present project.
2. Relevance	MAX 30
2.1	10 points can be given exclusively to the project proposals that are directly addressing the CSERP Objective and at least one County priority. If the County has not a ROP, 10 points can be given to the project proposals that directly address the CSERP Objective. A maximum of 7 points can be given to the project proposals that are directly addressing the CSERP Objective, but not any County priority.
2.2	10 points can be given exclusively to the projects addressing needs and constrains related to the ethnic issues. Projects addressing need and constrains different from the ethnical ones, but listed under 2.2, can receive a maximum of 8 points.
2.3	5 points can be given exclusively to applications proposed by a partnership that has in its "core business" the activities to be implemented.

2.4	5 points can be given exclusively to applications that can be considered as pilot projects.
3. Methodology	MAX 20
3.1	5 points can be given exclusively to applications that propose activities that are strictly necessary to implement the project and that clearly address the targets to be achieved.
3.2	5 points can be given exclusively to the applications that have assumptions, proposed activities and results to be achieved fully coherent one with the others.
3.3	5 points can be given exclusively to applications that include partners from ASSC belonging to more than one county, provide that the proposed partnership includes organizations that are going to be adequately involved in the project implementation, e.g. in the application each organization should have a clearly identified role and set of activities to implement. If the applicant has no partners the score will be 1.
3.4	5 points can be given exclusively to applications that include results that can be clearly measured.
4. Sustainability	MAX 15
4.1	10 points can be given exclusively to applications that clearly explain how the project will change substantially the quality of the life of the addressed target group.
4.2	5 points can be given exclusively to the applications that clearly explain how the results of the subprojects will be maintained in the future.
5. Budget and cost-effectiveness	MAX 15
5.1	10 points can be given exclusively to the applications that have the best ratio between estimated costs and expected results. It will be necessary to compare structure of the costs and expected results of the different applications in order to attribute the score. The top 20% of the applications will receive 5 points. The bottom 20 % of the applications will receive 1 point.
5.2	5 can be given exclusively to the applications that have budgets with clear quantification of the costs (no lump sum) and that include only costs clearly linked to the activities to be implemented.
Maximum total score	MAX 100

Figure23. Infrastructure subproject selection criteria

31. Regional Approval Committees are tasked to review subprojects in their region and select them for financing. Regional Approval Committee members are nominated by their respective counties. Members selected for each regional committee come from various stakeholder groups and have to represent counties, cities or municipalities from the Areas of Special State Concern, cooperatives, non-governmental organizations, Croatian Chamber of Economy, national minorities and crafts people. Among the individuals proposed by their respective counties, regional CSERP office selects seven members for each committee. UNHCR representative is a member of the Committee but only as an observer.
32. Regional Approval Committees delegate to CSERP management responsibility for the technical appraisal of the applications. CSERP will appoint two assessors from the CSERP staff who are in a non-hierarchical relationship relative to each other, to appraise each project. Each assessor will score the applications on the basis of the above selection grid. Projects that have received a substantially different assessment by the

two independent assessors will be appraised by a third assessor, identified by CSERP management. If the third reviewer's score falls between the scores of the two original assessors, the highest two scores will be averaged to arrive at the final score. If the third reviewer's score is higher than that of the higher of the two original assessors, then the two highest scores will be averaged. Similarly, if the third reviewer scores the project lower than the lower score of the two original assessors, then the two lowest scores will be averaged.

33. Regional Approval Committee will identify a subgroup of its members (at least 2) that will score sample of 10% of the applications to judge the correctness of the assessment done by the assessors. Highest score reviewed by assessors will be financed only if approval committee judges that the selection of applications was in line with its review of the 10% sample. Under no circumstances a member of the approval committee belonging to an organization who applied for a grant can be selected by the Regional Approval Committee to score the 10% sample. In case two or more projects address the same needs of the same target group, only the project that has received the highest score will be financed.
34. In the selection process committee members have to take into account the following limitations:
 1. Maximum two subprojects per beneficiary can receive a CSERP grant;
 2. Portion financed by CSERP should not exceed HRK 1.224.000 for subprojects implemented in the ASSC, category II and III, i.e. HRK 1.296.000 for subprojects implemented in the ASSC, category I;
 3. Eligible applicants are counties, cities, municipalities, non-governmental organizations, associations, foundations, and public institutions;
 4. Eligible partners are to meet the same criteria as applicants;
 5. Target groups should be selected among war affected persons: displaced, returnees, settlers, refugees, unemployed, particularly long-term unemployed, socially marginalized groups (elderly, disabled, etc.), children and women etc.

The final list of selected subprojects has to reflect the following:

- **Geographic concentration** (in a municipality maximum 200.000,00 Euros or HRK 1.440.000 in co-financing can be provided over the life of the project for sub projects under this subcomponent;
- **Beneficiaries** (care should be taken that needs of various target groups are being respected, namely that the projects do not always target the same type of beneficiaries);
- **Applicants** (for the sake of capacity building of the two groups of applicants – regional and local self-government, and public institutions and NGOs, and the addressing of the needs of various beneficiary groups – care should be taken that projects submitted by applicants from both groups are awarded projects, along the lines of preferred financial allocation (70% of available funds to be programmed through local and regional authorities, and 30% by public institutions and NGOs)

35. In order to secure high quality of their work, Committee members will be provided with these guidelines minimum 7 days before the meeting.

36. PCU will check the final list of selected subprojects to assess whether the required criteria are met. Should there be considerable deviation from the criteria, PCU will, in consultation with Regional Units, make corrections by replacing the inappropriate subproject(s) with other(s) on the list in order to acquire required balance

37. Finally the list of subprojects selected for financing will be considered approved if it is accepted by majority of Committee members. The work of the Committee will be valid if a minimum of 5 members are present.

35. A copy of the assessment reports prepared by the assessors and a copy of the list of selected projects prepared by the selection committee will be forwarded to the World Bank for information.

CHAPTER 6. Subproject cycle

6.1. STEPS

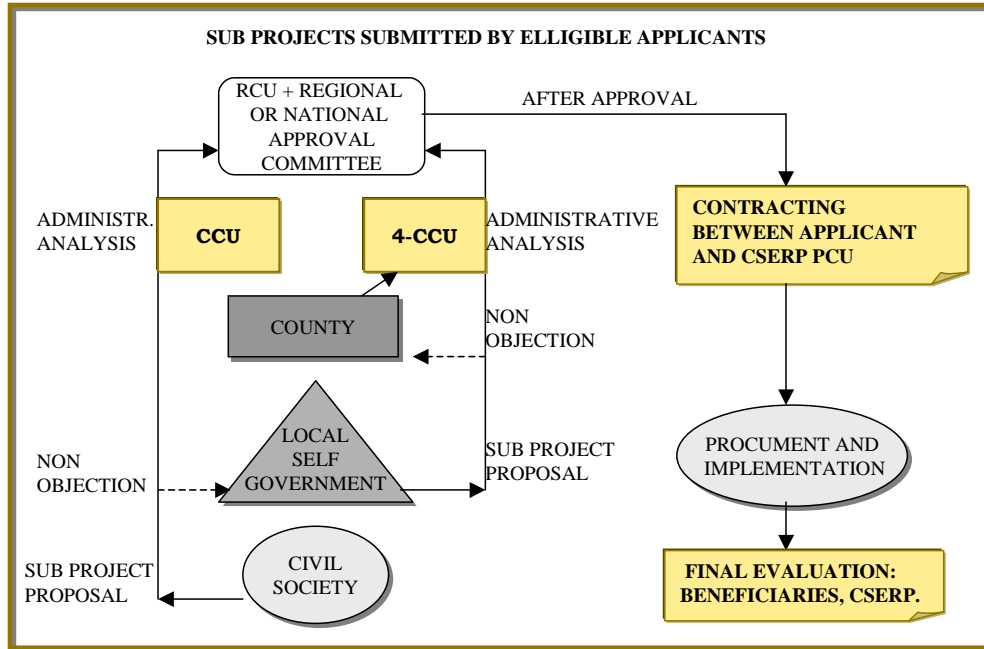


Figure24. Subproject cycle

APPLICANTS can be:

Civil society (including, CBOs, NGOs, SMEs, Cooperatives):

- (i) The eligible applicant identifies its needs and prepares a proposal;
- (ii) The proposal is sent to the local self government (s) for non objection (support letters) ; it is also addressed to the relevant line ministry for technical visa (only if strictly applicable);
- (iii) Administrative analysis is conducted by CCU (all necessary documents are available)
- (iv) Subprojects are sent to RCU/PCU for scoring, approval
- (v) Contracts are signed at Central Level (PCU);
- (vi) Beneficiaries implement the subproject;
- (vii) Beneficiaries and CSERP evaluate completed subproject.

Local self governments:

- (i) The local self government identifies its needs and prepares its proposal;
- (ii) The proposal is sent to the county authorities for non-objection (ROP);
- (iii) Administrative analysis is conducted by CCU;
- (iv) Subprojects are sent to RCU for scoring, approval
- (v) Beneficiaries enter into contracting with PCU for contracting of the subproject;
- (vi) Completed subproject is evaluated by beneficiaries and CSERP;

Counties:

- (i) The county authorities identifies its needs and prepares its proposal;
- (ii) Administrative analysis is conducted by CCU;
- (iii) Subprojects are sent to RCU for scoring, approval
- (iv) Beneficiaries implement the subproject;
- (v) Beneficiaries and CSERP evaluate completed subproject.

6.2. CALENDAR

Nº	STEP	DESCRIPTION	RESPONSIBILITY	CHRONO
Previous information		Campaign by PCU		
1	Preparation process	<ul style="list-style-type: none"> ✓ Identification of need ✓ Verification of eligibility ✓ Request (s) preparation 	<ul style="list-style-type: none"> ✓ Communities ✓ SME, coop. ✓ Local self government, ✓ County 	1-2 months
2	Submission process	<ul style="list-style-type: none"> ✓ Non objections; ✓ Administrative analysis and verification of proposition 	<ul style="list-style-type: none"> ✓ Local self government; County ✓ CCU 	6 weeks
3	Selection, Approval	<ul style="list-style-type: none"> ✓ Ranking of subprojects ✓ Selection of top ranked 	<ul style="list-style-type: none"> ✓ Regional or national Selection Committee, RCU or PCU 	1 week (Quarterly)
4	Contracting	<ul style="list-style-type: none"> ✓ Signature of Contract 	<ul style="list-style-type: none"> ✓ PCU ✓ Beneficiaries 	2 weeks
5	Implementation	<ul style="list-style-type: none"> ✓ Technical designs, ✓ Procurement ✓ Contracting ✓ Payments 	<ul style="list-style-type: none"> ✓ Beneficiary 	As established in each subcomponent
6	Final Evaluation (Manual, vol. 4)	<ul style="list-style-type: none"> ✓ Self-evaluation, ✓ Evaluation PCU ✓ Results /impact evaluation 	<ul style="list-style-type: none"> ✓ Beneficiaries ✓ PCU ✓ External 	6 months after the end of the project

Figure25. Subproject cycle calendar

6.3. STEP 1: PREPARATION OF A PROPOSAL

6.3.1. LOCAL PROCESS

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1. Depending on the nature of the project, it is recommended – specially for the community based projects- that during the preparation of the proposal, the applicant should hold at least one "community" meeting with the beneficiaries /stakeholders. The Community Meeting will:

- Identify (i) the problem (s) that could be solved at the community level, (ii) main socioeconomic constraints and potential to address these problems.
- Ensure the participation of the community associations, and minority/vulnerable groups in the analysis and identification of priorities;
- Discuss and select through consensus (or vote if necessary) one or several eligible priority subproject(s) for a total global amount not exceeding fixed ceilings;
- Plan the size and nature of the community contribution according to project requirements;

2. The meeting will result in: (i) the ranking of immediate priorities; (ii) the designation of organization for the subprojects preparation and submission

6.3.2. PREPARATION OF THE REQUEST

Contents of a request

3. The preparation of a proposal is conducted according to the general guidelines to be prepared by the CSERP. Each request is afterwards prepared on the Subproject Proposal Form. The request defines activities to be carried out and implementation mechanisms. It specifies:

- (i) The name of applicant and the subproject title;
- (ii) Expected results that should be clear and relevant;
- (iii) The main target groups (number) and the benefits they will gain from the subproject implementation;
- (iv) The intended objectives and activities that will be conducted. They should: (i) be eligible; (ii) serve common interest; and (iii) be in compliance with the specific requirements of the Operational Manual;
- (v) The beneficiaries contribution and its proof;
- (vi) The schedule for the subproject;
- (vii) An estimated cost of necessary material, labor, equipment, services, and overheads etc. (based on an acceptable market value);
- (viii) The total amount requested from the CSERP. These should not exceed admissible ceilings and include all foreseen expenses;
- (ix) The mandates and responsibilities of the applicant. The financial and technical content of the subproject should not exceed local disbursement capacities or local jurisdiction;
- (x) The capacity building activities needed for implementation, management or maintenance of the infrastructure or service;
- (xi) Proposed sustainability mechanisms, including the O&M plan;

- (xii) Any necessary and relevant supporting documents, including the owner's permit (e.g.: for use of land or premises).

4. **For infrastructure subprojects:** Considering that the implementation mechanisms will favor the use of local technology and workforce, the submission should also specify the nature of the direct and indirect impacts that will be generated on local enterprises (whenever possible, a minimum of 50% local employment). Need for specialized and non-qualified workforce should be stated in the estimated budget and should be consistent with local salaries.

5. Proposal forms are available in **Volume 1, Annex 6.1- Proposal form, social inclusion subprojects, Annex 6. 2-Proposal form, economic revitalization subprojects, and Annex 6. 3-Proposal form, small infrastructure.**

6. **Guidelines for the preparation of a proposal** are proposed in **Volume 1, Annex 7.**

6.4. STEP 2: SUBMISSION PROCESS

6.4.1. LOCAL NON OBJECTION (LETTERS OF SUPPORT)

7. Local self-governments will give a no-objection on community subprojects; counties will give a no-objection on local self-government subprojects. Local no-objection will consider only the following:

7.1 At the county level: is the project part of the priorities as established in the ROP or in any other official county strategic document (in the absence of a County ROP)? To which specific Priority and Measure is it related?

7.2 At the municipal level: is the project a priority for the local self-government? Is it part of any official planning or development strategy document?

8. The CSERP will agree with the County and municipality authorities on an acceptable deadline (15 days) to provide a letter of support, after the direct beneficiary has officially submitted a non objection request. If the respective authority does not issue the non objection within this deadline, the CSERP may, at its own discretion (and in view of the prevailing circumstances) accept a lack of written objection as a "de facto" non-objection.

9. Subprojects requested by cooperatives will request a non objection from regional cooperative alliances or national Federation, depending of level at which the subproject is submitted.

6.4.2. ADMINISTRATIVE ANALYSIS

10. **Subcomponents 1 and 3:** The CCU will receive the request and issue an acknowledgment to the applicant.

11. **Subcomponent 2:** The RCU will receive the request and issue an acknowledgment to the applicant.

12. An example of a reception form may be found in **Volume 1, Annex 8: Application reception confirmation form**

Review decisive issues

13. CCU or RCU will quickly assess the proposal to verify if it is admissible according to the following criteria:

- (i) Local funds availability not exceeded for the subcomponent
- (ii) Multiple submissions ceiling not exceeded: for the subcomponent
- (iii) Eligible applicant and location
- (iv) Eligible subproject;
- (v) Beneficiaries among community and effective reach of vulnerable groups needs;
- (vi) Beneficiaries' contribution available and its compliance with the norms set out for each subcomponent;
- (vii) No crucial impact on environment (or mitigating measures mentioned);
- (viii) Sustainability mechanisms, developed and proposed; and
- (ix) Cost lower than the upper limit for subprojects under subcomponent

14. It is possible that the applicant may not be able to prepare and present adequately its proposal. This would not be a reason for rejection if the above criteria are in place. The CCU/RCU will complete the missing information with the applicant. All (eligible and non-eligible) requests will be registered at this stage in the Management Information System (MIS). Non-eligible requests at this stage are returned to the applicant with the relevant justifications. The rest enter the feasibility study stage.

15. Example of review checklists may be found in *Volume 1, Annex 9: Desk subproject review*, and in *Volume 1, Annex 10: Field subproject review*.

6.4.3. ENVIRONMENTAL ASSESSMENT

16. Like economic, financial and institutional analysis, EA is part of project preparation and therefore is the project proponent's responsibility. A rapid assessment of the environmental impact (based on Environmental guidelines, *Volume 1, Annex 1: Recommendations for environmental assessment*) is conducted along with other administrative studies. Key considerations to be taken into account during EA process include:

Compliance with existing environmental regulations in Croatia;

Linkages with social assessment;

Analysis of alternatives;

Public participation and consultation with affected people and NGOs; and

Disclosure of information

- Preparation of an environmental management plan format if necessary

Specific guidelines

17. PCU and RCU staff should be familiar with the steps of the EIA procedure given below. ("good practice", "possible mitigation measures" and "monitoring", potential negative impact of activity, needed mitigation measures, needed monitoring and same). Detailed indications for *Environmental check list* are given in *Volume 1, Annex 4*.

18. An environmental impact assessment generally consists of the following steps:

- (i) **Screening** – to determine whether or not proposed activities should be subject of EIA and, if so, at what level of detail;
- (ii) **Scoping** – to identify the issues and impacts that are likely to be important and to establish the terms of reference for EIA;

- (iii) **Impact analysis** – to identified and predict the likely environmental, social and other related effects of the proposed activities;
- (iv) **Mitigation and impact management** – to establish the measures that are necessary to avoid, minimize or offset predicted adverse impact and, where appropriate, to incorporate these into an environmental management plan or system;
- (v) **Evolution of significance** – to determine the relative importance and acceptability of residual impacts (i.e. impacts that cannot be mitigated);
- (vi) **Monitoring** – to control efficiency of proposed measures.

19. Because of relatively limited number of possible different projects (type of activity, scale, location), and keeping in mind that the List of Intervention for EIA could be enlarged by the local level as is given in the national Law, the PCU shall in advance, clarify with the Ministry (MEPPPC) and County office's which types of projects are the subject of:

Complete EIA (clarify what those mean "small and medium sized projects");

Target EIA – when elaboration of a study with target contents may be allowed;

Location estimation – when the location selected for the intervention has to be evaluated;

- No needs for EIA.

20. PCU shall review the these list of activities with respect of Bank safeguard policy – categorization of the projects in a group A, B or C, but also having in mind that the World Bank forbid a priori to finance some types of activities. These activities are given in the Bank's exclusion list of forbid financing activities.

21. A list of the CSERP subprojects for which EIA is requested will be prepared by PCU to avoid any misunderstanding regarding the needed permits.

Screening instructions

22. ALL PROJECTS ARE SUBJECT OF SCREENING PROCESS according the good practice, needed mitigation measures and monitoring.

23. Preliminary screening shall be done by reviewer according to national criteria, using the lists prepared. If the proposed activity/subproject is the matter of EIA (according Croatian practice) screening process is so far ended.

24. If the proposed activity isn't the matter of EIA according the Croatian practice, the reviewer shall undertaken secondary screening according the WB practice:

Sub – projects determined to be category "A" under World Bank policies would be EXCLUDED from financing by the Project;

- ✓ Category A: A proposed project is classified as Cat A if it is likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented. These impacts may affect an area broader than the sites or facilities subject to physical works. For a Cat A project, the borrower is responsible for preparing a report, generally an EIA. The EIA for a Category A project examines the project's potential negative and positive environmental impacts, compares them with those of feasible alternatives (including the "without project" scenario), and recommends any measures needed to prevent, minimize, mitigate, or compensate the adverse impacts and improve the environmental performance.

- ✓ Category C: A proposed project is classified as Cat C if it is likely to have minimal or no adverse environmental impacts. Beyond screening, no further EA action is required for a Cat C project.
- If the activity is assigned as category B rating, then either a more selective EIA may be required (according Croatian practice selective EIA is at least so demanded as EA proposed in World Bank practice), or an Environmental Management Plan should be prepared. Where recommended, actions in an EMP are incorporated by the Croatian environmental permitting system- these should be noted and the relevant permits and monitoring process reflected rather than proposing something new and additional by the project. As Croatia practice harmonizes with the EU IPPC Directive, this will promote integrated cross-media permitting so it will be easier to understand these linkages.
- ✓ Category B: A proposed project is classified as Category B if its potential adverse environmental impacts on human populations or environmentally important areas – including wetlands, forests, grasslands, and other natural habitats - are less adverse than those of Category A projects. These impacts are site-specific; few if any of them are irreversible; and in most cases mitigate measures can be designed more readily than for Category A projects. The scope of EA for a Category B project may vary from project to project, but it is narrower than that of Category A EA. Like a Category A, a Category B environmental assessment examines the project's potential negative and positive environmental impacts, compares them with those of feasible alternatives (including the "without project" scenario), and recommends any measures needed to prevent, minimize, mitigate, or compensate for adverse impacts and improve environmental performance.
- ✓ Category C: A proposed project is classified as Cat C if it is likely to have minimal or no adverse environmental impacts. Beyond screening, no further EA action is required for a Cat C project.

If there is any uncertainty on the World Bank classification of a sub- projects related to exclusion, the PCU must seek the opinion of the World Bank;

25. Since most rural areas in Croatia are missing the minimal municipal, experts can suggest minimal mitigation measures (e.g. in case if central sewers system is missing, construction of environmental friendly septic pit; if organized solid waste disposal is missing measures for minimization of waste production and/or composting of organic waste) which can help to the sustainability to the project and also present additional guarantee for the Bank. So proposed mitigation measures, based on to the local principle of "best available technology not entailed enlarged costs"⁹ (BATNEEC) shall be obligatory introduced in the subproject.

26. PCU will, for each type of subproject, prepare a "good practice guidelines"- with an example given in *Annex 4*. This should be done on a "case by case" basis with periodic updating of the area "good practice guidelines".

EIA

27. For each County at least one licensed institution for preparation of EIA shall be selected for needed EIA in CSERP and trained in Bank safeguard practice. Licensed institution shall,

5. ⁹ BATNEEC shall be used only restricted, strictly based on the local practice and possibilities.

if needed, work closely with the PCU and reviewers. Operations should be done by experienced environmentalist or below mentioned licensed institution.

28. In case that EIA was requested, the applicant must submit to the RCU/PCU official documents issued by the Ministry. The process of EIA is finished with the Conclusion of the Commission appointed for the evaluation of EIA. Based on the Conclusion of the Commission, Ministry issues the needed permits with a clear list of needed mitigation measures and monitoring activities. **This document confirms that the activity will fulfill all by the Law requested environmental measures.** Reviewers from RCUs and PCU shall only check if the document was issued, and not review the entire document (i.e. EIA).

29. This document is the basis for issuing the Location permits (if needed) and Construction permits (also if needed; Construction permit will be not needed e.g. for planting the vineyard or olive-tree plant).

EMP

30. An Environmental Management Plan isn't mandatory obligatory in Croatian practice. For selected activities, the PCU can prepare a template (see **Annex 5** for an example). An EMP could be prepared by licensed institution based on "case by case" practice. This information's has to be a part of the exchanging of experiences between the Counties and PIU.

31. The reviewer may guide his analysis on the the following annexes: **Volume 1, Annex 2: Desk environmental environment checklist, Volume 1, Annex 3: Field environmental checklist, Volume 1, Annex 4: Environmental checklist by sector and Volume 1, Annex 5: Environmental management plan format.**

6.4.4. FEASIBILITY FORM

32. The CCU/RCU (after a visit to site, if required) will draft the subproject feasibility form, which will among others, include recommendations on:

Technical data and cost,

Environmental impact and mitigation measures A final checklist may be found in **Volume 1, Annex 11: Environmental subproject review**

Maintenance arrangements,

Amount of local financial contribution, (amount from all financial contributors),

- Assessment whether or not the subproject is feasible.

33. At the end of this stage, the subprojects file is submitted to the regional or national selection committee.

6.5. STEP 3: SELECTION AND APPROVAL

6.5.1. SELECTION / APPROVAL COMMITTEES

Regional level

34. The Regional Approval Committee will be composed by representatives of the Ministry of Regional Development, Forestry and Water Manager (MRDFWM), the Ministry of Economy, Labor and Entrepreneurship, the Ministry of Agriculture, Fisheries and Rural Development and one representative of each County covered by the RCU (three or five). The decisions will be taken by a simple majority of votes

National level

The National Approval Committee will be composed by two representatives of the Ministry of Regional Development, Forestry and Water Manager (MRDFWM), one of the Ministry of Economy, Labor and Entrepreneurship, one of the Ministry of Agriculture, Fisheries and Rural Development, one of HAMAG, one representative of Croatian Employment Services, and one representative of the Croatian Chamber of Economy.

35. The decisions will be taken by a simple majority of votes (4 out of 7).

6.5.2. SELECTION PROCESS

36. **Regional selection committee:** Selection of subprojects under subcomponent 1, 2 (up to the established threshold) and 3 will be screened and approved by the regional selection committee. Details of composition and functioning are included in each subcomponent.

37. **National selection committee:** Selection of subprojects under subcomponent 2 (according to the established threshold) will be screened and approved by the national selection committee. Details of composition and functioning are elaborated in Economic Revitalization subcomponents 2.1 and 2.2.

38. Meetings will take place at the end of the preparation/submission/appraisal period (quarterly for most of components; monthly for subcomponent 2.1 "Financial Support to SMEs and Cooperatives", according to the schedule). The Committee will evaluate the subprojects that have passed the feasibility and administrative study. It is expected that this will provide a sufficient number of subprojects for comparison. The Committee may carry out the evaluation of each subcomponent subprojects during separate meetings. The Committee will assign scores and prioritize each subproject in accordance with the selection criteria identified in the OM for the specific subcomponent. The process will conform to the following steps:

- (i) Preparation. The RCU/PCU holds a preparation meeting with the selection Committee members; explanations are given on individual procedures to follow and evaluation criteria (beginning of activities);
- (ii) Transmission of documents. The following documents are handed over to Committee members. The evaluation form has to be filled by each member before the formal Committee meeting:
 - ✓ Information: evaluation methodology, by criteria;
 - ✓ Ranking list 1: Evaluation of each subproject by member (to be filled before meeting);
 - ✓ Ranking list 2: Total score by subproject (filled during meeting);
 - ✓ Each subproject submission form and the corresponding feasibility form.
- (iii) Choice of a date for the meeting of selection Committee, at least one week after documents have been handed over to each member.
- (iv) The meeting will undergo the following steps:
 - ✓ Evaluation forms are checked. To assure equity and fairness, if a Committee member has only partially completed Ranking list n° 1 by omitting a criteria or a subproject figuring on the list, his evaluation form will not be considered in compilation of total score (Ranking list n° 2) and will be eliminated;
 - ✓ Based on ranking list n° 1, the RCU compiles the individual results in the presence of the Committee Members. The RCU may only start this phase and

divulge the results if a minimum of 90% of valid Ranking files n° 1 are available. If this condition is not fulfilled, the meeting is suspended;

- ✓ The total results (by criteria) obtained by each subproject are written down on Ranking file n° 2, and total score by subproject is established. Final ranking is agreed on and the best scored subprojects are identified

6.5.3. APPROVAL

39. For each subproject, the Selection Committee may recommend one of the following three alternatives:

The subproject may be rejected if it is deemed not to meet the selection criteria (according to the feasibility study). The rejection will be registered in the MIS;

The Committee gives its conditional agreement, with the condition that modifications or revisions on specific aspects are made; the submission is ranked according to normal procedures;

The subproject may be accepted, but not included in the quarterly program because other projects are considered of better quality and ranked higher. In this instance, the subproject is maintained on file.

- The subproject is approved, and ranked high enough to figure in the quarterly work plan for financing. Ranking is done on the basis of the methodology described above. Approval should not exceed the total of the available funds per geographical or multiple submissions allocations
 - ✓ Each member signs the Approval form authorizing the RCU/PCU to go on with pre-contracting steps;
 - ✓ The minutes of the meeting and the ranking list with scores are signed by the RCU/PCU

40. In all cases, the RCU/PCU will send a letter to the Applicant indicating the decision of the Committee. The available documents at the end of the approval process are:

- (i) The original request for financing;
- (ii) The applicant's identification form;
- (iii) The feasibility administrative study report;
- (iv) The approval/rejection form signed by Committee members.

41. The approved subprojects lists will be sent to World Bank for no-objection.

42. **Selection Committee Forms** may be found in **Volume 1, Annex 12**

6.6. STEP 4: CONTRACTING

6.6.1. ACCOUNTABILITY MECHANISMS

43. After contract attribution under subcomponents 1, 2 and 3, all contract details must be published in nationwide media. In the specific case of subcomponent 2, together with the annual audit, an independent evaluation will be carried out and study the process of how grants were given to the beneficiaries (SMI and cooperatives)

6.6.2. CONTRACTING CLAUSES

44. Within seven days of the Bank's no-objection on the subprojects list (quarterly program), the PCU shall prepare a Contract (See Annex for subcomponents 1 and 3) to be signed with the implementing entity. The PCU will instruct the implementing entity on their rights and responsibilities under the Contract. Its signature establishes a contractual commitment (in the legal sense) and seals the partner's commitment for respective obligations and the mutual financing of a subproject. The Contract will include the following conditions:

Agreement between the PCU and the beneficiary on the responsibilities for maintenance and sustainability. Acceptable arrangements for operation and maintenance of subprojects infrastructure or services shall be agreed prior to subproject financing, and shall be a condition for commencement of bidding;

Final agreement on the local contribution and its source of funding;

- Collection of upfront portion of local contribution equal to 1% of pre-estimated subprojects cost;

45. The Contract includes the following information and documentation:

- (i) Identity and contact information of the beneficiary and of the contractors (if applicable)
- (ii) Total subproject budget, including the description of the community contribution (with timing of payments), financing plan, and disbursement schedule;
- (iii) The disbursement schedule: importance of payments, bank coordinates, signatories;
- (iv) Description of objectives, duties, liabilities and responsibilities of both parties;
- (v) Duration of the Contract with schedule of works, bill of quantities and payment schedule;
- (vi) Disengagement clauses;
- (vii) Specifications and necessary technical drawings;
- (viii) TOR for local supervisor if applicable.
- (ix) Other supporting document.

46. **Building Permit** According the Croatian cultural heritage protection practice, the Building Permit will usually contain also the provision about the chance finds, particularly if the planned activities are related to the digging and other e.g. restoration (of old buildings) activities. PCU and RCU reviewers shall check if the provision about the chance finds is in the Building Permit for the related project/s¹⁰ and if not so than shall request to include this provision in the Contract with the beneficiaries.

47. **Interruption clauses.** Any decision to annul a Contract undertaken by the PCU must be transmitted to the Selection Committee for revision and endorsement. A subprojects implementation may be interrupted only for the following reasons:

- (i) The beneficiary does not provide the contribution by its required deadline;
- (ii) A subproject or a contract has proven embezzlement, favouritism practices or did not follow procurement rules as stated by the manual;

6. ¹⁰ This provision is not relevant for all by Project financed subprojects.

48. An example of contract may be found in **Volume 1, Annex 13: Contract for subprojects (SC 1 and SC 3)**

6.6.3. BENEFICIARY'S RESPONSIBILITY

49. The beneficiary will act as the official implementing agency in collaboration with the target groups (users committee, grassroots association, etc.). All decisions of the beneficiary must be supported by a majority of target groups' representatives. The tasks of the beneficiary are as follows:

- (i) General implementation of the subproject, including: (i) procurement and selection of contractors; (ii) procurement of civil works and social services; and (iii) implementation according to appropriate technical, financial and management means, including proper management of acquired goods or equipment during implementation (stocking, sufficient delay in ordering to avoid impending implementation, etc.);
- (ii) Provision of the community's contribution: In the case of monetary contribution, the first payment must be made before procurement begins, materials must be submitted in due time or, if the contribution is in the form of labor, the work must be as previously agreed on in terms of quality and quantity;
- (iii) Supervision of implementation process, including: (i) monthly reporting with requested data; (ii) accounts entries for all disbursements originating from the CSERP contribution, in compliance with expenses categories; (iii) compliance with implementation planning and schedules; and (iv) compliance with Manual guidelines and national laws and specifications,
- (iv) Organization of Operations and Maintenance.

50. An example of **Subproject reporting forms** may be found in **Volume 1, Annex 14**

6.7. STEP 5: IMPLEMENTATION

6.7.1. FINANCIAL ARRANGEMENTS

51. **Opening of an Account.** The beneficiary opens an account (with 2 signatures) in the closest financial institution¹¹. This account will only serve the subproject's implementation. The account number will be transmitted to the PCU with a legal examination right. After signing the Contract, the PCU credits the account with the first payment (% of total PCU contribution) necessary for the starting up of implementation. Payments will be successive and conditional to written proof of expenses disbursements for the previous payment. Procurement procedures undergone by the beneficiary will also be examined.

52. **Payments organization:** The number of payments and the amounts disbursed will be determined by the size of the subproject and the nature of activities (expenses). Certain very small-scale subprojects or subprojects that need significant initial disbursements might be eligible for a single payment. The disbursements for a subproject will not exceed three successive payments.

¹¹ Provided it can legally do so. For example, local and regional self-government units are not allowed to have more than one account. Additionally, budget users such as schools, kindergartens, etc. cannot receive funding directly, but solely via the local (regional) self-government unit that provides their regular funding.

53. The delay between receipt of a payment request of the disbursement by PCU will not exceed 10 days, unless duly justified by major force. Every disbursement for a subproject is written down separately in the financial and technical MIS file for this particular subproject. Initial commitment also appears as well as the recording of successive payments already made.

6.7.2. SUPERVISION

54. PCU on a supervision level, and RCUs and CCUs for close monitoring will be responsible for follow up of implementation. RCU and CCUs undertake field visits and maintain data in the MIS system up to date. They report to the PCU all relevant information.

55. **Monitoring forms** are available in **Volume 1, Annex 15** and **Technical works supervision forms** are available in **Volume 1, Annex 16**

6.7.3. SOCIAL SERVICES IMPLEMENTATION PROCESS

Procurement process

56. All procurements will be made according to the **Community small procurement guidelines and forms** available in **Volume 1, Annex 20**

57. Service activities conducted during the subprojects implementation may be carried out by NGOs. For this purpose, the beneficiary will conduct a selection process and sub-contract the selected local NGOs who expressed their interest to participate in the social service implementation. Procurement for services sub-contracted to NGOs under the Social services subcomponent will follow the CQ (consultant qualification) methodology as described in World Bank consultancy guidelines or, if applicable, the Community participation procurement guidelines. No-objection of World Bank will be given as indicated.

58. Short-listing Criteria: The following criteria will be applied during the selection process:

- (i) The NGO must show a willingness to work with the beneficiaries;
- (ii) A proven past experience in enabling the implementation of services targeted at enabling vulnerable groups;
- (iii) Experience in adopting a participatory approach and on focusing on building self reliance among target groups;
- (iv) A willingness and experience in implementing effective training courses, both formal and on-the-job;
- (v) The existence of adequate staffing, financial and technical resources and access to audited accounts;
- (vi) An active environmental and social awareness;
- (vii) A willingness to be audited by CSERP.

59. The criteria used by the beneficiary and the according potential maximum score are:

- (i) Technical capacity: Points: 50
 - ✓ 1st Criteria: Budget of recent activities in social services: 20 points
 - ✓ 2nd Criteria: Qualification and experience: 15 points
 - ✓ 3rd Criteria: Strategy of intervention; 15 points
- (ii) Experience of the NGO: Points: 50
 - ✓ 4th Criteria: Previous experience and work of similar nature: 15 points

- ✓ 5th Criteria: Experience in area: 15 points
- ✓ 6th Criteria: Coherence between the terms of reference and the NGO's objectives: 20 points.

60. The evaluation report specifies the score obtained by each NGO and the results of the ranking process.

Contracting

61. The NGO presenting the highest score will be selected for further negotiations. These will be held after submission by the NGO of a technical and financial proposition, filled according to the standard format required. The financial offer will not exceed by more than 10% the corresponding evaluation based on the list of reference costs approved by CSERP. Following these negotiations, two issues may occur: (i) negotiations are satisfactory to both parties, an agreement is reached and a contract is drawn and signed; or (ii) negotiations are non conclusive and an agreement cannot be reached. The NGO that received the second best score is invited to make a technical and financial proposal. Negotiations are then conducted.

62. Unfair Interference and contracting limits: In the event that an applicant unfairly interferes in the selection procedures and/or evaluation, the selection process shall immediately be cancelled. An NGO that has submitted false or fake documents or unfairly interfered with the bidding procedure will not be allowed to participate in any projects funded by CSERP for a period of one year. An NGO is not eligible for submission and contract award if it is simultaneously contracted by CSERP for the implementation of other subprojects. The maximum amount that can be allocated for one or several subprojects implementation in a single contract with an NGO may not exceed € 180.000 (2 projects of € 90.000 each). The maximum amount that can be allocated per calendar year in all targeted counties to the same NGO should not exceed € 270.000 (3 projects of € 90.000 each). Above this ceiling, and if justified, a non objection will be sought from the World Bank.

Payments

63. Disbursement schedule follows the same process as for the infrastructure subcomponent.

6.7.4. ECONOMIC REVITALIZATION IMPLEMENTATION PROCESS

Procurements

64. Procurement of goods, works and services for the subprojects to be implemented by cooperatives and small and medium sized enterprises shall be carried out through commercial practices established in the country in accordance with paragraph 3.12 of the Procurement Guidelines Thresholds are detailed in volume 4, point 3.6.4

Loans by participating banks (associated to the program)

65. The investment or business plans for all economic recovery projects will be prepared by be the beneficiary in consultation with a Business Services Providers (BSP) and will have to be approved by the Project Coordination Unit (PCU), before being sent to the selected participating bank for financing.

66. The credits will be disbursed by banks in which the Government of Croatia has subsidized interest rate schemes (from 1 to 4%), and therefore can influence the bank's willingness and interest in recovering the loans.

Services and infrastructures

67. Processes for services provision and infrastructure implementation will be based on practices described for subcomponents 1 and 3 implementation.

Processes and flows of funds

Economic Revitalisation Component

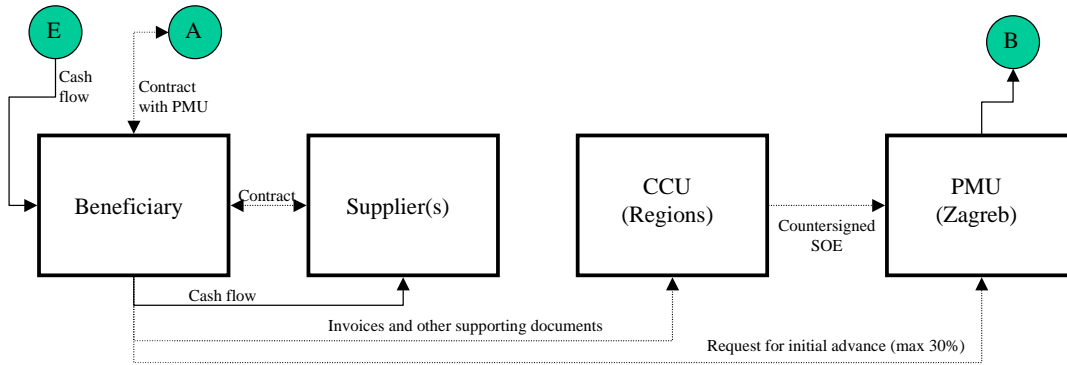


Figure26. Flow of funds.

68. Based on the contract signed between the Beneficiary and the PMU, the Beneficiary will request an advance payment in to its bank account (typically 30% of the contract total).

- (i) The beneficiary will pay suppliers for the goods/works agreed in the contract with the PMU.
- (iii) When the beneficiary has utilized all the funds advanced, it provides to the CCU:
 - (iv) •List of all expenditures (an SOE)
 - (v) •All invoices and other supporting documentation
 - (vi) •Request for next phased payment

69. CCU:

Checks accuracy of SOE

Reconciles the SOE to the original invoices.

Reconciles costs to contract with PMU

- On a sample basis, inspects work sites to confirm goods are in place / work has been performed

70. •If CCU is satisfied that funds have been used for eligible purposes, it countersigns the SOE and sends a copy to the PMU together with copy of beneficiary’s request for next phased payment (CCU retains originals and all supporting documents)

71. Based on countersigned SOE, PMU will:

Prepare forward the payment request if further funds are available under the contract with the beneficiary

- Close the subproject file and archive if all funds have been disbursed and properly accounted for

6.7.5. INFRASTRUCTURES: IMPLEMENTATION PROCESS

Technical design

73. Infrastructure subprojects shall be designed according to recognized engineering standards and other technical specifications. Technical design shall be completed:

By an approved engineer, for "technical works" that exceed the technical capacity of the local government or community. Such technical works may be undertaken by: (i) a RCU engineer if possible; or (ii) a sub-contracted firm (by beneficiary with RCU supervision). The engineer will be selected using appropriate shopping procedures.

- By the Local Government's engineers or technicians with the assistance of RCU. In this instance, the design models and technical recommendations will be established by the PCU in coordination with line ministry.

74. The cost of the design and supervision of technical works (if subcontracted) will be less than 4% of the construction contract; in other cases, the cost of the design and the supervision will be less than 2% of the rehabilitation/renovation). The RCU will check and approve all design documents and act as an agreed legal entity for the approval of technical designs. The finalized technical design, bill of quantities and estimated cost will be approved and signed by the beneficiary.

Procurement process

75. The beneficiary, with the assistance of the CCU (if necessary, or other sub-contractor available under capacity building) will begin preparations for procurement of the civil works.. The CCU will review the particular provisions of the procurement documentation and give its endorsement. The bid documentation will include technical specifications and delivery periods; required specifications as well as norms and standards.

76. All procurement and bidding procedures will follow either: (i) if it may apply: the community participation procurement methods, if the subprojects financial ceiling allows it; or (ii) any of the other procurement methods admissible as described in the Administrative and financial Manual.

77. All procurements will be made according to the **Community small procurement guidelines and forms** available in **Volume 1, Annex 20**

Contracting

78. Following the declaration of the winning contractor, the beneficiary, with the support of the CCU, prepares a contract based on a PCU model. The contract will include all the relevant information regarding the specific nature of the subproject. The following documents are attached to the contract:

- (i) The successful bid as submitted by the winning contractor;
- (ii) Guarantees, if required as a pre-condition to the signing of the contract;
- (iii) A written consent of the beneficiary to fulfill its obligations, if any;
- (iv) Design and specifications.

79. Contracts proposal are sent to the World Bank for no-objection if requested by the procurement method. If the no-objection is granted, the beneficiary signs the contract and the contractor visits the site to verify the schedule of works, and to put forward his recommendations and remarks.

Payments to contractors

80. Payments will be made to the contractor by the beneficiary within 21 days from the receipt of the invoice, after verification and approval by both the beneficiary and CCU. Payments will be made exclusively in local currency, on presentation of invoices, according to the following schedule.

- (i) Advance payment of a maximum of 20% of the contract amount upon signature of the contract. This advance payment will be reimbursed in four equal lump sums on the first four invoices;
- (ii) Four successive payments after the completion of 20%, 40%, 60% and 80% of the works. These payments will be based on unit prices and actual quantities of works performed, as certified by supervision reports. On each payment, deduction will be made for reimbursement of the advance payment;
- (iii) The remaining amount of the contract will be paid at the completion of the work, as certified by the last supervision report and after provisional hand over of the works (which determines the exact quantities of work and the final amount of the contract). From this payment the following items will be deducted:
 - ✓ 5% of this total final amount as a guarantee deposit (if applicable);
 - ✓ Penalties, (if applicable).
- (iv) The last 5% of the final contract amount (the guarantee deposit) will be paid to the contractor at the final hand over of works, six months after the completion of the work, if, during that time, there are no defects or damages related to bad work practices

Addendum to contracts

81. Payments are made on the basis of the actual quantities of works performed. As a general rule, no works can be done in addition to the contracted bill of quantities. On an exceptional basis, additional works can be initiated, but only with the approval of CCU (endorsement by RCU). The CSERP will not reimburse extra works unless: (i) the extra works are unforeseen and are necessary to ensure the safety of the infrastructure; or (ii) the works are not induced by dispute, or problems, which can be resolved by the beneficiary. The cost of these extra works must not exceed 15% of the total cost of the subproject.

82. If one of these conditions is not met, the beneficiary may: (i) break the contract; or (ii) sign an Addendum to the contract with the contractor with a clear justification, definition and documentation of extra works. The Addendum will be checked by the CCU and submitted to RCU. Under no circumstances will CSERP reimburse expenses related to the Addendum without its prior no-objection. Signature of the addendum will follow the same procedures of that adopted for the initial contract

Hand-over and certification

83. The contractor informs the beneficiary on completion of works in written form. Hand-over procedure is started upon written information from the contractor. Within 10 days the works are checked, calculation for final settle up is performed, the final request for payment and all the required documents for hand-over procedures are prepared.

84. Hand over of the subproject will be done by a Hand over committee comprising:

- A representative of the beneficiary,
- A representative of the Users,
- A representative of local authorities
- CCU,
- A representative of the Contractor.

85. A site visit of the works will be conducted by the committee to inspect:

- The quantity of the accomplished works;
- The quality of the accomplished works;
- The environmental impact of the accomplished works.

86. The committee will take a decision regarding satisfactory completion in accordance with the following guidelines:

If the works appear to be satisfactorily completed, a provisional hand over certificate will be signed;

- If defects on the works or environmental damages are observed, these defects or damages will be documented and rectification actions will be recommended. Provisional hand over will be postponed until the Contractor has corrected all the defects or damages.

87. By signing the Provisional Hand-Over Agreement, the subproject execution process terminates. From this moment, the local users and the local authorities will be responsible for operational and maintenance expenses, and assuming control of the infrastructure facility as stated in the Framework Agreement.

88. Final hand over will occur on completion of the six months guarantee period. The same representatives stated above would undertake final hand over, who will be responsible for filing a final handover report. After a satisfactory final hand over, the 5% guarantee deposit will be paid to the contractor.

89. **A Provisional handover certificate (works)** and a **Final handover report (works)** are available in **Annexes 17 and 18 of Volume 1**

90. An example of a **Subproject completion report** is available in **Volume 1, Annex 19**