

INTRODUCTION TO THE PROJECT

Scope of the project and objectives

CARDS 2002 Project 'Development of the Business and Investment Climate in Croatia' will touch upon some of the issues set by Croatia's government, like increasing transparency of public institutions and developing capital markets, and will focus on strengthening the institutional capacity of the government organisations responsible for investment promotion, removal of legal and administrative barriers and application of best practice examples for investor facilitation in 3 pilot regions.

The main target groups of the project are:

- Ministry of Economy, Labour and Entrepreneurship
- Trade and Investment Promotion Agency (TIPA)
- Selected regional government (county) investment promotion agencies
- HITRO.hr programme with 'One Stop Shop' in FINA.

Other government institutions that relate to the Croatian business environment as well as the business community in general are a part of the key challenge to improve the operational dialogue among different levels of stakeholders and the government at national and regional level.

The project is based on three interlinking components with the overall objective to improve the business and investment environment in Croatia. The **first component** aims to assist government institutions assigned to work with investment promotion. The project will support them in defining their role and structures for co-operation. The Contractor will primarily work with the Ministry of Economy, Labour and Entrepreneurship and the Trade and Investment Promotion Agency (TIPA). The **second component** will support the Government in addressing administrative and regulatory barriers to business in Croatia.

Such assistance will cover both methodological aspects and practical suggestions for specific sectors. The specific sectors were defined during the inception phase. The first and the second component should actively link their activities with a selected number of regional agencies for investment promotion. The **third component** aims to support three pilot regions. Support should be provided in implementing the results developed under components 1 and 2. The pilot regions are selected in an early phase of the project, based on a set of pre-defined criteria.

Key objectives to be addressed during the course of the project are to refine government structures through institution building and to assist the Government to strengthen its capacity and knowledge on how to compete for international investment, further objective is to define and implement tools and methodologies for strategic identification and monitoring of improvements in the business climate, then to strengthen the institutional capacity of the Ministry of Economy, Labour and Entrepreneurship and the capacity of other government institutions involved in investment promotion, to improve relationships and interactions among government institutions, agencies, regional institutions, universities and private sector interests in order to achieve an efficient business climate, to improve legal procedures and the business environment, to minimise and accelerate administrative procedures through reduction of public sector bureaucracy.

Implementation environment

Croatia has the intention to continue enhancing the trade liberalisation foreseen by the SAA ties providing an opportunity to boost foreign investments and trade flows. Official sources state that total foreign investment in Croatia from 1993 to 2004 amounted to USD 10,701 m.



The Project is financed by the European Union.



The project is implemented by: Deloitte Central Europe, Raiffeisenbank Croatia and Emerging Markets Group.



The driving force of investments in Croatia has so far been an access to domestic markets with the focus more recently shifting to the banking sector and telecommunications sector following the privatisation initiatives.

Foreign investors have the same rights, obligations and legal status within an enterprise as domestic investors. The main Croatian export oriented manufacturing sectors attractive to foreign investors were pharmaceuticals, communication and electrical equipment. But the limited volume of foreign investment is much due to a lack of existing enterprises in other sectors attractive to investors. Taking that into account, creating a business-friendly environment that is conducive to investments is one of the goals that MELE set to achieve through this project.

Project implementation

The project was officially launched on 3 August 2005 and the Team Leader took up residence on 18 August 2005 with the first draft of this Inception Report being produced on 12 October 2005.

Main decisions taken during the inception period are as follows:

Selection of Sectors to be studied: A workshop titled 'Identification of Key Sectors for Potential Investment in Croatia' was held on 23 September 2005.

Selection of Barriers to be addressed: During the Inception period and on the initiative of the MELE, a meeting was held on 28

September 2005 with the title 'Identification of Key Administrative Barriers Hampering the Investment Process in Croatia'.

A number of issues and opportunities was identified that have led us to recommend some changes to the work-plan originally proposed. These are as follows:

- ***To ensure that the pilot regions become reliable partners for TIPA***
- ***To set out certain standards the participating regions should meet by the end of the project***

Selection of Regions

In agreement with MELE we have proposed three groupings of counties, which will hopefully enable better and more sustainable results.

The groupings are as follows:

- Zadar and Šibenik-Knin counties with the local centre for the project in Šibenik
- Karlovac and Rijeka counties with the local centre in Karlovac, and the
- Međimurje and Varaždin counties with the local centre in Čakovec.

In addition, since project resources permit us to work with only three groupings, we propose to restructure component three in a way that will ensure the deliverables required by the ToR and create a quality standard for regional performance. This will be encapsulated as the Croatian Investment Certification Programme to be developed in conjunction with MELE, TIPA and participating regions.



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