

## FINANCIAL MEASURES AND INSTRUMENTS FOR ADJUSTMENT OF AGRICULTURE FOR EU ACCESSION

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### Abstract

Agricultural development is the first and the main priority of the Republic of Croatia. Agricultural land comprises more than a half of the land area of the Republic of Croatia, almost 48 % of the population live in rural areas and the share of agriculture in GNP amounts to approximately 10%.

Since the Republic of Croatia wants to join the EU in near future various sorts of harmonisation of Croatian legislature with *acquis communautaire* are necessary. The process of harmonisation in the field of agriculture is especially demanding and multi-layered.

Sustainability and multifunctionality of agricultural production and rural regions are the very bases of modern agricultural policy in the most developed countries, including the EU. The negotiations held on agriculture between the Republic of Croatia and the EU make even 50% of the total negotiations, which additionally emphasizes the importance of agriculture.

Competitiveness of the national agriculture can increase substantially with the help of the preaccession funds, which is the topic of the paper. SAPARD stands out as the most important among them; within this fund the Republic of Croatia can have use of 25 million euros. The same amount is provided for the new preaccession fund IPARD that will replace SAPARD next year. The aims of these funds are to prepare the candidate countries, i.e. Croatia for their participation in EU common market when it comes to accession.

JEL classification: G32, K20, K40,

**Key words:** agriculture, EU, preaccession funds, SAPARD, IPARD

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### 1. Introduction

Taking the expected crucial changes in different segments of our society into consideration as preparation for future EU membership it has become clear that

the harmonisation process in the field of agriculture is extremely demanding and complex.

Croatian agriculture of today does not have a developed competitiveness of its farmers as is the case in most EU countries. Therefore the rapid building up of competitiveness of our agricultural farming is the key prerequisite of their successful integration into common European market where all existing barriers seize to exist.

The new budget awards agriculture with 98 million kuna less and this by reducing subventions and support for rural development<sup>1</sup>, which can be understood as a supplementary impetus by introducing the Croatian farmers to the advantages of pre-accession funds.

## 2. General information on pre-accession funds

The European Council presented in Essen in 1994 a pre-accession strategy for the states of Central and Eastern Europe to improve adjustment and prepare for EU membership. Financial aid for the countries in the process of EU accession is an important part of the strategy. Pre-accession funds were formally open for Croatia in 2005, which means that Croatia just like all other candidate countries has the right to financial aid with an aim of better preparation for full EU membership.

The EU pre-accession funds PHARE, ISPA and SAPARD could be implemented until 2007 and from 2007 to 2013 these three pre-accession funds were integrated into one. Besides, the fund application will be easier to manage and types of projects for financial aid will diversify.

Image 1. The targets of EU pre-accession funds

Programme	Targets
PHARE	For the process of cofinancing of common projects for institution building necessary for the process of integration, economic and social cohesion (building of state institutions for the investment necessary for implementation of the acquis)
ISPA	Finances structural projects in candidate countries in the fields of environment and transport infrastructure
SAPARD	Assists the candidate countries and prepares them for participation in the common agricultural policy and internal market on the basis of a wide range of adjustment measures relating to agricultural structures and rural development

Source: [http://www.businessnavigator.biz/kreditni\\_vodic/eu\\_fondovi/pretpriustupnifondovi](http://www.businessnavigator.biz/kreditni_vodic/eu_fondovi/pretpriustupnifondovi)

<sup>1</sup> Nevertheless, the Osijek-Baranja county will increase the 2009 budget for agriculture from 65 to 80 million kuna since it holds 17.5% of total arable land in the Republic of Croatia.

It must be mentioned that the money from the mentioned funds is not without charge. The European Union does not finance the projects in their entirety but 75% of the project whereas the remaining amount of 25% must be financed through state or local budget and when it comes to SAPARD this proportion can amount to 35%. This would practically mean that regardless of the project quality the amount of the finances from pre-accession funds would be limited by the amount of the means that potential fund user is ready to invest. It must be mentioned that the potential fund beneficiary must provide for the entire amount at the beginning of the project that will then only after the project realisation be refunded from EU funds and national cofinancing. Moreover, it is worth mentioning that the European Union monitors both the application of funds and project implementation.

Image 2. Pre-accession funds financing proportions

Fund	Financing proportions
PHARE	EU and the state finance the entire amount of the project
ISPA	EU finances 75%, up to 85% of the costs of large structure projects The remaining amount is financed from the state budget, loans and/or public private partnership
SAPARD	EU finances 75% of the project costs ( in extreme cases up to 100%) In commercial projects, maximum EU financing amounts to 50% ( if lesser subsidizing limit has not been stipulated by the Law )

The experience of the former candidate countries has shown that the preparation of the project is crucial. Some funds such as SAPARD require intensive preparation<sup>2</sup>

It is also important to mention that amounts awarded to Croatia are apparently lesser than amounts awarded to some other member states at the time when they could use financial assistance through pre-accession funds. The explanation to this can be found in the opinion of the European Commission that Croatia would for its general development and preparation need less means within the membership preparation. However, contradicting itself, the European Commission also considers Croatia not to be at the level that could enable the implementation of pre-accession funds to the full so that for that reason the awarded amounts are lesser than expected.

### 3. The Republic of Croatian and pre-accession funds

Agricultural development is the first and the greatest priority of the Republic of Croatia. Agricultural land comprises more than a half of its land area, nearly

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<sup>2</sup> The experience of former candidates has shown that ISPA and SAPARD require more extensive preparations taking up to two years.

48% of the population live in rural area and the agricultural share in GDP amounts to 7%.<sup>3</sup>

Considering the fact that the Republic of Croatia wishes to join the EU in near future there are various sorts of harmonisations of the Croatian legislature with *acquis communautaire* that are necessary. Particularly demanding and complex is the process of harmonisation in the field of agriculture. Croatian agriculture has been regulated by many laws and regulations. The Law on Agriculture<sup>4</sup> regulates objectives and measures of agricultural policy, beneficiaries, agricultural or family farms, institutional assistance, administrative monitoring and reporting on agriculture as well as administrative and inspection supervision (art. 1). It is the Law on Agriculture that makes a legal framework for implementation of agricultural policy measures. The Law on Agriculture, the Agricultural and Fishery Strategy of the Republic of Croatia<sup>5</sup>, the Rural Development Strategy of the Republic of Croatia and Law on State Subsidizing in Agriculture, Fishery and Forestry<sup>6</sup> make the bases of the National agriculture and rural area programme for the period 2006-2008. Besides mentioned regulations there are numerous legislative instruments and strategies for agriculture.

The sustainability and multifunctionality of agricultural production of rural areas are the bases of modern agricultural policy of the most developed countries including the EU. Negotiations on agriculture between the Republic of Croatia and the EU take almost 50% of the total negotiations, which additionally speaks for the importance of agriculture. The future of Croatian agriculture will be largely determined by EU negotiations. The competitiveness of Croatian agriculture on the market can be gained through EU pre-accession funds. Special attention should be paid to SAPARD.

3.1. *SAPARD*<sup>7</sup> is a special EU programme started in June 1999<sup>8</sup> aimed at managing problems in agriculture and rural development for enhancing competitiveness in reference to the EU market and implementation of EU regulations in candidate countries. Candidate countries can implement SAPARD programme until they join EU.

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<sup>3</sup> Perić, R. (2005). Članstvo u EU – financijske mjere i instrumenti za prilagodbu poljoprivrednog sektora, Zbornik radova znanstvenog skupa Hrvatska pred vratima EU, fiskalni aspekti, Zagreb, 2005, str. 202.

<sup>4</sup> The Law on Agriculture NN 83/02

<sup>5</sup> Pursuant to art. 80 of the Constitution of the Republic of Croatia, the Croatian Parliament in session of 11th July 2002 agreed on the Agriculture and Fishery Strategy of the Republic of Croatia

<sup>6</sup> The Law on State Subsidizing in Agriculture, Fishery and Forestry NN87/2

<sup>7</sup> Special Pre-Accession Assistance for Agriculture and Rural Development

<sup>8</sup> European Commission regulation Nr. 1268/1999

The programme aims at:

- harmonisation with EU legislature in agriculture
- preparation in common agricultural policy (CAP)
- investing in agricultural land
- improvement of soil quality
- afforestation of agricultural areas
- supporting the manufacturers of wood products,
- improving the quality of arable land and parcelling
- land-ownership records
- professional education and training
- agricultural and fishery products processing and marketing building up

As a rule, final users are the producers and not the state. The agriculture market and structural aid authority has been structured to performing the SAPARD programme of the Agency. It is the Agency that fulfills the function of SAPARD implementation starting from instruments preparation and inviting applications, project awarding, funding and field control<sup>9</sup>. SAPARD funding is targeted and grant-in-aid.

The following financing measures have been chosen from SAPARD programme in the Republic of Croatia:

1. investing in farming ( final beneficiaries are natural and legal persons, farming registered with the Farming record).
2. agricultural and fishery products processing and marketing promotion
3. rural infrastructure improvement ( final users of the infrastructure investment are districts with up to 10000 inhabitants)
4. technical support, information and promotion campaign ( final user is SAPARD administrative board with the relevant ministry)

There were three invitations to application for SAPARD funding:

- 1 26 July – 31 October 2006
- 2 28 March – 28 July 2007
- 3 12 February – 3 April 2008.

In 2006 and 2007 there were two invitations to application for financing activities from Measures 1 and Measures 2 SAPARD programme when a total of 29 project suggestions were awarded. SAPARD programme project funding amounted to 87 million kuna. Since measures 1 and 2 of the SAPARD programme provide for 143 million kuna in February 2008 the Ministry of Agriculture, Fishery and Rural Development made the third invitation to application for measures 1 and 2 as to agree upon the remaining funding.

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<sup>9</sup> Field control is done in the following 5 years from the final SAPARD funding.

In 2007 the Ministry announced inviting application on implementation of Measure 3 SAPARD programme- Rural infrastructure development concerning local self-government with less than 10000 inhabitants ( 2001 census). According to the sector analysis within

Measures 3 the projects will be stimulated linked to the following:  
public non-assorted roads ( allowed investment in building and/or reconstruction of public non-assorted roads)  
building and/or reconstruction of forest fire-prevention paths/ multipurpose roads  
building and /or reconstruction of sewage system and waste water purification plants  
building and/or reconstruction of heating plants using waste and/or by-products from agriculture and/or forestry.

### 3.2 IPA

With a new budget period 2007 -2013 the EU introduces new conditions for financing agriculture and rural development both for the member states and candidate countries. Unique programme IPA<sup>10</sup> established by the Council of Ministers <sup>11</sup> on 17 July 2006 will replace the PHARE, ISPA and SPARD programmes.

In 2007 the Republic of Croatia became the beneficiary of IPA programme until EU accession. The Central State Office for Development Strategy and Coordination of EU funds is in charge of IPA programme implementation in Croatia whereas the Ministry of Finance is in charge of entire financial management.

The IPA is made up of five components<sup>12</sup>:

1. support for transition and institution building
2. cross-border cooperation
3. regional development
4. human resources development
5. rural development<sup>13</sup>

Potential beneficiaries are the local self-government units, farmings and other natural/legal persons depending on priority measures.

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<sup>10</sup> Instrument for Pre-accession Assistance

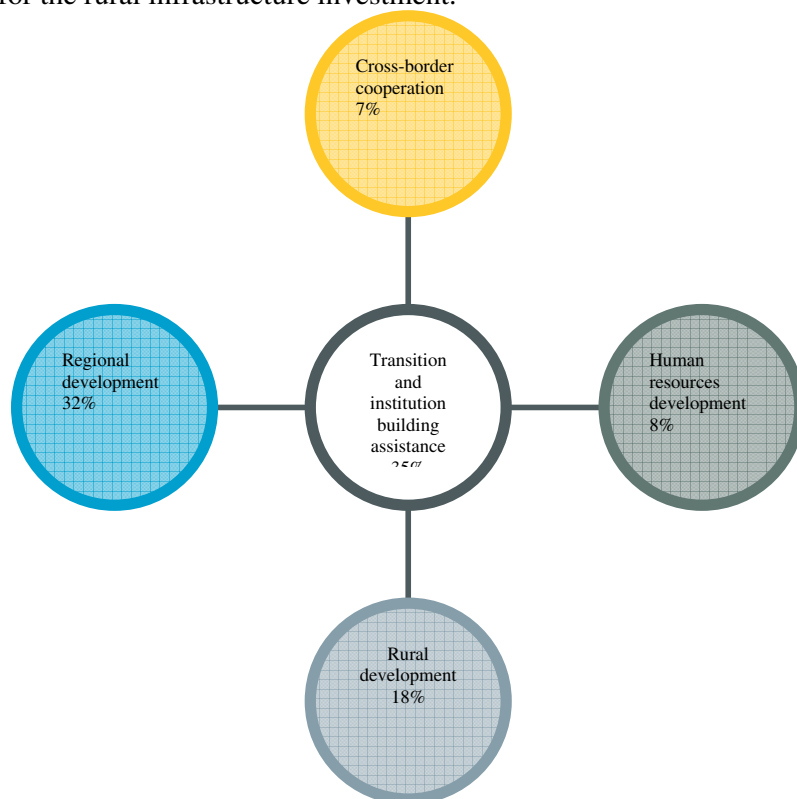
<sup>11</sup> EU Council regulation Nr. 1085/2006

<sup>12</sup> [www.strategija.hr/default.aspx](http://www.strategija.hr/default.aspx)

<sup>13</sup> This component precedes agricultural funds that will be available to Croatia after the EU accession.

The IPA aims at increasing the rural population income in Croatia through development adjusting it to EU standard. According to the Union criterion the limit of rural-urban population is 150 inhabitants at a square kilometer. Only the City of Zagreb ( 1215) and Medimurje county (162) belong to the urban zone out of 21 counties in Croatia. Even 91,6% of the Republic of Croatia is considered rural area i.e. almost 89% of the places are situated in rural areas<sup>14</sup>.

National accreditation of the rural development component started on 15 September 2008. Accreditation was required for farming investment measures, agricultural and fishery products processing and marketing improvement as well as for the rural infrastructure investment.



Source: <http://www.safu.hr/hr/o-programima-pomoci/ipa>

<sup>14</sup> <http://www.poslovni.hr/106846.aspx>

Table 3: Funding allocated for the Republic of Croatia according to IPA components in four years

in mil. Euro	2007	2008	2009	2010	TOTAL
IPA programme components					
Assistance in transition and institution building	49.6	45.4	45.6	39.5	180.1
Cross-border cooperation	9.7	14.7	15.9	16.2	56.5
Regional development	44.6	47.6	49.7	56.8	198.7
Human resources development	11.1	12.7	14.2	15.7	53.7
Rural development	25.5	25.6	25.8	26.0	102.9
Total	140.5	146.0	151.2	154.2	591.9

Source: <http://www.strategija.hr/Default.aspx>

#### 4. EU pre-accession funds implementation state

Through EU pre-accession funds<sup>15</sup> the Republic of Croatia was awarded 289.80 million Euro to 1 December 2008, out of which 217.8 million Euro i.e. 75.2%<sup>16</sup> has been agreed. Payments are in action and 102.5 million Euro ( 47.1%) have been paid of the total contracted means<sup>17</sup>. It should be emphasized that final payment data for particular programmes will be known after each programme finishes i.e. by the end of 2011.

Through SAPARD programme the Republic of Croatia has been awarded the total of 25.0 million Euro out of which 8.9 million Euro ( 35.6%) has been contracted. Final beneficiaries have been paid 2.9 million Euro ( 32.7%) of the contracted. In the course of preparation for the fourth invitation to application the percentage of SAPARD funding utilization will increase.

<sup>15</sup> CARDS, PHARE, ISPA, SAPARD

<sup>16</sup> The contracting has been still in action for ISPA and SAPARD and it is expected that the total of the contracted amount will increase

<sup>17</sup> [www.safu.hr/datastore/filestore/10/Stanje\\_u\\_provedbi\\_pretpristupnih\\_programa\\_EU\\_1\\_prosi\\_nca\\_2008\\_godine.pdf](http://www.safu.hr/datastore/filestore/10/Stanje_u_provedbi_pretpristupnih_programa_EU_1_prosi_nca_2008_godine.pdf)



Table 4: Pre-accession assistance programmes total- awarded, contracted and paid

in mil. Euro CARDS	PHARE	ISPA	SAPARD	TOTAL
Awarded means for the Republic of Croatia	75.9	129.9	59.0 25.0	289.8
Contracted	72.7 (95.8%)	111.7 (85.9%)	24.5 8.9 (41.5%) (35.6%)	217.8 (75.2%)
Number of contracts	174	329	13      30	546
Settled out of contracted	58.2 (80.1%)	38.4 (34.7%)	3.0 2.9 (12.0%) (32.7%)	102.5 (47.1%)
Payment deadline	31 December 2010	30 November 2011	31 December 2011	31 December 2009

Source: [www.safu.hr/datastore/filestore/10/Stanje\\_u\\_provedbi\\_pretpristupnih\\_programa\\_EU\\_1\\_prosinca\\_2008\\_godine.pdf](http://www.safu.hr/datastore/filestore/10/Stanje_u_provedbi_pretpristupnih_programa_EU_1_prosinca_2008_godine.pdf)

## 5. Conclusion

The results of the development policy by combination of own funding and EU financing will have been seen in 10 years. EU pre-accession funds have considerably been used up and recently the upper limit of the funding has been set, which means that Croatia cannot expect as much money from the pre-accession funds as the countries of the last EU enlargement. It is for this reason that Croatia has to be prepared. The EU assistance can improve living standards but one should know how to get them. There is a will, but we lack knowledge. The state should provide professional assistance in the course of pre-accession funding absorption in order to avoid the already experienced case with SAPARD when in the course of three years and three invitations to application only 46% of the offered funding was used. It should be emphasized that once they join the Union, the new Member States are no longer entitled to pre-accession assistance since the remaining amount is at the disposal of candidate countries.

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