



## UNDP Project Document

**Government of the Republic of Croatia**

**United Nations Development Programme**

### **Global Environment Facility**

#### **Conservation and Sustainable Use of Biodiversity in the Dalmatian Coast through Greening Coastal Development - COAST**

##### **Full Sized Project**

PIMS 2439

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##### **Brief description**

This project will help Croatia seize a unique and short-lived opportunity to improve the conservation of globally significant biodiversity in the Dalmatian coastal region before tourism and related economic development cause irreversible damage to the ecosystems. The project will remove barriers to transforming socio-economic sectors and so unleash positive forces for sustainable use of biodiversity. The project, with GEF and multi-source co-financing, will also have important impacts on income generation and sustainable livelihood.

The project will work at three levels. At the local or demonstration level, the project will demonstrate barrier removal at four demonstration landscapes. At the county level, the project will use the results of the demonstration to transform the productive sectors across the four counties - using both market-based and regulatory approaches. Notably, the project will work with key stakeholders in the banking sector, creating innovative banking sector tools to support sustainable use of biodiversity. At the national level, the project will directly strengthen the national-level enabling environment. At all levels, the project will determine approaches to reducing conflicts across the project area.

Finally, the project will implement specific activities to ensure dissemination duplication and replication of project successes. Although there will be some trade-offs, economic development will continue and globally important ecosystems will be protected. Due to the distribution of biodiversity in coastal Croatia, only a small amount of biodiversity can be realistically protected through standard Protected Areas. Hence, this project has been strategically designed to assure the sustainable use of biodiversity lying outside of Protected Areas. This complements national efforts to improve management of Protected Areas.

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## **List of Acronyms and Abbreviations**

AAB	Agriculture Advisory Board
APR	Annual Project Report
AWG	Advisory Working Group
AWP	Annual Work Plan
BAT	Best Available Technology
BD	Biodiversity
BSAP	Biodiversity Strategy and Action Plan
CAMP	Coastal Area Management Programme
CAP	Common Agriculture Policy
CARDS	(EU) Community Assistance for Reconstruction, Development and Stabilisation
CBD	(UN) Convention on Biological Diversity
CBRRF	COAST Biodiversity Rapid Response Facility
CCA	Carrying Capacity Assessment
CCE	Croatian Chamber of Enterprises
CEO	Chief Executive Officer
CF	Croatian Forests
CFP	(EU) Common Fishery Policy
CO	(UNDP) Country Office
COAST	Conservation and Sustainable Use of Biodiversity in the Dalmatian Coast through Greening Coastal Development
CPAs	County Protected Areas
CR	Critically endangered species
CTBs	County Tourism Boards
CTE	Core Team of Experts
CTO	Croatian Tourism Organisation
CW	Croatian Waters
DATMP	Destination Area Tourism Management Plan
DD	Deficient Data species
DF	Department of Fisheries
DNPM	Deputy National Project Manager
EBM	Ecosystem-based Management
EBRD	European Bank for Reconstruction and Development
ECIS	Eastern Commonwealth of Independent States
Ecofund	Croatian Fund for Environment and Energy Efficiency
EEP	Energy Efficiency Project
EIA	Environmental Impact Assessment
EMs	Environmental Management System
EN	Endangered species
ERP	Enterprise Resource Planning (Software System)
EU	European Union
FCD	Flora Croatica Database
FIs	Financial Institutions
FP	Full Project
FSC	Forest Stewardship Council
GEF	Global Environment Facility
GFA	Guarantee Facility Agreement
GIS	Geographic Information Systems

GMO	Genetically Modified Organisms
GNP	Gross National Product
GTZ	Deutsche Gesellschaft für technische Zusammenarbeit (GTZ) GmbH
HBOR	Croatian Bank for Reconstruction and Development
HQC	Health Quality Criteria
IA	(GEF) Implementing Agency
IAH	Individual Agricultural Households
ICA	Incremental Costs Analysis
ICM	Integrated Coastal Management
ICZM	Integrated Coastal Zone Management
IFC	International Finance Corporation
IMF	International Monetary Fund
IOF	Institute of Oceanography and Fisheries
IPA	(EU) Instrument for Pre-accession Assistance
IPP	Interactive Participatory Programme
ISPA	Instrument for Structural Policies for Pre-accession
IR	Inception Report
IT	Institute of Tourism
IUCN	The World Conservation Union
IUU	Illegal, unregulated and unreported (fishing)
IW	Inception Workshop
KEC	(WB/GEF) Karst Environmental Conservation (KEC) project
L	Landraces
LD	Landscape Diversity
LEP	Law on Environmental Protection
LIFE	Local Initiative Facility for Urban Environment (i.e. the Financial Instrument for the Environment)
LTBs	Local Tourism Boards
M&E	Monitoring and Evaluation
MAFWM	Ministry of Agriculture, Forestry and Water Management
MAP	Mediterranean Action Plan
MBIs	Market-based Incentives
MC-SIPN	Ministry of Culture – State Institute for the Protection of Nature
MedPO	(WWF) Mediterranean Programme Office
MED POL	Monitoring of Pollution of the Marine Environment from Land-based Sources
MEPPPC	Ministry of Environment Protection, Physical Planning and Construction
MSES	Ministry of Science, Education and Sport
MSMEs	Micro-, Small- and Medium-sized Enterprises
MSTTD	Ministry of Sea, Transport, Tourism and Development
MYFF	The Multi Year Funding Framework
NEA	National Executing Agency
NEAP	National Environment Action Plan
NEX	(UNDP) National Execution Modality
NGO	Non-government Organisation
NPD	National Project Director
NPM	National Project Manager
NTFPs	Non-Timber Forest Products
OFP	Partner agency Operational Focal Points
OP	GEF Operational Programme
PAP/RAC	Priority Actions Programme/Regional Activity Centre (of the UNEP Mediterranean Action Plan - MAP)

PAs	Protected Areas
PDF B	Project Development Facility – Block B
PDF	Project Development Funds
PHARE	Poland and Hungary: Assistance for Reconstructing their Economies (PHARE) Programme
PIR	Project Implementation Reviews
PIU	Project Implementation Unit
PMG	Project Management Group
PO	(UNDP) Project Officer
PP	Public Participation
PSC	Project Steering Committee
RCU	UNDP/GEF Regional Co-ordinating Unit
ROPs	Regional Operational Programmes
ROSTE	(UNESCO) Regional Bureau for Science in Europe
SAPARD	Special Accession Programme for Agriculture and Rural Development
SAP BIO	(GEF/UNEP) Strategic Action Plan for the Protection of Biodiversity in the Mediterranean Basin
SEA	Strategic Environmental Assessment
SEE	Programme Office for South-Eastern Europe (IUCN-SEE)
SGP	Small Grants Programme
SIGMA	Support for Improvement in Governance and Management in Central and Eastern European Countries
SINP	The State Institute for Nature Protection
SMEs	Small and Medium Enterprises
SP2	GEF Biodiversity Strategic Priority No. 2
SPP	Stakeholder Participation Plan
SWOT	Strengths, Weaknesses, Opportunities and Threats (Analysis)
TBs	Tourism Boards
ToR	Terms of Reference
TPR	Tripartite Review
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organisation
USAID	United States Agency for International Development
VMP	Visitor Management Plan
VU	Vulnerable species
WB	The World Bank
WS	Wild Species
WWF	The World Wide Fund for Nature
WWTPs	Waste Water Treatment Plants

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## Section I. Elaboration of the Narrative

### Part I. Situation Analysis

#### 1.1. Context and global significance

1. The project area consists of the southern half of Croatia's coast (the "Dalmatian coast") and adjacent parts of the Adriatic Sea and islands. The project area stretches in a Northwest direction from the border with Montenegro along the coast to the island of Pag. It covers all districts and municipalities with coastline in the following four counties: Zadar, Šibenik – Knin, Split – Dalmatia and Dubrovnik – Neretva (see Map 1 in [Annex 6](#)). The project area is a complicated mosaic of land-uses, with terrestrial, marine, coastal and island ecosystems, intermixed with diverse human activities. The two major economic activities in the area are tourism and industry. Tourism is important throughout all the area and is set to grow quickly. Industry is localised at several limited sites, principally around Split and Zadar. It is likely to grow slowly and is increasingly subject to environmental management and pollution control. Agriculture, including forestry, livestock raising, and grape and olive cultivation is also common and most land in the project area is allocated to agricultural uses. Fishing, including shell-farms and fish-farms, is also important and set to grow in coming years, notably shell-fish farming. Other economic activities include transport, trade and mining. There is extensive coastal encroachment around these coastal settlements. Elsewhere, the level of urbanisation is very limited. The four concerned coastal counties have a total population of less than 1 million. Due to the combined effects of the 1990-95 war, the ongoing transition from a socialist to a market economy and the turbulent privatisation process in the early 1990s, the economic situation in Croatia is still challenging, but it is gradually improving. Average incomes in the project area are less than the national average, and are even lower on the islands. Croatia recently acquired formal status as a Candidate Country to the European Union (EU).

2. The bio-geographic position of the Dalmatian coast, the dominating geological base (limestone), the distinctive Karst relief, the indentation of the coast, the fact that this area was a sanctuary for plants and animals during the last Ice Age, and thousands of years of anthropogenic land management have all combined to result in outstanding coastal biodiversity and uniqueness. This biodiversity has been recognised by the following regional and global surveys and processes. *Conservation International* identified the Mediterranean Basin ecosystem as one of 25 global biodiversity hotspots. The *WWF Mediterranean Gap Analysis Programme* identified the Croatian Coast ('Eastern Adriatic') as one of 13 priority Mediterranean marine areas for conservation and protection ([www.panda.org](http://www.panda.org)). The recently prepared *Strategic Action Programme for the Conservation of Marine Biodiversity in the Mediterranean Region*<sup>1</sup> identified the Dalmatian coast as one of the three priority areas for conservation in the Mediterranean. More specifically, within the context of the *EU Habitats Directive*, the project area has 64 different habitat types, of which 7 are accorded 'priority habitat' status. 28% of the project area consists of habitats listed as *habitats of internationally recognised importance* in this Directive. Finally, the project area also includes four *Important Bird Areas*.

3. The project area includes the following ecosystems:

- a thin coastal mainland strip, with approximately 600 km of coastline, with river estuaries, wetlands, mountains (up to 1,700 m) and coastal cliffs. A number of short rivers run off the mountains directly into the sea;

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<sup>1</sup> 'SAP BIO', finalised in 2003 with support from UNEP and GEF.

- hundreds of small and medium-sized islands lying in shallow waters close to the coast. The largest islands are Brač (395 km<sup>2</sup>), Hvar (300 km<sup>2</sup>) and Pag (285 km<sup>2</sup>);
- up to one hundred more distant, relatively pristine, uninhabited islands, surrounded by marine waters stretching up to 100 km from the coast; and
- some of the most outstanding and best preserved landscape in Europe and in the Mediterranean region. This high landscape diversity (LD) results from the great topographic variations, the high diversity of land use over small areas, and several thousand years of sophisticated, organic farming systems.

4. Land in the project area is characterised by: (i) regular changes in land use over short distances, i.e. the mosaic pattern consists of very small patches, and (ii) the fact that the vast majority of land is dedicated to low-intensity agriculture. This means that almost all land outside of the urban areas and tourist developments provides a habitat for biodiversity. Maps 2 – 5 in [Annex 6](#) illustrate the diversity of habitat, flora and fauna diversity and the overall diversity. The maps, which indicate the diversity in each of over 600 rectangles in the project area<sup>2</sup>, indicate that not only does each rectangle have biodiversity of international importance, but also that the type of biodiversity changes from one rectangle to the next. Moreover, many important habitats are too small to be observed at this level of resolution. For example, the following habitats are too small to be detected in Map 2 but are common in the area: percolation pools, intermittent streams, sandy couch dunes, salt marshes, salt steppes and salt scrubs, shingle beach drift lines and pioneer swards, cliffs, chasmophyte communities to screws, reveries and humid meadows, dry grasslands, deciduous thickets, garrigues and various forests.

5. In terms of species diversity, the project area includes known 2,187 vascular plant taxa, of which 165 are endemic. The area is home to at least 125 species of fauna from the Red Book and at least 70 species strictly protected under the Bern Convention. As throughout the Mediterranean region, the introduction of farming and livestock systems over 3,000 years ago led to a change and increase in the biodiversity. Over the millennia, these low-intensity farming practices created unique habitats, integrating forest, pasture and cropland, and providing a home for a unique set of species. This included the arrival of predators feeding on livestock, birds dependent on agriculture, and unique associations of floral diversity. These complex mosaics have now largely disappeared from other Mediterranean regions – being replaced by industrial agriculture, urban land or climax vegetation - but are still present in the project area and throughout Croatia. The traditional agriculture in Croatia, which incorporates green hedges, rubble walls, small natural ponds and natural paths are essential to the ecosystem, to the habitats and to many of the species in the region. Examples of species benefiting from this include orchids, endemic turtles and endemic wall lizards.

6. This diversity of ecosystems, habitats and land-use constitutes a unique overall landscape and seascape diversity, which represents the important basis for the area's outstanding attraction to tourists. In the project area, the term 'biodiversity' implicitly includes this landscape/seascape diversity. The biodiversity in the project area remains poorly surveyed and documented. In many sites in the area, surveys regularly lead to the discovery of new species. For example, two new species endemic to one small mountain range (Mount Biokovo) were recently discovered. These surveys suggest the wealth of species waiting to be discovered, both inside and outside of Protected Areas, and also suggest that there are impressive levels of endemism.

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<sup>2</sup> Each rectangle is approximately 25 km<sup>2</sup>.



## 1.2. Threats, root causes and barrier analysis

7. Based on the discussion in the previous sections and in the detailed reports prepared during the PDF B stage, Table 1 provides a summary of the threats, required sectoral changes and barriers to change. The first column lists the four general types of impact on the area's biodiversity. Each of these impacts results from a combination of inappropriate practices in the tourism, fisheries and agriculture sectors. For each of these sectors, the inappropriate practices causing the threats are generally known and understood. These inappropriate practices are listed in the second column. Likewise, the changes required to mainstream biodiversity into these practices are generally well known and understood. These changes are listed in top half of the third column. The three sectors are driven by more fundamental forces, such as: the banking sector, the EU Accession process, the planning system, the water pollution control programme and Protected Area management. Changes in these driving forces will lead to changes in the tourism, fisheries and agricultural sectors. The required changes to these driving forces that will lead to positive impacts in the three sectors are well known and understood. These changes are listed in the bottom half of the third column. Hence, making the required changes listed in the third column will transform practices in the tourism, fisheries and agriculture sectors, thereby removing threats to biodiversity. However, there is a series of barriers to making these required changes. These barriers are listed in the fourth column.

8. To conclude, in order to achieve sustainable use of biodiversity across the project area, and support local economic development, a series of changes are required in the tourism, agriculture, fisheries and banking sectors. Improved integrated planning/management and optimal exploitation of the EU Accession process are also required. However, there is a series of barriers to making these required changes. Although site and sector specific, these barriers fall into the following groups: shortages of data and information; unsupportive investment climate for private sector; lack of financial/fiscal incentives; low government administrative capacity, especially at county and municipal levels; and low awareness and knowledge. This project aims to remove these barriers, and thereby achieve a desired transformation of the tourism, agriculture and fisheries sector.

### Barrier analysis

9. The analysis undertaken in the PDF B revealed that there is a series of barriers to implementing the changes in the third column in Table 1. These barriers are listed in general terms in the fourth column. Although site and sector specific, these barriers fall into the following groups: shortages of data and information; unsupportive investment climate for private sector; lack of financial/fiscal incentives; low government capacity, especially at county level; and low awareness and knowledge. Removing these barriers will initiate the required changes in the third column, thereby mainstreaming biodiversity conservation and its sustainable use into the tourism, fisheries and agriculture sectors.

10. Data/information barriers: In general, there is a lack of suitable, reliable, updated and consistent information. This is particularly notable with regards to biodiversity and landscape diversity. This is an obstacle to approving all development projects, to appraising all development projects, to designing and implementing environmental protection projects, and to developing effective plans and appropriate regulations.

11. Barriers in the private sector investment climate: The main barriers in the private sector investment climate are associated with:

- Short-term planning horizon in the private sector. Given Croatia's complex recent history, the transition process and the economic instability, most private sector operators work to a very short-term horizon. This is exacerbated by the harsh economic climate, the regular political

changes, and low efforts to ensure compliance by authorities. This is particularly true in the tourism sector, where many individual operators are semi-legal or illegal, and their objectives are limited to making money in the short-medium term.

- No knowledge or understanding in the tourist sector of biodiversity-friendly activities or accommodation. Tourist operators know little of biodiversity, of the impacts of their work on biodiversity, or of the alternative approaches. In particular, they know little of the opportunities for increasing revenue by investing in pro-biodiversity tourist packages.
- No trust in other operators – tragedy of the commons. In general, there is a belief that all profit should be exploited, because otherwise another private sector operator will exploit the profit. This is true in fisheries, agriculture and tourism sectors.
- Perceived low profitability of biodiversity-friendly investments. Many biodiversity investments require sizeable up-front investments, whereas the revenues are over several years and are not guaranteed. There are few examples of successful pro-biodiversity investments. This discourages investments.
- Funds not available to the private sector. Banks lend money to large-scale developers and most government funds are to state-owned operators. Hence, small and medium-sized developers cannot access loans under favourable conditions. This is notably true in the fisheries sector, where funds are needed for investments in smart gears and shell-fish farms.
- Inadequate plans to guide activities. At most points along the project area, the existing plans are out of date, based on incomplete data, do not include biodiversity concerns, and do not fully appreciate the complexity of the socio-economy. Hence, these plans are not sufficient for guiding investments and activities.
- Market demand. Current market demand is an incentive for business as usual, i.e. basic tourism and non-organic agriculture. These consumer preferences are a barrier to promoting biodiversity-friendly industries.

12. The fiscal and financial barriers are:

- Funds not available to government agencies. Government agencies have insufficient staff, funds and resources to perform important tasks such as monitoring, inspection and consultation. Inspection capacity is particularly weak in the fisheries and tourism sector. This applies in general, but particularly to biodiversity-related issues.
- Existing subsidies to unsustainable practices. In general, the existing fiscal framework, some of which is inherited from the former system, favours large-scale and intensive operators. A good example is the low cost of pesticides. This is a barrier to traditional, organic and small-scale operators.
- No understanding or trust of market-based instruments. Market-based instruments are little known and poorly understood. Some experiments have been made with labels, awards and certificates, but this remains a vast, unexploited potential.
- No knowledge of economic savings associated with environmentally clean behaviour. Environmentally clean behaviour can lead to economic savings, mostly by cutting bills for energy, water and waste disposal. However, this is poorly understood, and has not yet been adopted by the public or the private sector in the project area.

13. The Barriers to enforcing compliance in the Government administrative capacity are:

- Planning capacity not available. Existing capacity is still largely based on the former centrally controlled system, and unable to use modern tools such as incentives, public participation, etc. Technical capacity related to biodiversity is also very limited. This is especially true at the county and municipal levels.
- No mechanisms for co-ordinating actions across sectors. Each sector works in isolation, developing its own goals and own strategies. Hence, conflicts occur, and synergies are lost.

- Limited skills or culture of participatory planning and decision-making. In general, the level of public participation in decision-making and in the development processes is weak. This is partly due to a top-down culture inherited from the previous system; it is also due to a lack of interest from the public (also largely inherited from the previous system). Official policy is to change this situation, and this is also strongly supported by the EU. A growing number of active NGOs play an increasing role in increasing public participation, although most of these NGOs are weak in capacity.

14. The Awareness/understanding/knowledge barriers are:

- Low public awareness of biodiversity. The public has limited understanding of biodiversity and of its importance, or of its contribution to socio-economic development in the project area.
- High tolerance of illegal behaviour. This is a leftover from the pre-independence days, when disrespect of national laws and initiatives was often considered a healthy and necessary survival strategy. Hence, most people do not react to illegal behaviour in their vicinity unless they are directly affected. However, there are recent government initiatives to redress this situation.
- Low awareness by decision makers of biodiversity value. Biodiversity is poorly understood. Where it is understood, its contribution to the local socio-economy is even less understood. The benefits of conserving biodiversity are not understood. This is true at all levels, and in both public and private sectors.
- Low understanding of organic agriculture. Although most agriculture is low-input and low-intensity, the concept of organic agriculture is relatively new in the area. Hence, the marketing benefits are not well known or understood. The technical and institutional requirements of organic agriculture are not well known or understood. The benefits for the environment and biodiversity are not well known or understood.
- Low knowledge of alternative practices and technologies. Fishermen and farmers have little knowledge of the existence of alternative technologies, of how to use alternative technologies, and of the benefits (in terms of profit, marketing and biodiversity). Notably, the broad benefits of smart gears are not well known in Croatia.

15. In the baseline, ongoing forces and programmes will start to remove some, or most, of these barriers, although slowly, and with very little specific attention to biodiversity. The ongoing transition in Croatia, and the accession to the EU are two key drivers of these changes. For example, a series of fiscal reforms are envisaged, with support from the World Bank (WB) and International Monetary Fund (IMF). These should lead to increasing costs of agricultural inputs (e.g. pesticides) and reducing some perverse incentives. Also, strengthening environmental regulation and Environmental Impact Assessment (EIA) capacity will mean the environmental impacts of investments will be increasingly considered, although the specific impacts on biodiversity are unlikely to be considered for some time. Notably, there are no efforts to monetise the value of biodiversity, and so efforts to advocate biodiversity's importance to decision-makers will be limited. The strategy of the proposed project (see below) is to support and modify the existing forces and programmes, to hasten change and ensure that the change has a biodiversity focus.

16. Legal Barriers: During the PDF B, sectoral studies were undertaken related to agriculture, fisheries/mariculture, tourism, banking and Integrated Coastal Zone Management (ICZM). Each study included an assessment of the legal situation in the concerned sector. Each study led to a strategy for action and proposed activities in the sector. The subsequent consultative process confirmed that envisaged activities are in line with the legal situation at time of project preparation.

**Table 1. Summary of threats, immediate causes, required changes and barriers to change**

Threats (impacts on Biodiversity)	Immediate Causes from Economic Sectors <sup>3</sup>	Required changes to the sector	Barriers to making the required changes
Destruction and degradation of habitat and landscape	Tourism <ul style="list-style-type: none"> <li>• Small-scale buildings damage landscape</li> <li>• Small-scale buildings damage biodiversity habitats</li> <li>• Cruise ships, private yachts and passengers produce waste and damage habitats</li> <li>• High consumption of non-renewable resources and waste production by tourists</li> <li>• Misbehaviour by tourists</li> <li>• Consumption and waste by tourists in Protected Areas</li> </ul>	<ul style="list-style-type: none"> <li>• Clear policy and vision for tourism development</li> <li>• New small-scale buildings respect planning regulations</li> <li>• Illegal small-scale buildings destroyed at key sites</li> <li>• Ships, yachts and passengers use effective waste facilities</li> <li>• Consumption is sustainable, waste is collected and treated</li> <li>• Tourists behave sensibly towards biodiversity</li> <li>• Activities in Protected Areas are appropriately regulated</li> </ul>	<u>Data/information barriers</u> <ul style="list-style-type: none"> <li>• Data not available (e.g. on position of biodiversity, degree of risk, sustainable levels)</li> </ul> <u>Barriers in the private sector investment climate</u> <ul style="list-style-type: none"> <li>• Short-term planning horizon of private sector (notably informal tourism sector)</li> <li>• No knowledge or understanding in tourist sector of biodiversity-friendly activities or accommodation</li> </ul>
Over-harvesting of flora, fish and other marine species	Fisheries <ul style="list-style-type: none"> <li>• Catching of juvenile fish</li> <li>• Catching of endangered fish</li> <li>• Destruction of sea-beds and critical sea-habitats</li> </ul>	<ul style="list-style-type: none"> <li>• Breeding and nursery areas protected</li> <li>• Smart gear that respects small fish and endangered species is common</li> <li>• Fishing practices no longer damage critical habitats</li> </ul>	<ul style="list-style-type: none"> <li>• No trust in other operators – tragedy of the commons</li> <li>• Perceived low profitability of biodiversity-friendly investments</li> <li>• Funds not available to private sector (e.g. for investments in smart gears, shell-fish farms)</li> </ul>
Changes in species and eco-system structure (including Red-list species)	Mariculture <ul style="list-style-type: none"> <li>• Pollution from fish – especially tuna – farms</li> </ul>	<ul style="list-style-type: none"> <li>• Fish farms are well managed and located away from biodiversity areas</li> <li>• Expansion of biodiversity-friendly shell-fish farming</li> </ul>	<ul style="list-style-type: none"> <li>• Inadequate plans to guide activities</li> </ul>
Pollution	Agriculture <ul style="list-style-type: none"> <li>• Over-use of chemicals</li> <li>• Agricultural waste</li> <li>• Intensification leads to erosion and degradation of habitats</li> <li>• Modernisation leads to destruction of rubble walls, terraces and paths</li> <li>• Land is abandoned, it then degenerates and unique habitats are lost</li> </ul>	<ul style="list-style-type: none"> <li>• Expansion of profitable organic agriculture</li> <li>• Expansion of profitable traditional practices, and related preservation of rubble walls and paths</li> <li>• Abandoned land brought back into Biodiversity-friendly production</li> <li>• Intensive, modern farming is regulated and environmentally sustainable</li> </ul>	<ul style="list-style-type: none"> <li>• Market demand and consumer preferences</li> </ul> <u>Fiscal and financial barriers</u> <ul style="list-style-type: none"> <li>• Funds not available to government agencies (e.g. to inspect, to consult, to monitor)</li> <li>• Existing subsidies to unsustainable practices (e.g. pesticides)</li> </ul>

<sup>3</sup> **Important** note for clarification: In general, there is no one-to-one correspondence between immediate causes and threats (the first and second column). That is, many of the causes listed in this second column contribute to *each* of the four threats listed in left-hand column.

	Land-based sources of water pollution: <ul style="list-style-type: none"> <li>• industrial zones</li> <li>• urban areas</li> <li>• remote communities</li> </ul>	Waste-water treatment from Government and donor funded schemes, fully accounting for biodiversity impacts, and early investments focusing on biodiversity hotspots	<ul style="list-style-type: none"> <li>• No understanding or trust of market based instruments (e.g. labels, certificates)</li> <li>• No knowledge of economic savings associated with environmentally clean behaviour</li> </ul> <u>Barriers in Government administrative capacity</u> <ul style="list-style-type: none"> <li>• Planning capacity not available (eg at municipal and county levels)</li> <li>• No mechanisms for co-ordinating actions across sectors</li> <li>• Limited skills or culture of participatory planning and decision-making</li> </ul> <u>Awareness/understanding/knowledge</u> <ul style="list-style-type: none"> <li>• Low public awareness of value of biodiversity</li> <li>• High tolerance of illegal behaviour</li> <li>• Low awareness by decision-makers of biodiversity value</li> <li>• Low understanding of organic agriculture</li> <li>• Low knowledge of alternative practices and technologies (eg smart gear)</li> </ul>
		<b>Required changes to the forces that drive economic sectors<sup>4</sup></b>	
		Banks: <ul style="list-style-type: none"> <li>• Able to assess BD impacts of portfolio</li> <li>• Supporting increasing investments in BD conservation and sustainable use</li> </ul>	
		EU Accession <ul style="list-style-type: none"> <li>• Local communities take lead in planning use of Accession funds and meeting Accession obligations</li> <li>• Use of Accession funds clearly supports biodiversity conservation in project area</li> <li>• EU obligations regarding biodiversity are fully understood and implemented in the project area</li> </ul>	
		Integrated planning and management <ul style="list-style-type: none"> <li>• All planning is based on good data</li> <li>• Planning has clear impact on investments and developments</li> <li>• Economic sectoral (tourism, fisheries, agriculture, etc.) investments are mutually supportive and respective</li> </ul>	
		Protected Areas strengthened through government and donor-funded programmes and mutually supportive of economic sectors (fisheries, tourism and agriculture)	

<sup>4</sup> The following could also be considered 'unexploited opportunities'.

### 1.3. Institutional, sectoral and policy context

17. The production landscape in the project area consists of a series of inter-related and inter-dependent socio-economic activities and forces, as described in the following sections. Overall, the regulatory framework is well developed, yet capacity to enforce the regulations remains weak. Enforcement capacity will be strengthened in the baseline as Croatia moves to accede to the European Union. However, in the baseline, the potential to sustainably utilise biodiversity remains extremely under-utilised, as the incentive framework and required capacity are lacking.

#### **Tourism Sector<sup>5</sup>**

18. Situation and impact on biodiversity. Tourism is the most important economic sector in the project area. Nationally, tourism provides approximately 10.6% of GNP. It directly accounts for 13% of employment, and indirectly accounts for an additional 14.4%. The figures for the project area indicate that hotels and restaurants alone contribute 10.8% of GNP, and agencies and nautical tourism contribute a further 2.8%. The vast majority of tourists are attracted by the possibility of having a peaceful, relaxing experience and/or by the attractive coastline. Tourism levels declined sharply due to the 1990-1995 war, and have not yet recovered to pre-war levels. In the four project counties, total tourism overnight stays in 2003 were 12 million, up by 20% from 2002. Likewise, nautical tourism demand has a growing tendency. For example, in 2003, 582 cruise ships visited the coast, with 421,000 passengers. This was an increase of 86% from 2002. Tourism in the project area faces many challenges, including:

- a shortage of good quality hotels and a large number of semi-legal and illegal guest houses;
- the tourism package is limited, based on 'sun, sea and sand'. This does not respond to the more sophisticated demands of tourists in the competitive global environment of the 21<sup>st</sup> Century;
- low average expenditure by tourists, and low ratings by tourists in terms of 'value for money';
- high time and space concentration of tourists, with the vast majority visiting in July-August and visiting a limited number of coastal sites;
- incomplete privatisation of tourist enterprises, with many large enterprises still state-owned or semi state-owned; and
- high dependence on exploiting natural beauty, which is contradictory with the impact tourism can have on that natural beauty.

19. Tourism has had a negative impact on biodiversity in coastal areas and around islands. This is notably from mass tourism, but is increasingly from niche tourism such as yachts, Robinson tourism, and fishing/diving. The two most serious impacts of tourism on biodiversity are due to the construction (often illegal) of tourist facilities at biodiversity rich sites, and the heavy consumption by tourists of water, energy, food and the related production of polluting waste. Misbehaviour by tourists also directly causes habitat degradation, waste and in several cases large forest fires (especially on islands).

20. Tourism Management. At the national level, the principal government agency responsible for tourism is the Ministry of Sea, Transport, Tourism and Development (MSTTD). Responsible semi-governmental agencies include the Croatian Tourism Organisation (CTO) and the Croatian Chamber of Enterprises (CCE). Each of these agencies is represented at the county level, and county governments play a key role in managing tourism. The Institute for Tourism (IT) provides strong professional support. The Association of Small Hotel Owners (covering four counties) plays

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<sup>5</sup> A full analysis of the tourism situation at national and local levels was undertaken in the PDF B. This was complemented by a thorough review of related international experience and lessons. The findings of these three studies are summarised in the document: 'Tourism - Joint Summary Report', prepared by B. Vukonic, C. Evans, and L. Petric, Split, February 2005.

a growing role in supporting and representing small-scale private sector. In general, all the above agencies and associations focus on increasing profitability and regulation; they do not focus on the overall strategic development of the tourism sector in Croatia.

21. Policy. National policy on tourism is still being developed. In the past decade, a number of planning and policy documents have been prepared, but none have been formally adopted by the government or parliament. The only official document is the '*Strategy for Croatian Tourism Marketing, 2001-2005*', which calls for:

- establishing several strong priority destinations;
- diversifying the marketing strategy;
- stopping using 'low prices' as the marketing tool;
- developing geographical clusters of tourist products; and
- promoting Croatian tourism in new markets, e.g. in Eastern Europe.

22. Legislation. Legislation covering the tourism sector in Croatia is rather comprehensive, with four national Laws and one national Regulation specifically focusing on tourism. These are complemented by an extensive volume of bye-laws, regulations, codes and norms, all of which are mostly issued at the county level. Although none of these legislative instruments explicitly mentions biodiversity, protection of the environment is a clear and important objective. Enforcement of the legislative framework is weak, although the Ministry has recently announced an initiative to improve compliance through a strengthened inspectorate system. The focus is to protect tourists from sub-standard tourist operators.

23. Baseline. The present mode of tourism in Croatia is a direct result of the rapid economic transition in the early 1990s and the related, often unregulated privatisation process. Hence, in the baseline, tourism in Croatia continues to be characterised by a 'make-money-fast' mindset, with weak regard to regulations and long-term impacts. Small, medium and large-scale operators compete to make profits as quickly as possible, and invest as little as possible. This is exacerbated by the prevailing harsh economic situation, which puts pressure on regulators to allow operators to make as much profit as possible. Regulators have little capacity to regulate. For example, in the baseline it is envisaged to increase the number of marinas from 19 to 39, although it is known that the existing marinas are not well regulated or managed. In the baseline, Croatia will make efforts to improve the overall management of the tourism industry. This will focus on protecting tourists and on increasing the economic benefits from the tourist sector. However, baseline efforts will not adequately address conservation of biodiversity. Although biodiversity (more specifically, the landscape diversity) is the principal attraction and major tourism asset in the project area, tourist policy makers, planners and entrepreneurs have little concept of biodiversity or landscape diversity, or of its role in driving the economy<sup>6</sup>. In the baseline, tourism development continues to threaten the natural landscape and biodiversity on which it depends. In the baseline, opportunities for developing biodiversity-friendly tourism are not exploited. In the past, the construction of illegal housing for tourism was a major problem. However, a new law has been enacted, making it easier for the local governments to prevent new illegal constructions, and to destroy existing illegal constructions. These measures led to a drastic reduction of illegal building.

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<sup>6</sup> As mentioned previously, the term biodiversity includes 'landscape diversity'. Whereas biodiversity is important to the UNCBD and the international community, the component term 'landscape diversity' more accurately reflects the natural heritage that is the principal tourism asset in Croatia.

### Fisheries and mariculture sectors<sup>7</sup>

24. Situation and impact on biodiversity. Croatia accounts for nearly 9% of the total Mediterranean coastline. The people of Croatia have traditionally been oriented towards the sea, and fisheries have always played a role in the lives of the Croatian people. Fish-farming – mariculture, has grown in importance in recent decades. Presently, fisheries, mariculture and fish processing employ 4,500 registered persons – of which 2,000 are in the project area. There are a further 13,000 subsistence fishermen (of which 10,000 are in the project area) and 30,000 recreational fishermen<sup>8</sup>. Fisheries are particularly significant to island and coastal communities, and fisheries is an important element of national policy to stimulate development of these communities. Table 2 below provides basic information on the fishing and mariculture sectors in the project area.

**Table 2. Principal characteristics of fisheries/mariculture sector in the project area**

	Zadar County	Šibenik-Knin County	Split-Dalmatia County	Dubrovnik-Neretva County
No. fishermen (professionals/"small")	450 / 5,000	273 / 1,043	840 / 2,100	350 / 2,420
No. fishing vessels (total)	305	374	710	167
Mariculture production (2003):				
Sea bass and sea bream	1,300 t	100 t	600 t	300 t
Bluefin tuna	2,365 t	-	2,314 t	-
Mussels	< 50 t	500 t	< 100 t	2,000 t
Oysters	-	-	-	800,000 pcs

25. In terms of *fisheries*, the main features of Croatian marine fisheries are: the widespread presence of artisanal and subsistence fishery, which has great importance for the local socio-economy; the very old fishing fleet and old technology; and the high number of small polyvalent boats with licenses for different types of fishing gear. Fisheries in the project area is characterised as multi-gear and multi-species.

26. In terms of *mariculture*, the principal activities in the project area are:

- shell-fish culture (oysters - considered the best in the Mediterranean - and mussels);
- white fish culture (mainly sea-bass and sea-bream); and
- tuna farming (blue fin tuna), principally for export to Japan.

27. It is estimated that mariculture production could increase from the present 6,000 tonnes to 30,000 tonnes. However, the identification and selection of suitable coastal locations for fish farming is the critical factor for the technical, economic and ecological success of individual mariculture projects, and hence for the sector as a whole. This assessment needs to be based on a general understanding of the ecosystem and should include an assessment of the basic needs of the cultivated species and of the technical demands. Together, these determine: productivity, health quality criteria (HQC) and the safety of the installations and good project management.

28. The impact on biodiversity of the fishing and mariculture is varied and yet not fully understood. With regards to *fishing*, over-fishing is known to be a problem across the Mediterranean, and it is likely to be so in Dalmatia. Existing data indicates that:

<sup>7</sup> A full analysis of the fisheries and mariculture sector was undertaken in the PDF B. The findings of this study are summarised in the document: '*Analysis of Fisheries/Mariculture Sector and its Effects on Biodiversity within COAST Project Area (Extensive Summary)*', prepared by V. Ticina, Split, January 2005.

<sup>8</sup> These are the official figures for registered fishermen, actual figures are likely to be considerably higher.



- a large and increasing number of juvenile fish is being caught;
- the by-catch is significant and increasing. It includes both juveniles and important, non-commercial species;
- at least 11 species of IUCN Red listed fish are caught regularly;
- the level of illegal, unregulated and unreported fishing (IUU) is high and represents a threat to biodiversity and marine ecosystems;
- inappropriate fishing practices (dynamite, bottom trawling) are known to cause damage to habitats – including serious damage to important *Posidonia* sea beds;
- the average size of adult fish in catch is decreasing; and
- the effort required to catch fish is increasing.

29. With regards to *mariculture*, shell-fish farming is considered to be very biodiversity friendly. Shell-fish farming is profitable, it requires very high quality waters, and the market requires that the waters be regularly monitored. Hence, within sustainable limits, shell-fish farming is good for the economy and good for biodiversity – it acts to stop activities that could be harmful to biodiversity. Despite this, shell-fish farming is banned inside Protected Areas. On the other hand, tuna farming can have mixed impacts. High levels of inputs and outputs have been known to lead to serious pollution in the vicinity of such farms. Present levels of fish-farming suggest the impact on biodiversity is limited.

30. Management. The Department of Fisheries (DF) in the Ministry of Agriculture, Forestry and Waters Management (MAFWM) is responsible for managing fisheries (including mariculture). The basic fisheries regulation for marine fisheries is Marine Fisheries Act (1997), supplemented by numerous regulations on fishing licenses, commercial fishing and minimum landing sizes. These regulations cover commercial fisheries, sport and recreational fisheries and aquaculture. These regulations aim to protect marine ecosystems (and so biodiversity) from excessive fishing through technical measures, including minimum landing size regulations, mesh size regulation, seasonal catching regulations for some areas and the restrictive use of certain fishing gear.

31. Policy National policy in this sector includes:

- increasing the amount of pelagic fishing and decreasing demersal fishing. In general, pelagic fishing is less damaging to biodiversity than demersal fishing;
- promoting and regulating the use of smart fishing gears – with a clear positive impact on biodiversity;
- developing mariculture, with an emphasis on shell-fish mariculture, with potential positive impacts for biodiversity; and
- relocating tuna farms to areas over 50 m deep or over 300 m from coastline.

32. Baseline. In the baseline, all these policy initiatives, if implemented, could have a positive impact on biodiversity, if they respect sustainable limits. The baseline also includes a new initiative by DF to strengthen the inspection system (inspecting both fishermen and markets). It also includes implementation of a no-take zone that includes sea within 3 km of any coast. However, these policies and initiatives are being implemented for social and economic reasons. They do not focus on biodiversity and there is no guarantee that sustainable limits will be respected. In the baseline, opportunities to improve biodiversity conservation through these initiatives will be missed. Finally, the impacts of EU Accession and Croatia's ensuing commitment to the EU Common Fishery Policy (CFP) are uncertain. CFP presents risks and opportunities to the local stakeholders and ecosystems. Moreover, in the baseline: (i) IUU and catching of juveniles and threatened species, and general over-fishing will be only slowly reduced; and (ii) Opportunities for biodiversity-

friendly initiatives (e.g. expanding shell-fish farms near Protected Areas, or stimulating traditional fisheries and integration with tourism) will not be fully exploited.

### **Agriculture Sector<sup>9</sup>**

33. Situation and impact on biodiversity. Agriculture in the project area plays a smaller role in the economy. However, a large percentage of the land is allocated to agricultural use. Prior to independence, agriculture was mostly organised through large state-owned enterprises<sup>10</sup> and co-operatives. During the war, a great deal of the agricultural infrastructure was destroyed. Following the war, the land distribution process started, but this has proven to be complex, and land allocation is incomplete. These factors have contributed to a collapse in the overall agricultural sector. In the project area, approximately 70,000 households are involved in agriculture. The project area provides 84% of Croatia's olive production and 29% of Croatia's grapes. Presently, in the project area, agriculture is dominated by the private sector, including companies and individual agricultural households (IAH). In general, the latter use agriculture as a complement to other activities such as tourism. The concept of organic agriculture has only recently arrived, and is extremely limited in extent. Agriculture is currently characterised by the following:

- large areas of agricultural land have been abandoned or are otherwise out of production. Of the 112,000 hectares allocated to agriculture in the project area, 47,000 are estimated to be unused and out of production. This is due to the loss of agricultural markets, loss of state support, low profitability, urbanisation and complex land ownership process;
- land plot sizes are typically very small, often with multiple ownership of individual plots and no certificates;
- the depopulation of islands and ageing of all rural areas and agricultural communities;
- relatively high levels of traditional, low-input agriculture; and
- domination of small and medium enterprises (SME) and family enterprises. In addition, there are several small-scale NGOs and profit-oriented organisations interested in developing environmentally friendly and organic agriculture.

34. The structure of production reflects the traditional Dalmatian activities with grapes and vines, olives, poultry, beef, sheep and goats dominating. Bee-keeping and herb collection are important off-farm agricultural activities. In general, Croatia has an exceptionally large number of breeds and varieties, although few details are known for Dalmatia and there is little documenting of this important genetic biodiversity. Agricultural land in the project area has been cultivated since pre-Christian times by traditional, extensive and low-pressure agricultural practices. The agricultural land became very much a part of the ecosystem. Over the centuries, a very rich biodiversity and landscape diversity system developed, of high local, Mediterranean and global value (e.g. varieties of fruit, olives, and aromatic herbs, pyrethrum, broom, specific flora under olive plants, orchids, etc.). In addition, typical management practices such as rubble walls, hedges and stone heaps contributed to the flora and fauna diversity. This is further strengthened by many unique aspects of the agricultural landscape, including the natural paths, terraces, steep land plots, small plots and the very diverse mosaic of land-uses. In and amongst the agricultural land lie some pristine micro areas with relict forest species. Whereas these landscapes were once common across the northern Mediterranean, they are now very rare.

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<sup>9</sup> A full analysis of the agriculture sector was undertaken in the PDF B. The findings of this study are presented in the document: *'Multi Sectoral Analysis: Strategies and Actions to be Envisaged by the Full Project'*, prepared by M. Fredotovic, Split, January 2005.

<sup>10</sup> This applies to GNP. However, in terms of land area and employment, small-scale private sector has always played an important role.

35. Trends in the agricultural sector in the project area are presently having an overall negative impact on biodiversity. The most important factor is the large-scale, un-managed abandoning of agricultural land. This is directly causing the loss of unique agricultural landscape, as the land becomes overgrown or is used for urban development and tourism. Rubble walls, terraces and traditional hedges have been abandoned and are degrading. Many micro-pristine areas are degrading or being damaged. As a result, many unique or rare habitats are threatened. Other key factors leading to habitat degradation and loss are: land and water pollution from agro-chemicals and agricultural waste, air pollution from agriculture, and land erosion due to agricultural practices.

36. Management. The key national agencies involved in managing and supporting the agricultural sector are Ministry of Agriculture, Forestry and Waters Management (MAFWM) and Ministry of Sea, Transport, Tourism and Development (MSTTD). The Agriculture Advisory Board (AAB) plays a key role in supporting the private sector. Croatian Forests (CF), a state-owned production company, plays a key role in the management of the forestry sector and of much agricultural land. Croatian Waters are responsible for water resource management and pollution monitoring and abatement. Each of the above agencies is represented in the four project area counties.

37. Policy. The key policy documents are the *Law on Agriculture* (2001) and the *Agriculture Development Strategy* (2002). The principal implementation mechanism is the National Programme for Agriculture and Rural Areas, 2004-2007. Overall policy focuses on improving agricultural production and developing rural areas. This includes many policy objectives and measures related to natural resources management in the project area, including:

- developing the 'Croatian Origin' label;
- incentives to large-scale producers;
- bringing abandoned lands back into use;
- supporting the development of co-operatives;
- promoting key products such as olives and olive oil, fish, famous sorts of wine, cheese and honey;
- completing the privatisation process;
- conservation of biodiversity, landscape diversity and cultural heritage; and
- development of agro-tourism facilities.

38. For example, the government's stated objective is to expand vineyards (by 13,000 hs), olive groves (by 5,500 hs) and orchards (by 15,000 hs). The priority is to do this through small households, and the government provides important incentives towards these objectives. In the coming years, agricultural policy will be driven to a large extent by the EU Accession process. This may lead to an intensification of agriculture in some areas, although it does hold the possibility of supporting organic agriculture and environmentally-friendly rural activities in other areas. Croatian Forests has plans to rehabilitate abandoned agricultural land and reforest land, in support of Government plans to provide long-term land-use licenses to farmers for agriculture. Croatian Waters is implementing plans to improve water supply on islands and rural areas, which should support traditional agricultural production.

39. Baseline. In general, the baseline policy initiatives are positive for biodiversity. However, in the baseline, biodiversity benefits will be limited because of:

- very slow implementation of the incentive schemes to small households;
- the low understanding of biodiversity in the sector;
- inability to integrate agriculture development with tourism; and
- focus on short-term, socio-economic benefits.

40. Finally, the impacts of EU Accession and Croatia's ensuing commitment to the EU Common Agriculture Policy (CAP) are uncertain. CAP presents risks and opportunities to the local stakeholders and ecosystems. For example, CAP can encourage pesticide use, but it can also support organic farming. CAP can lead to bankruptcy for small agricultural enterprises and social breakdown, or it can provide incentives for rural regeneration, biodiversity conservation and valorising traditional livelihoods. In the baseline there is great uncertainty.

### **Biodiversity Management<sup>11</sup>**

41. Situation. The Nature Protection Act sets out the approach to protecting biodiversity. This Act is complemented by an array of Regulations addressing families of species or specific measures. A key tool for biodiversity conservation in the project area is the system of Protected Areas. The Act establishes nine categories of Protected Area in Croatia<sup>12</sup>, ranging from National Park (highest level of protection) to Strict Reserve (lowest level of protection). National Parks and Nature Parks are financed and managed by the national government, whereas all other Protected Areas are managed by county or municipal governments. County governments are obliged to establish Public Authorities for Protection Areas<sup>13</sup> to manage and supervise all sub-national level Protected Areas. In total, only 2.1% of land in the project area is a National or a Nature Park, but there is a large number of parks with lower levels of protection.

42. The Protected Area system is presently characterised by the following:

- unclear distribution of responsibilities and lack of co-ordination between national and local agencies;
- very low levels of finance compared to other countries in the region;
- many Protected Areas depend on tourism for revenue, and this conflicts with the need to protect the areas from damaging tourist activities;
- very inadequate coverage of *Marine* Protected Areas. This is a general problem across the Mediterranean, and it constitutes a serious challenge both to development of fisheries and to biodiversity conservation;
- conflicts with local communities;
- low integration into the local socio-economy, especially tourism and agricultural sectors. In fact, Protected Areas could become an integral component of tourism and agricultural development. This would generate finance for the Protected Areas, and would ensure they are supported by the local communities. Present practices and legislation do not allow this; and
- inadequate managerial and scientific capacities.

43. Baseline. Project being planned and implemented in the baseline will improve the system of Protected Areas. This includes the WB/GEF Karst project, the PHARE/Natura 2000 project and proposed projects to strengthen the Marine Protected Areas. In the baseline, little is being done to integrate Protected Areas with tourism and agriculture sectors.

### **Planning and Integrated Approaches to Management<sup>14</sup>**

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<sup>11</sup> An analysis of the Protected Area system was undertaken in the PDF B. The findings of this study are presented in the document '*Sectoral Study: Protected Areas: Final Report*', prepared by A. Frankic, Boston, USA, February 2005.

<sup>12</sup> The latest addition being 'marine Protected Areas'.

<sup>13</sup> In the four project counties, two have been established and two are being established.

<sup>14</sup> An analysis of existing integrated management and opportunities was undertaken in the PDF B. The findings of this study are summarised in the document: '*Coastal Policy and Management Framework: Integrating Landscape and Biodiversity into Economic Development –Joint Summary Report*', prepared by G. Berlangi, M. Maroevic, B. Shipman and I. Trumbic, Split, January 2005.

44. Spatial planning is very strong in Croatia and each county, municipality and island regularly prepares spatial plans. Nationally, this process is driven by the MEPPPC with support from the County Departments and Institutes of Spatial Planning. In general, the spatial planning has the following characteristics:

- a shortage of reliable economic, social and environmental data, especially regarding biodiversity;
- no effective mechanism to integrate biodiversity concerns;
- economic sectoral plans are prepared separately and they do not refer to the spatial plans. Hence, individual sectors develop in isolation from the spatial plans and from each other;
- a general reliance on command-and-control for enforcement;
- no effective mechanisms to enforce compliance with plans; and
- planning 'fatigue', notably planning is still associated with the former (pre-independence) economic system and is not well respected by public.

45. Integrated Coastal Zone Management (ICZM) is recognised as a potential tool for ensuring that all development activities are integrated at appropriate levels, and that economic, social and environmental concerns are given appropriate priorities. Recently, the *EU Recommendation on ICZM* required member countries to develop national strategies. In Croatia, at the national level, some initial efforts are underway to promote and set the foundations for the use of ICZM. These include:

- The Decree on the Regulation and Protection of Coastal and Marine Areas (2004);
- The upgrading of the Adriatic Office for the Sea and Coasts to a Department (under the MEPPPC) and related capacity building; and
- MEPPPC "Jadran coastal resources evaluation" project, to start by mid 2005.

46. However, based on experience in other countries, ICZM is unlikely to become an effective force at the national level for some time. At the local level, there are many exceptions. For example, Zadar county has developed a 'sustainable development plan' based on its spatial plan. Likewise, many islands, for example Vis, have prepared sustainable development plans. Notably, at the micro-level, the interaction between economic sectors, social needs, and the environment are unavoidable and all management is integrated. However, in most cases, the quality of this management is insufficient in light of increasing pressures and potential conflicts.

47. Croatia has EIA and SEA legislation, and capacity is being developed for its widespread operationalisation, including project and sector specific procedures and rules. At present, the EIA procedures do not specifically account for biodiversity, and capacity to implement EIA/SEA in the biodiversity rich project area is insufficient. Notably, the use of EIA to manage a large number of small-scale operators – as is the case in the project area – is challenging. Also, there is no capacity to integrate biodiversity concerns into waste water treatment projects.

48. Baseline. In the baseline, integrated planning is possible at the micro-level. Its implementation and its impact on sector development will vary from site to site. Capacity is limited. Biodiversity concerns will largely be absent from the planning process and from the EIA/SEA processes.

#### The EU Accession Process<sup>15</sup>

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<sup>15</sup> An analysis of the EU Accession process, challenges and opportunities was undertaken in the PDF B. The findings of this study are presented in the document: '*Review of EU Requirements and Croatian Policy in Biodiversity and Nature Protection Sector*', prepared by J. Kostelac Bjegovic, Zagreb, October 2004.

49. In July 2004, Croatia formally acquired the status of EU Candidate Country. As with the recently acceding countries, the Accession process is likely to be a driver of development in Croatia, and particularly to drive economic and legislative reforms. The negotiation process is expected to start by the end of 2005 or early in 2006<sup>16</sup>, with duration of perhaps 3-5 years; the main problems envisaged in the negotiation process are related to agriculture and environment issues. This process will also open many opportunities for Croatia.

50. Obligations. Environmental protection and biodiversity conservation are important aspects of EU policy, and accession countries are obliged to implement related policies. Hence, Croatia will be expected to implement:

- The Water Directive, leading to improvements and protection of water quality, including coastal waters;
- The Bathing Waters Directive, applying stringent requirements for tourist areas;
- The Directive on Access to Port Facilities, assuring ports provide services, in return for payments;
- The Birds Directive, to protect habitats important to birds; and
- The Habitat Directive, including the protection of important habitats.

51. Baseline. In the baseline, Croatia will ensure that the above are fully reflected in national policy and legislation. However, experience from recently acceding countries suggests that the pressure for economic development, lack of capacity, and the lack of focus on biodiversity conservation (particularly biodiversity that lies outside of Protected Areas) mean that the EU Accession will not lead to conservation of biodiversity in the project area. As in other acceding countries, the trend towards agricultural intensification may have adverse impacts on the environment and on biodiversity.

52. Opportunities. In order to meet these obligations, as a candidate country, Croatia is eligible for considerable technical and financial assistance from the EU. These are notably through the ISPA, PHARE and SAPARD programmes<sup>17</sup>. Notably, the SAPARD programme is designed to support environmentally-friendly rural development. As discussed above, the CFP and CAP also present opportunities. The EU Accession process focuses much supports to '*regions*'. As a precondition for much support, each region should prepare development plans for EU support, to be submitted to the EU through the national government and in line with national development programmes. The regions in Croatia respect the county boundaries. All four project counties have recently prepared Regional Operational Programmes (ROPs) - two with support from UNDP.

53. Baseline In the baseline, limited capacity may mean that these opportunities are not exploited in a manner that fully responds to local concerns or to biodiversity needs. For example, in the baseline, due to uncompleted/outdated information and lack of interpretation, the ROPs do not pay adequate attention to conserving and sustainably using biodiversity. The project area has a unique blend of environmental and cultural heritage, and these are the principal assets for tourism, the area's most important economic sector. Clearly, in the baseline, there is a unique opportunity to place this heritage (including biodiversity) at the heart of the Accession process for the area. However, in the baseline, lack of capacity and the pressure to implement programmes will mean that development follows a more standard path of economic development accompanied by environmental decline.

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<sup>16</sup> Update: EU entered into membership talks with Croatia in October 2005.

<sup>17</sup> Note that, as of 2006-2007, these shall be merged into the single IPA pre-accession programme.

## **Financial and Banking Sector<sup>18</sup>**

54. Situation. The banking sector is the major source of finance in Croatia (90% of all finance is available through banks). As with other sectors, the banking sector is changing. There are presently 13 private banks in the project area, mostly medium sized, all are majority-owned by international banks. In addition, the government-owned Croatian Bank for Reconstruction and Development (HBOR) is an important player, partly because it channels government credit through private banks, and partly because it can establish new procedures and practices. In general, the private banks are unaware of environmental issues and unable to assess investment risks associated with environmental impacts. At present, applications for bank loans do not require an assessment of environmental impacts. The possibility of environmental sanctions on an investment that does not meet environmental standards is considered too low for bankers to refuse loans to such investments. However, most bank staff are in general in favour of protecting the environment, and most recognise the long-term importance to development in the region of conserving biodiversity. Furthermore, some high-level bank staff recognise the potential niche of 'green' banking and the possibility to strengthen their overall image by being associated with green investments. In general, banks are keen to loan to biodiversity-friendly investments, if the risks and transaction costs are similar to standard investments.

55. The government has several fiscal tools to support social policy, often through HBOR, for example by:

- providing Partial Risk Guarantees to loans from private banks in preferential sectors; and
- providing Preferential Loans (mostly through private banks) to important social sectors, e.g. to island development, olive and wine production, to entrepreneurs looking to start up small business, to bringing abandoned lands back into production. Environmental protection was recently made a cross-cutting policy objective of HBOR-managed policy loans.

56. Baseline. In the baseline, these tools are considered administratively complex and inaccessible to many small-scale private sector operators. In the baseline, these tools do not focus on biodiversity, although there will be an increasing understanding and recognition of environment and environmental risk (notably through a pipeline UNDP project to support HBOR). The project area has the potential to provide quality livelihoods and reasonable profits through a large number of pro-biodiversity investments. This would mostly be through micro, small and medium-sized enterprises (MSME). However, in the baseline, such investments are unlikely to obtain the necessary credit from banks, due to:

- Low understanding by banks;
- Low capacity in the MSME;
- Low overall knowledge and information on biodiversity; and
- High competition from unregulated, semi-illegal, traditional (biodiversity-unfriendly) investments.

## **Water Pollution<sup>19</sup>**

57. The most significant source of water pollution in the project area is the inputs from rivers flowing into the sea. Other important sources include cities and small towns, industrial zones, dispersed tourist resorts, agriculture, fish farms and shipping. Despite these sources of pollution, in

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<sup>18</sup> An analysis of the banking and financial sectors was undertaken in the PDF B. The findings of this study are summarised in the document: '*COAST: Role of banks and other external financial support, Summary*', prepared by A. Bjelica and V. Sonje, Split-Zagreb, February 2005.

<sup>19</sup> An analysis of water pollution was undertaken in the PDF B. The findings of this study are presented in the document: '*COAST: Anthropogenic inputs, ecological state and impacts on biodiversity in the marine environment*', prepared by G. Kuspilic, Split, March 2005.

general, the quality of water across the project area remains good. However (see Map 6 in [Annex 6](#)), a number of spots that are highly vulnerable to increased pollution have been identified. In most cases, these pollution hotspots correspond to areas important for biodiversity. Present trends, in the absence of pollution abatement measures, would result in a gradual increase of pollution. In the baseline, in order to meet EU Directives, the government is investing in major waste-water treatment projects. These projects are implemented by Croatian Waters, with support from the World Bank and European Bank for Reconstruction and Development (EBRD). These projects initially focused on large waste-water treatment systems for large urban areas and industrial zones. Croatian Waters is now expanding operations to cover small-scale treatment of waste-waters, including rural coastal areas and small islands. This includes many of the areas identified as vulnerable to pollution in Map 6. Without these investments, marine biodiversity in the project area would be seriously degraded. However, in general, these investments will maintain or improve water quality across the project area. In the baseline, these investments do not account specifically for biodiversity concerns.

#### **1.4. Stakeholder Analysis**

58. Role of stakeholders in project development. The project development process was implemented applying a wide participatory approach. At the PDF B outset, an extensive list of 280 potential stakeholders was prepared, followed by a Stakeholders Analysis<sup>20</sup>. The Analysis included: (i) identification of key stakeholders (about 120 at national level, in the four counties and in the four demonstration landscapes, various economic sectors, private business, co-operatives, the scientific community, media and individuals); (ii) definition of the interaction level and intensity as well as of tools and methods to be applied for each stakeholder group; (iii) analysis of expected stakeholders impact, role and attitude; and the stakeholders' management strategy.

59. Among risks and barriers identified, the following ones should be mentioned: (i) distrust due to novelty of the approach, poor and/or incomplete information; (ii) lack of experience and/or negative experience with previous projects; (iii) resistance due to possible project impacts versus uncertain expected benefits; (iv) top-down, academic or otherwise inappropriate approach by the project management and or experts (guidelines on interactive participatory programme (IPP) and approaches were prepared and reference documents provided to experts; and (v) poor or late identification of stakeholders/users conflicts.

60. The involvement of stakeholders was secured through 7 thematic and sectoral workshops and consultative meetings (each attended by 35-50 participants). In addition, the project management implemented 20 group meetings/consultations across counties and at the demonstration landscapes. More than 80 meetings and individual consultations were held by sectoral and thematic project experts. Questionnaires on selected issues were distributed (about 100 addressees, response rate of 65%). All key national level stakeholder institutions were consulted, their representatives attended workshops and appropriate meetings. An Advisory Working Group was established in the project area and individual consultations made with members. Promotional booklets, cards and maps were prepared by the UNDP CO and widely distributed. A very positive and continuous media coverage was secured with a dozen of large interviews published, in particular, through regional newspapers, radio and TV. Finally, about 60 interventions in writing were received by private individuals, co-operatives, municipalities and local institutions, presenting proposals, programmes planned, interest for participation. In-depth information about the entire process is recorded in the respective Reports, Minutes, Consultation, Summaries. Inputs, proposals and objections provided by

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<sup>20</sup> The findings of this analysis are presented in the document: '*Stakeholders Analysis*', prepared by A. Pavasovic, Split, August 2004.



stakeholders were carefully analysed, discussed with proponents and taken into account, firstly by respective project experts, secondly by the project management and finally through consultations with counties and at national level.

61. In summary, the project design has benefited from a rich and extensive stakeholders contribution and support. Wide opportunities for stakeholders participation in Full Project (FP) were identified and incorporated in the project design, in order to provide a sustained support, interest for involvement and impetus created through PDF B.

#### Role of stakeholders in future project development and implementation

62. Building on the results and experience from PDF B, the FP participatory approach is conceived as a transversal project component, an intrinsic part of Outcomes 1- 4, to be implemented thorough an Interactive Participatory Programme (IPP). Interaction levels would include information, consultation, interactive participation and partnership; tools include: information tools; *ad-hoc* groups (focus groups in each demo area); steering meetings, consultative and operational meetings (PSC, harmonisation/integration meetings, on-site, field visits and meetings), training; promotion and awareness raising tools; and direct/participatory implementation of some project activities. Full details are provided in the Stakeholder Participation Plan in [Annex 4](#). For example, the following activities will be implemented in a participatory way: Tourism Destination Area Management Plans, tourism CCA, biodiversity-friendly expansion of organic and traditional agriculture and of fish and shell-fish farming, use of fishing smart gears and the respect of no-take zones, and finally the design and implementation of county awareness raising programmes.

63. A vast number of stakeholders are involved in the tourism, agriculture and fishing sectors on the Dalmatian coast, including large and small private sector operators, banks, government agencies, associations and NGOs. All these stakeholders are critical to mainstreaming biodiversity and so are critical to the project success. The project preparatory phase has built effective partnerships with many of these stakeholders, and they are now committed to supporting the project objectives, mostly by co-financing the project activities. Many stakeholders have agreed to modify or adapt their planned activities in order to improve the impact on biodiversity. This includes several national government agencies, national state-owned enterprises, local governments, small- and medium-sized private sector, associations, households and NGOs. The level and diversity of sources of co-financing and the large number of commitment letters testify to this.

64. Continual partnership building is a key strategy to achieving project objectives. Through this process, initiated during the PDF B stage, partnerships are built within sectors, across sectors, within government departments, between government departments and non-government agencies (including private sector), and between government and local communities. For example, during the PDF B, at each demonstration landscape, an initial multi-sectoral group of committed stakeholders was assembled. These will form the initial focus groups at each site. These groups will evolve and expand as the project evolves. Through the project, this group will develop a common vision for a sustainable economic development of their area that fully respects and appreciates biodiversity. This multi-sectoral group will also ensure that project activities at the local level are cross-cutting, and will ensure a good exchange across sectoral actors. A key tool for ensuring a broad participation is the CBRRF. This will ensure that the project finances and support mechanisms are available to a large number of people.

### 1.5. Baseline analysis

65. In the baseline, the production landscape in the project area consists of a series of inter-related and inter-dependent socio-economic activities and forces. Overall, the policy and regulatory framework is well developed, yet capacity to enforce the regulations remains weak. Enforcement capacity will be strengthened during the baseline as Croatia moves to accede to the EU. However, even in the baseline, it will not be a priority to develop capacity to implement biodiversity-related regulations. Moreover, the potential to sustainably utilise biodiversity resources will be extremely under-exploited, as the incentive framework and required capacity are lacking.

66. In the baseline:

- Tourism in Croatia continues to be characterised by a ‘make-money-fast’ mindset with little regard to regulations and long-term impacts. Regulators have little capacity to regulate. Tourist policy makers, planners and entrepreneurs have little concept of biodiversity or landscape diversity or of its role as an economic asset. As a consequence, developments in tourism continue to threaten the very natural landscape and biodiversity on which tourism depends;
- In fishing, baseline initiatives to strengthen the inspection system and the system of no-take zones will take place. However, the focus is on social and economic objectives, and not on biodiversity. There is no guarantee that sustainable fishing limits will be respected. Likewise, opportunities to improve biodiversity conservation through these inspections will be missed. Illegal, unregulated and unreported fishing will continue and legal over-fishing will continue. Fish-farming and shell-fish farming, which if well managed, can yield both biodiversity and economic benefits will develop only slowly, and the biodiversity benefits are unlikely to be fully realised. Biodiversity-related opportunities and risks under the EU Common Fishery Policy will not be well managed;
- In agriculture, in general, most baseline policy initiatives are positive for biodiversity. However, the actual biodiversity benefits will be limited because of the very slow implementation rate of the incentive schemes, the low understanding of biodiversity in the sector and the inability to integrate agricultural development with tourism development. Biodiversity-related opportunities and risks under the EU Common Agriculture Policy will not be well managed;
- In the baseline, the micro, small and medium-sized sector is very dynamic in the project area. They could make many investments that would lead to quality livelihoods, reasonable profits and be biodiversity-friendly. However, in the baseline, such investments are unlikely to be made. This is partly due to low awareness and lack of biodiversity-related information. However, the key reason is the difficulty small enterprises face in obtaining credit from banks<sup>21</sup> for biodiversity investment. This is due to the low understanding by the banks and the low capacity in the enterprises to obtain loans. Banks are not environmentally aware, and environmental risk is not a factor in their loan approval process. Another key factor is the stiff competition from unregulated, semi-illegal and legal but biodiversity-unfriendly investments;
- In the baseline, the EU Accession process creates opportunities. However, stakeholders along the coast are unable to benefit optimally from these opportunities. Moreover, experience from recently acceding countries suggests that the pressure for economic development, the lack of capacity and the imprecise nature of environmental obligations, mean that biodiversity is not always conserved through this process, especially when it lies outside of Protected Areas;
- In the baseline, integrated approaches to planning and management are limited in scope. The sectoral approach dominates. EIA and other environmental tools still do not address adequately

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<sup>21</sup> In the area, almost all capital for new investments comes from local branches of big national banks.

biodiversity. Although there are many large-scale water pollution control projects (in line with the EU Accession process), they do not focus on biodiversity hotspots.

## **Part II.Strategy**

### **2.1. Project rationale and policy conformity**

#### GEF policy conformity

67. This project is fully in line with GEF Operational Programme No. 2 (OP 2): ‘Coastal, Marine and Freshwater Ecosystems’. In line with OP 2, this project promotes the conservation and sustainable use of biological diversity and marine resources under threat. It contributes to several of the Project Outputs identified in OP 2 (e.g. removing threats from surrounding productive landscapes) and it supports many of the conservation/sustainable use activities recommended under OP 2 (e.g. integrating biodiversity objectives with sustainable use objectives). The project will also have a positive impact on forest, mountain and agricultural biodiversity, i.e. supporting OPs 3, 4 and 13.

68. This project is fully in line with GEF Biodiversity Strategic Priority No. 2 (SP 2): ‘Mainstreaming Biodiversity in Production Landscapes and Sectors’. The project will directly contribute to the SP 2 objective of integrating biodiversity conservation within tourism, agriculture and fisheries/mariculture production systems. Specifically, support will be given to developing partnerships, to developing market incentives and to modifying the banking sector. The project has been designed in line with the Guidance and decisions provided to the financial mechanism by the Conference of the Parties to the Convention on Biological Diversity.

#### Project rationale

69. Past economic decline and transition, and the collapse of management systems, have meant that the impacts on biodiversity of the tourism, fisheries and agriculture sectors since independence are generally negative. In the baseline, the unregulated tourism sector will continue to have a negative impact on biodiversity, mostly through habitat destruction and the unsustainable consumption of water, energy and increasing waste generation. In the fisheries sector, over-fishing will continue to deplete stocks, and harmful practices will destroy habitats and ecosystems. Fish-farming will be increasingly polluting. In the agricultural sector, increasing amounts of land will be abandoned. Hence, many unique habitats will be lost forever, and the biodiversity rich areas will become increasingly fragmented.

70. In the baseline, the main driving forces will be short-term economic development and EU Accession process. In the baseline, these forces do not adequately account for biodiversity, or the role biodiversity plays in the local economy. In the baseline, capacity to ensure compliance with regulations remains weak – especially with regards to biodiversity conservation. In the baseline, the system of incentives for biodiversity-friendly investments is almost non-existent.

71. In the alternative, the barriers to changing approaches in the tourism, agriculture, fisheries and water treatment sectors will be removed or substantially lessened. In addition, barriers to changes in the banking, planning, Protected Area management and EU Accession process will be removed or substantially lessened. This will have two effects: (i) complement ongoing efforts to enforce regulations by ensuring compliance with *biodiversity*-related regulations and (ii) develop an incentive framework and capacity that will stimulate the biodiversity-friendly sub-sectors of the tourism, fisheries and agriculture industries. In the alternative, once the barriers have been removed, the economic sectors will evolve to both account for and contribute to biodiversity conservation. A new approach to development across the project area will gather momentum, one

in which economic considerations are fully complemented by environmental considerations, one in which the contribution biodiversity makes to development in the area is recognised, and one in which biodiversity is conserved. The project will also support the development of a new vision for coastal development at all levels.

72. In the alternative, a new brand of Tourism will be developing. Increasingly, tourism will fully respect and account for the environment, biodiversity and landscape on which it depends. Tourist operators and tourists will be increasingly aware of these natural values, and will be acting in ways to conserve and improve these values. The tourism sector will be prospering, with an increased numbers of high-end tourists. A more sophisticated tourism *destination* will have been established, with diverse activities also spread out in both temporal and spatial terms. Tourism will be linked to traditional agricultural and fishery activities. Small-scale tourist entrepreneurs will be increasingly integrated into the formal economy, and compliance with national regulations and standards will have increased.

73. Agriculture will also be prospering and will be complementing tourism. The percentage contribution to production from organic, traditional, environmentally-friendly and biodiversity-friendly agriculture will have increased. The area of abandoned agricultural land will have decreased significantly. An increasing number of biodiversity-friendly agricultural products will be produced, and will be competing on local and international markets. Small-scale operators will be increasingly able to compete with large-scale intensive operators. Regulations, standards and labels will be increasingly respected and complied with.

74. In the Fisheries sector, fishing will be within determined, sustainable limits and practices will not harvest juveniles or non-commercial species. Smart fishing gears will predominate. Fishing practices that damage habitats and ecosystems will be disappearing. Shell-fish farming will have greatly increased in scale, and will be contributing more to the local economy – and this will be contributing to habitat protection. Fish farms will be operating sustainably and will not be contributing pollution. In some cases, fishing and mariculture will contribute to the tourism destination. Compliance with regulations will have increased.

75. The Protected Areas in the project area will be enabled to exploit the revenue opportunities offered by tourism, agriculture and fisheries, whilst ensuring biodiversity is conserved. Measures to increase the coverage of Marine Protected Areas, vital for fisheries stocks and biodiversity, will be underway. Concerning the EU Accession process, the project will contribute with successful examples of mainstreaming biodiversity conservation and sustainable use into development. Key government departments and private sector stakeholders in the project area will have been enabled to exploit the Accession process, in a biodiversity-friendly manner. This will include local ability to appreciate and manage the CAP and CFP.

76. The links between integrated planning and development will have been strengthened, and development planning will systematically account for biodiversity conservation. Increasingly, investments will be compliant with development and spatial plans. In the alternative, Croatian Waters will be able to ensure its water treatment facilities adequately address marine biodiversity concerns. Finally, changes initiated in the banking and finance sectors will ensure that banks and government credits are able to support biodiversity-friendly, profitable investments.

## **2.2. Project goal, outcomes, outputs and activities**

77. The Overall Goal of the project is to ensure that the development path of the Croatian coast is environmentally friendly, with the conservation of biological diversity firmly mainstreamed into that development path.

78. The Project Objective is to effectively transform the actions, practices and approaches of private operators in the tourism, agriculture and fisheries sectors in the four coastal counties, in part by influencing the banking sector, and thereby to mainstream biodiversity conservation into these sectors.

79. The Project Strategy is to remove existing barriers to positive transformation. This will have the effect of initiating the required changes in the tourism, agriculture and fisheries sectors, influencing market demand and private sector behaviour. These barriers will be removed through a series of interventions focussing on both improving the investment climate and strengthening the capacity of the regulators. In general, these interventions target the four counties – that is the level where change is most needed. However, in order to achieve that change, many activities will actually take place at small sites - in order to demonstrate barrier removal and change. Finally, important activities will take place at the national level (when national policy or legislative support is necessary).

80. The project has several innovative and demonstrative aspects. Each of these aspects is designed, in part, to ensure sustainability of the project impact. These innovative aspects include: (i) demonstrating barrier removal and change; (ii) modifying the banking and loans sector to ensure financial sustainability; (iii) using secondees to mainstream biodiversity into the work-programmes of key organisations, to generate ownership and to ensure institutional sustainability; (iv) directly catalysing pro-biodiversity initiatives by local stakeholders; (v) comprehensive partnership building and exploiting a participatory approach; and (vi) targeting the EU Accession process.

81. Demonstration. All barriers are site and stakeholder specific. The PDF B phase determined the details of these barriers, and assessed optimal ways to remove them. Based on this analysis, a major focus of the project strategy is to demonstrate how removing barriers leads to changed practices in the private sector. This demonstration is to be undertaken with identified partners at four demonstration landscapes in the project area. This includes demonstrating that the resulting biodiversity-friendly development has positive impacts, in both economic and environmental terms. Based on the demonstration successes, the project will disseminate the improved practices and institutionalise the project approach. Most project activities will be linked to these demonstration projects. Demonstration on the ground will increase local commitment to the project approach, and facilitate broader uptake and sustainability.

82. Banking sector. The micro, small and medium-sized enterprises (MSME) are important stakeholders across the Dalmatian coast. The analysis under the PDF determined that an optimal way to influence the MSME is through the capital supply (notably from banks, but also from public sector credit schemes). Likewise, important bank stakeholders are keen to co-operate in the project. Hence, the banking sector is seen as a key entry point for biodiversity mainstreaming. Transforming the banking sector will ensure financial sustainability of the project approach.

83. Seconding. A key mainstreaming strategy is to permanently ‘embed’ biodiversity into the working practices of government and semi-government agencies, through the financing of seconded staff. Through this process, the project will identify qualified and capable personnel (from the free market) and finance their position inside national or local government or state agencies. The project will also provide essential training to these secondees, most likely on managerial subjects such as communication, monitoring and participation. This is in response to

requests from these agencies<sup>22</sup> during the project preparatory stage. [Annex 3](#) provides an Outline Terms of Reference for Seconded staff to key ministries, national and county level institutions.

84. In practice, many of the activities described in the following sections and listed in the [Logical Framework](#) will be undertaken or co-ordinated by these seconded staff members. This will ensure that the project activities are driven from within the concerned agency, that they will be *owned* by that agency, and that the results of the activities will be directly mainstreamed into the host agency's working practices.

85. Catalysing pro-biodiversity initiatives by local stakeholders. During project preparation, a large number of stakeholders have requested financial support from the project to modify their working practices in order to have an improved impact on biodiversity. These stakeholders include families, NGOs, associations and MSMEs. In some cases, this financial support is either to lower risks, bring in new technology, or get access to training and technical assistance. In some cases, the proposals are to raise awareness of key target groups or support education. Supporting these proposals can demonstrate new practices and demonstrate barrier removal. Supporting a large number of small operators will develop momentum for change across the project area. In some cases, these proposals are suitable for loans. For such cases, the project will facilitate credit/loans to the credit worthy enterprises. In cases where the risk is higher than banks are willing accept, the project will support partial risk guarantees, to lower the bank's risk and motivate them to approve the credit.

86. In cases where loans are not appropriate, these projects may be supported through the project COAST Biodiversity Rapid Response Facility (CBRRF). Public sector, NGOs, schools and private sector (micro and small-sized only) and others will be eligible for small grants from the CBRRF. The CBRRF is initially jointly funded by GEF and Croatian Government, with substantial contributions from successful grant applicants. If successful, it is expected that the Croatian Government will sustain the CBRRF after GEF support finishes.

87. The CBRRF will be transparent and competitive. Support from this Programme will: (i) build working partnerships with many small-scale partners, among partners, and between government and non-governmental sector; (ii) mobilise co-financing to the project objectives; (iii) ensure project activities are demand-driven and fit into existing business plans and working practices; (iv) stimulate creativity, rather than have the Project Team design everything; (v) increase competition and so ensure best use of limited GEF funds; (vi) broaden support for project objectives; and (vii) demonstrate how small modifications to practices can have positive biodiversity impacts whilst supporting economic development.

88. In line with Croatian Law and UNDP policies, no individual private sector enterprise will be able to develop a competitive advantage due to CBRRF support. Moreover, GEF support will focus on the additional costs of mainstreaming biodiversity into existing practices. Whereas private business will be eligible for grants, *GEF contribution to the grants will not be allocated to any activity that leads to profit or to an economic benefit for an individual business or enterprise*. See [Annex 9](#) for details of this COAST Biodiversity Rapid Response Facility.

89. Partnership building is also a key strategy to achieving project objectives. This process, initiated during the PDF B stage, builds partnerships within sectors, across sectors, within government departments, between government departments and non-government agencies

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<sup>22</sup> This includes planning departments, tourism departments and associations, fishing departments, agriculture departments, HBOR national office, and banks. Most have already formally agreed to this approach. Negotiations with others are on-going and will continue after project start-up.

(including private sector), and between government and local communities. The project will notably foster the development of focus groups, through which the various stakeholders can gather and collectively determine solutions to challenges. Building on achievements under the PDF B, this process creates a broad commitment to the project objectives, and is essential to ensuring the sustainability of the project approach. The CBRRF is a key component to this.

90. Targeting the EU Accession process. Building on the lessons of the 10 countries that recently acceded to the EU, this project will take steps to build local capacity to optimally exploit opportunities under the EU Accession process, with the focus clearly on biodiversity conservation. This will include training, data/information collection, and providing support to the development of project, programmes and plans. These activities will be integrated across the project, mostly by working at the local level in project development and at the county level in developing plans and local regulations. Furthermore, by mainstreaming biodiversity conservation and sustainable use into development the project will provide examples, and upgrade related capacities. By contributing thus to the EU Accession process, the project will demonstrate to national decision-makers that conserving biodiversity is feasible and firmly in line with national development objectives. In turn, this will gain high-level and EU support for biodiversity conservation, and ensure that biodiversity conservation remains a priority after the project has finished.

91. Land-use planning. The project activities will be firmly anchored in the existing land-use planning system. The project will work with and through planning agencies at local and national level, and will second an expert to each of the four concerned County Department for planning. This will ensure that all the demonstration, regulations and capacity building promoted by the project are fully in line with the ongoing process to strengthen land-use planning, and that they are driven, in-part, by the planning agencies. In addition, the project will provide direct support to planning tools (e.g. EIA of waste water treatment, integrating biodiversity into EIA) and to planning initiatives (e.g. Destination Area Tourism Management Plan - DATMP and integrated resources management at local level). The project will ensure that any illegal building in the demonstration landscapes is adequately addressed, in line with the DATMP. Overall, this will strengthen the linkages between biodiversity conservation and planning, and will ensure planning tools are more effective in biodiversity conservation.

92. It is noted that the legal situation is evolving, mostly in line with approximation to EU legislation and as a pre-cursor to the Accession process. Hence, during project implementation, the project will respond to changes and opportunities in the legal section. The project network, with stakeholders and Focal Points in each sector, ensures that it can adapt to the evolving legal framework. However, in most cases, the challenge is related to *compliance* with and *enforcement* of existing legislation. Compliance is currently a weakness in Croatia and is likely to be so for some time. For this reason, the project will speed up and strengthen capacity to enforce/comply with biodiversity-related legislation, and with the biodiversity aspects of other legislation.

93. Finally, the project strategy is to support transformation across sectors and agencies, and across broad groups of stakeholders. Such transformation will lead to changes in policy, regulations, incentives, the adoption and implementation of integrated approaches, and changes in approaches to management by diverse stakeholders. Typically, such a transformation process takes a long time and can only happen if the local people and government are committed to change. Internationally supported projects cannot achieve such results alone. The PDF B studies showed that this local and national support is present, but latent. Hence, the GEF funds will work to unleash the local commitment. The seven-year length of the project, longer than most internationally supported projects, is also in response to this need for a lengthy, thorough process to achieve change. The

ongoing EU Accession process has also facilitated the way for innovative, transformational processes.

94. Project activities are focussed into three inter-linked levels. The project will demonstrate barrier removal at the local level; it will use the demonstration results to transform productive sectors across the four counties (using both market-driven and regulatory approaches); and, it will strengthen the national-level enabling environment.

95. At the *demonstration* landscape level, the project will demonstrate the mainstreaming of biodiversity conservation into small productive landscapes. The project will demonstrate how to remove barriers, and the value of barrier removal. The findings from this demonstration will feed into the capacity development and sector reform activities at county and national levels. Many demonstration activities will require loans – these will be facilitated by project actions at the county level (see below). Likewise, to be a success, demonstration activities will require increased compliance with regulations taking into account actual plans– and this will be facilitated by project actions at the county level (see below).

96. At the *county* level, the project will have two components. The first is to greatly improve the investment climate for biodiversity-friendly, profitable enterprises. This will lead to a strong growth in private sector investments into biodiversity-friendly products. This mostly involves increasing both the *demand* for and the *supply* of effective loans to such investments. The focus is on the tourism sector, but also involves the agriculture and fisheries/mariculture, notably shell-fish farming, sector. The second *county* level component is to increase the compliance by all enterprises to existing regulations related to biodiversity. This will directly decrease existing threats to biodiversity. The project is to increase compliance by strengthening enforcement capacity, mobilising public pressure, and, to a lesser extent, developing economic incentives. At the *national level*, the project will modify the existing enabling environment and ensure it is more favourable towards biodiversity-friendly development. National level project activities will also be dedicated to ensuring the replication, dissemination and uptake of project success across broader areas.

97. The project aims to mainstream sustainable biodiversity use into key development activities in the project area. These development activities are in the agriculture, fisheries and tourism sector. Most of the concerned activities are small and micro-scale, many undertaken by family units. Hence, the project must address each of these sectors, and influence each of these many small-scale activities. A complex set of measures within a strategic package is therefore required.

98. Project Activities under **Outcome 1** will demonstrate good practices and produce lessons learned across one demonstration landscape in each of the four participating countries. Building on this, **Outcomes 2 and 3** aim to stimulate stakeholders across the four counties to uptake the practices from Outcome 1. Under **Outcome 2**, Activities will work with banks to ensure that investment capital is flowing to biodiversity-friendly investments. Under **Outcome 3**, Activities will ensure that government agencies are able to enforce compliance with biodiversity-friendly regulations, and help upgrade biodiversity aspects of planning capacity. Finally, under **Outcome 4**, the project will institutionalise the project’s findings into national policies and practices, and will create the mechanisms to further disseminate the project findings.

**Outcome 1: Biodiversity-friendly development is demonstrated in four small but globally important productive landscapes<sup>23</sup>.**

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<sup>23</sup> Details of the activities and partners at each site are provided in Annex 7.



Under this Outcome, the project will demonstrate how to remove barriers to mainstreaming biodiversity into economic activities at the local level. The project will also demonstrate the benefits of removing these barriers – benefits in terms of biodiversity and for the economy. Four demonstration production landscapes were identified and analysed during the PDF B stage. Although very varied, each of these demonstration landscapes has important tourism landscapes, globally important biodiversity, ongoing activities in the tourism, agriculture and fishery sectors, and a broad range of governmental, non-governmental and private sector stakeholders. Although all activities under this Outcome will take place at one of the demonstration landscapes and the immediate impacts will be mostly felt at the landscape level, the overall aim is to *demonstrate* to county and national level decision-makers in public and private sector. Collectively, the sites will demonstrate:

- the information requirements to achieve change at site level;
- the capacity requirements at local and county level to achieve change at site level, and how to develop the capacity;
- the required legislative and policy reforms to achieve change at the site level;
- the financial requirements to achieve change at the site level, and methods for generating the finance;
- the effectiveness of innovative mechanisms and market-based incentives;
- the effectiveness of improved compliance mechanisms, including public support and improved inspection;
- the required improvements to the planning system;
- mechanisms to reduce and resolve conflicts – for example through participation, through consultation, through planning and through economic incentives;
- the scale of the benefits (with a detailed breakdown of beneficiary groups) for the economy and for biodiversity; and
- how to integrate into the EU Accession process.

The findings from the demonstration landscapes will feed directly into the capacity development and reform processes supported through Outcomes 2 – 4. One specific Output will be dedicated to capturing lessons and assuring a multi-stakeholder integrated approach at the level of the four counties.

The four demonstration landscapes are:

- Dubrovnik-Neretva county: Pelješac Peninsula, Dubrovacko primorje, Malostonski Bay and Malo More;
- Split-Dalmatia county: Vis Island and the nearby remote islands;
- Šibenik-Knin county: Krka Estuary (including town of Šibenik, St. Ante channel, Prvić, Zlarin and Krapanj islands); and
- Zadar county: Northwest part of the county (including part of Pag island and Novigradsko and Karinsko more).

A map of each demonstration landscape is included in [Annex 6](#). [Annex 8](#) describes the boundaries, the socio-economic situation, the biodiversity (wealth and trends), the stakeholders, the baseline, the key characteristics and the specific activities to be implemented at each of the four demonstration landscapes. During the PDF B, at each demonstration landscape, an initial multi-sectoral group of committed stakeholders was assembled. This will form the initial focus group. This group will evolve and expand as the project evolves. Through the project, this group will develop a common vision for a sustainable economic development of their area that fully respects and appreciates biodiversity. This multi-sectoral group will also ensure that project activities at the local level are cross-cutting, and will ensure a good exchange across sectoral actors.

### Activities

The approach taken at each of the four demonstration landscapes is similar. The starting point is the collection, systemisation and interpretation of biodiversity-related data. This forms the basis for integrated planning, informed decision-making and managing sectoral activities, and ensuring that biodiversity can be mainstreamed into all sectoral activities. Given the long-term need for integrated management, the project will also support integrated planning approaches and tools to a limited extent. This will include training for all four counties and the preparation of an integrated plan at one of the four demonstration landscapes. Integrated planning will be established as the basis for long-term development in the demonstration landscape. In some cases, local stakeholders may be given support to access and utilise government credit schemes and EU funds. The project will support Croatian Waters in the implementation of waste water treatment and water supply schemes, to optimise impact on biodiversity.

Tourism is the major economic sector at each of the four demonstration landscapes and will be a central focus of all demonstration activities. At each landscape, the project will initially support local stakeholders (tourist board and committed private sector) in the development of a biodiversity-friendly Destination Area Tourism Management Plan (DATMP). These business-oriented plans will guide tourism development over the coming years, including diversifying the product. They will explicitly state how the barriers to mainstreaming biodiversity are to be removed. The DATMP will specify the required engagements from each stakeholder, and will be financially sustainable. The DATMP will identify how to increase the value of biodiversity as an input to tourism. The scope of the DATMP will include the assets of nearby Protected Areas. The involvement of associations and government departments will ensure that the DATMP applies to all local tourist operators. At each landscape, the project will then contribute to implementation of each DATMP. Working either with specific stakeholders or the community in general, the project will provide: training, help to access funds and loans, technical assistance to private sector and officials, and possibly targeted grants from the CBRRF. Specific activities may include:

- Carrying Capacity Assessments (CCA);
- developing biodiversity tourist itineraries with county Tourism Boards, hotels and travel agencies;
- developing the Green Globe award for hotels or similar eco-labels and eco-certificates;
- piloting Green Audits;
- designing and establishing a tourist fee, and channelling revenue to biodiversity conservation; and
- developing products to market the region and its biodiversity (CDs, etc.).

Agriculture is also very important at all four demonstration landscapes. Hence, agricultural stakeholders will receive training and support in designing and establishing eco-friendly practices and in obtaining eco-certificates. For example, the project will support projects to rehabilitate land, or development of a *Croatian Organic* or a *Traditional Croatian* product brand, or re-building of terraces and rubble walls. The project will also help agricultural stakeholders to obtain bank loans and funds from other sources to invest in biodiversity-friendly agriculture. Again, CBRRF grants will be available in some cases. By project end, at the demonstration landscape, the extent of biodiversity-friendly agriculture will have increased significantly.

Fisheries and mariculture are also important at all demonstration landscapes. The project will support:

- the relocation of tuna farms (by supporting Strategic Environmental Assessment - SEA and the Environmental Impact Assessment - EIA process);

- the redesign of tuna farms in order to improve the environmental impact (by providing technical assistance and supporting environmental audits);
- the expansion of shell-fish farms (by supporting site suitability assessment, water quality monitoring, and by developing improvements in the county approval process); and
- the testing of market-based incentives.

An important component of this Outcome will be the collection of data and lessons learned, and the feeding of the information to governmental and private sector at county level. The vast majority of barrier removal activities under Outcomes 2, 3 and 4 will draw from the practical achievements under Outcome 1. If necessary, additional no-take zones will be identified and advocated. Many of the activities at the demonstration sites have been designed in the PDF stage and are described in Annex 1. Other activities will be supported through the COAST Biodiversity Rapid Response Facility.

Waste water treatment. In the four production landscapes, the project will support Croatian Waters (CW) ongoing programme to treat waste-waters. The project will ensure that CW uses biodiversity guidelines and undertakes biodiversity sensitive EIAs for the waste water treatment plants (WWTPs) to be built in the four demonstration areas during the project. The project will further advocate to CW to give priority to building WWTPs in the proximity of sensitive, biodiversity rich marine areas.

## **Outcome 2: An improved investment climate across the four counties for biodiversity-friendly enterprises.**

The PDF B phase identified a range of investments that, if well managed, could yield both economic and biodiversity benefits. These include:

- Developing sustainable tourism facilities, such as: biodiversity trails, tourism visitor and educational centres, biodiversity branded ‘hotels’, visits to tuna and fish farms, visits to Protected Areas and to micro biodiversity sites;
- Restoring abandoned lands with traditional organic agriculture and indigenous species;
- Restoring terraces, hedges and rubble walls and combining with eco-tourism;
- Developing organic farming and indigenous branding;
- Relocating and expanding fish farms;
- Expanding shell-fish farms into biodiversity hotspots; and
- Investing in smart fishing gear.

This Outcome aims to make the private sector more willing to invest in these and other biodiversity-friendly production across the four counties, with a special focus on the MSME. This will be achieved through the following: (i) increasing the availability of affordable capital; (ii) developing market premiums for BD products using market-based incentives; (iii) increasing consumer demand for BD-friendly services and products; (iv) improving the approval processes for BD-friendly investment; and (v) increasing the demand for capital and providing technical support for new activities. This Outcome will cover all four counties. Under this Outcome, the stakeholder group in each county will develop a common vision for a biodiversity-centred, economic development of their county.

(i) The project will work primarily with the banking sector to increase the *supply* of BD-friendly loans. This includes working with HBOR to develop guidelines, and to develop a programme of loans focussing on BD-friendly investments. It also involves training HBOR staff. The project will also work with a limited number of private banks, incorporating biodiversity considerations into

their day-to-day lending practices. The potential for banks to develop a ‘green niche’ will be explored. Notably, the project will develop, and support, a system of partial guarantees to reduce the risks banks face when lending to biodiversity-friendly investments.

(ii) The project will also develop a series of incentives for BD-friendly investments, including a label for BD-friendly tourism operators, a strengthened certificate for organic agriculture, a ‘Croatian organic’ brand, and possibly a certificate for ‘smart’ fish catches. The project will also work to remove existing negative incentives, such as subsidies for pesticides and chemical fertilisers. The project will support the integration of Protected Areas and tourism. Capacity will be developed to obtain more revenue from tourism in Protected Areas. Capacity will also be developed to improve the overall tourism product offered, by integrating Protected Areas into the tourism packages in a biodiversity-friendly way.

(iii) The measures implemented under (ii) above will stimulate consumer demand for biodiversity-friendly products. Consumer demand will also be increased through targeted campaigns to raise awareness of biodiversity, so that consumers may be willing to pay small premiums for such products, as in western European countries.

(iv) The project will remove barriers to approving biodiversity-friendly investments. Often, these investments are considered innovative, such as expanding shell-fish farms into Protected Areas, and consequently the approval process is very slow. The project will develop the required capacity in the concerned county government departments. The first step will be to strengthen the available information to support the planning department to integrate biodiversity concerns into its operations. Other steps include training and preparing guidelines and best practices manuals on how to integrate biodiversity concerns into planning practices and environmental protection, notably SEA/EIA/CCA procedures. The EIA system for investment appraisal will be improved, thereby facilitating the approval of biodiversity-friendly investments. As part of a general strategy to develop county level management capacity, the project may also support integrated planning at the county level to feed into the EU Accession programmes. The project will also develop the capacity of the county technical departments/associations to provide business-oriented, technical support to the tourism, fisheries and agriculture enterprises.

(v) Finally, the project will work through existing enterprise development agencies to increase the *demand* for BD-friendly loans (those made available through (i) above). The project will help identify MSMEs that could benefit from BD-friendly loans. The project will help these MSMEs to apply for loans, through training and through direct assistance to project development. Technical support may be given to new MSMEs activities, for example related to eco-tours, organic agriculture and shell-fish culture. MSMEs will also be supported in applying to EU and government-funded credit schemes.

Initially, many activities under this Outcome will be directly linked to private sector operators in the demonstration production landscapes in Outcome 1. Catalytic grants under the COAST Biodiversity Rapid Response Facility will support some of the activities in this Outcome. Clearly, activities in this sector are going to lead to economic benefits. Hence, GEF funds will be focussed on the incremental costs required to *modify* investments in order for them to be biodiversity-friendly. Each GEF input will be carefully designed to complement ongoing private sector initiatives, and provide the minimum support necessary for the initiative to be biodiversity-friendly. There will be significant co-financing to this Outcome, from the banks, from HBOR, from government agencies and from the private sector investors. The indicator of success will be the level of investments in BD-friendly investments in MSME.

**Outcome 3: Compliance with biodiversity-related regulations has increased significantly across all sectors in the four counties.**

This Outcome aims to reduce the negative impacts of all ongoing activities by all actors in the related sectors. This Outcome will increase compliance with existing biodiversity-related regulations in the tourism, fisheries and agriculture sectors. It will also increase compliance with Protected Area regulations, and it will strengthen capacity to enforce BD-related planning regulations. Finally, where appropriate, the project will help develop new county level regulations. The main approaches to strengthening this compliance are:

- developing monitoring and inspections systems, with training and technical support;
- developing targeted public support for regulations; and
- developing economic incentives.

The overall aim is to enhance capacity at the level of the county government. However, the focus will initially be on compliance in the four demonstration production landscapes under Outcome 1. This demonstration will be used to build county capacity. The barriers to compliance are specific to each sector, hence this Outcome has specific activities tailored to each sector. In each sector, the first step will be to strengthen the available information to support the planning department to integrate biodiversity concerns into its operations. Biodiversity-related data will be collected and systemised as a basis for integrated planning. This is essential as a basis for guiding other activities under this Outcome.<sup>24</sup>Next, working separately with each concerned county department, the project will help develop a ‘compliance strategy’ for each sector. The economic costs of compliance will be determined. The project will then help implement this strategy by training, developing a revenue generation scheme, developing enforcement tools, and institutional strengthening. For example, where appropriate, sectoral guidelines will be developed, to help county officials understand what should be allowed within the sector.

In tourism, activities will focus on: strengthening inspections; strengthening the system of fines; developing award schemes for green operators and; upgrading/updating planning practices – e.g. CCA for tourism activities.

In agriculture, the focus will be on strengthening the system of inspections for organic agriculture, and ensuring the organic certificates are used appropriately. A special certificate or label for traditional agriculture may be developed. Public awareness campaigns to ensure the public recognise organic products will be implemented.

In fisheries, the focus will be on (i) strengthening inspections at markets and on fishing equipment; (ii) running campaigns to ensure the public can recognise sustainable fishery products and so reduce the demand for IUU fish, for juvenile and under-sized fish; (iii) developing in a participatory manner a system of no-fishing zones and seasons; (iv) monitoring pollution at fish-farms and water quality at shell-fish farms; and (v) upgrading/updating planning practices – including SEA and EIA for fish and shell-fish farms.

For Protected Areas, the project will support the responsible authorities to enforce protection and reduce conflicts with tourism and other economic sectors. The project will help to capitalise on the synergies and multiple benefits (economic and non-economic) that can emerge from co-ordinated planning and management of the tourism, agriculture, and park management sectors.

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<sup>24</sup> Many of these activities are the same as those described at the outset of Outcome 2.

Finally, the project will work closely with Croatian Waters to ensure water quality investments are prioritised into biodiversity rich/critical areas across the project area. The project will also build EIA capacity related to biodiversity of Croatian Waters. The stakeholder group in each county will develop a common vision for a biodiversity-centred, economic development of their county. The COAST Biodiversity Rapid Response Facility will support some activities, particularly related to building public support and awareness raising.

In addition, where necessary, some activities under this Outcome may focus on strengthening the regulatory framework. Although most work to strengthen regulations is under Outcome 4 at the national level, many regulations are developed and implemented at the county level. The project will continually assess the local regulatory framework, make proposals when appropriate, and provide technical assistance to the development of new regulations when required. This will include, through the Focus Groups, assessing in a participatory manner the likely economic costs of the new regulations to the private sector operators.

**Outcome 4 A national level enabling environment – including policy and legislation - that appreciates, supports, institutionalises and disseminates biodiversity-friendly development of coastal areas.**

This Outcome aims to set in place the necessary national context to support achievement of project objectives in the four counties. This includes: (i) developing high-level support, and translating this into direct support to counties for positive action. This support will ensure that policy and legislative reform is given appropriate authority, and that sufficient resources are allocated to compliance; (ii) advocating and supporting necessary reforms to the policy, institutional and legal framework; and (iii) ensuring capacity to replicate project successes.

The *first* component is to develop high-level support for the Project Objective. This will include targeted awareness raising of high-level decision makers, providing evidence of the financial and economic value of biodiversity, and regularly advocating for high-level support from both government agencies and private sector. High-level support will also be generated by linking biodiversity conservation and sustainable use to the EU Accession process (see other Outcomes). The project will nurture a high-level focus group at national level, and develop mechanisms for this group to influence decision-makers at county level. This high-level focus group will also provide a forum for cross-sector exchanges of ideas, barriers and lessons at the national level. The project will also explore means of converting national political support for biodiversity conservation into economic support. For example, the project will review the possibility of linking national funding for county development (including funding that originates from EU funds) to the environmental performance of the county. The project will also review the possibility of liasing this with the existing national environmental fund.

The *second* component is to institutionalise project successes at the local and county levels by supporting the required modifications to national policy, legislation and programmes. This will focus mostly on government agencies, but will also include private sector (i.e. banks and the Chamber of Economy). For example, biodiversity conservation will be mainstreamed into the lending practices of HBOR and at least one private bank. Also, a national tourism certificate programme will be developed, to be first implemented in the project area and at the demonstration landscapes. All proposed policy, legislation and programmes will be developed in a participatory manner, involving local focus groups, county governments and national decision-makers appropriate. This will include an assessment of the economic costs that the proposal implies.

The *third* component at the national level is to directly support the dissemination and replication of project successes throughout Croatia, and notably to all coastal counties. This will be achieved through a communications programme, involving newsletters, conferences, web-sites, media, etc.

The [Logical Framework](#) in Section II Part 2 provides more details on the Outcomes and Activities, and on how they will be monitored. The Activities are clearly designed to remove the barriers to mainstreaming, as listed in Table 1.

### Sectoral Transformation

99. The above section describes the project outcomes, outputs and activities. In general, these activities are at a geographical level and so cut across several sectors. However, these outcomes, outputs and activities will result in a transformation of the tourism, fishing, agriculture and banking sectors. This section describes this transformation.

### Tourism

The tourism sector will be transformed as follows:

- a significant number of hotel owners, travel agencies and other operators will be offering biodiversity products;
- a large number of tourist itineraries and packages with biodiversity components will be effective;
- several specific biodiversity tourist attractions will be operating (e.g. visitors and education centres, bird parks, aqua-parks<sup>25</sup>);
- a significant number of facilities will have implemented environmental audits and taken follow-up measures;
- a large number of hotel owners and travel agency owners will be committed to the long-term conservation of biodiversity;
- a small percentage of tourism revenue will be channelled to biodiversity conservation;
- the tourism destination will have expanded, to include agricultural, gastronomic and biodiversity aspects. The length of the tourist season will have increased. Traditional agriculture, fisheries and handicraft will be essential parts of the tourism package;
- Protected Areas will become an integral part of the tourist destination, while fully respecting conservation objectives;
- there will be a significant increase in the demand for biodiversity and eco-certified products;
- national policy and legislation on tourism will be strengthened. New regulations may be promulgated, for example pertaining to cruise ships or marinas;
- in general, most tourist facilities will respect biodiversity-related regulations, both during construction and operation. This will include water use, energy use, habitat protection, waste disposal;
- inspections will be regular and effective; and
- a national certificate, award or label system will be effective, with biodiversity one of the important criteria.

### Fisheries (including mariculture)

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<sup>25</sup> Bird Park/Aqua-Parks are tourist attractions. The intention is to assist the owners/managers and turn these attractions into biodiversity awareness centres and biodiversity instruction points. Through these parks, GEF incremental funds will ensure that biodiversity-related information is made available at these parks, and that the parks promote the values and conservation of biodiversity. Pro-biodiversity actions may be organised for local people and international tourists. This is in line with the aim to develop an overall pro-biodiversity tourism sector, and to develop pro-biodiversity tourism destinations.

- fisheries operators will be increasingly using smart gears;
- fishery practices that damage ecosystems, important species and habitats will have stopped;
- public awareness of allowed fish and sustainable fishing practices will have increased;
- destructive fishing by tourists will be controlled;
- new regulations pertaining to cartilaginous species, small pelagic fish, demersal species, and no-fishing zones will be promulgated;
- inspections of markets and fishing equipment will be regular and effective;
- fish farms will have expanded in scale, but will be fully in line with Croatian and EU requirements for waste disposal and water pollution;
- shell-fish farms will have expanded in scale and will be complementing biodiversity conservation. Permits approval processes will be shortened;
- both fishing and mariculture will contribute to the tourist package; and
- tuna farms will be relocated from fragile and BD-critical areas.

#### Agriculture

- knowledge on agriculture important to biodiversity will have increased;
- areas of abandoned and degraded lands will be reduced;
- forested land will support biodiversity conservation;
- organic agriculture will have expanded significantly, with an effective label and known Croatian brand;
- biodiversity-friendly traditional agriculture (also organic), conserving traditional walls, terraces, hedges, ponds and paths, will have expanded and established a separate market niche;
- public knowledge and support for organic agriculture will have grown significantly, and products will attract a premium;
- inspections of markets will be regular and effective;
- large-scale agriculture will meet all Croatian and EU environmental standards; and
- agriculture will contribute to the tourist package.

#### Banking

- the volume of loans to biodiversity-friendly investments will have grown significantly;
- banking procedures will consider environmental risks and impacts and biodiversity risks; and
- at least one bank will be pursuing a green niche.

### **2.3. Project indicators, risks and assumptions**

100. Biodiversity and socio-economic indicators are to be used at all levels in the project (see [Logical Framework](#) in Section II Part II). At the overall project level, a key indicator of success will be the growth rate of income generated from biodiversity-friendly businesses. This is expected to increase by 20% per annum through years 2-4, and then to increase by 30% per annum in subsequent years. In terms of biodiversity, three indicators of the status of biodiversity across the project area have been identified. The Logical Framework Matrix provides *performance* and *impact* indicators for project implementation along with their corresponding *means of verification*.

101. Project success is based, among others, on following three assumptions: first, that Croatia's Accession process to the EU does not slow down or stop due to external or political reasons; second, that the levels of tourism across Europe continue to grow; and third, that the European market for organic and traditional agriculture continues to develop. The project strategy includes adaptive management and measures to respond, if these and other assumptions do not hold adequately. The Risks, and associated project mitigation strategies, are further described in Table .



**Table 3. Risks and Mitigation Strategies**

<b>Risk</b>	<b>Mitigation or management strategy</b>
<b>National Context</b>	
The EU Accession process slows or stops due to external or political reasons.	This is considered unlikely. Moreover, most project activities and outputs can proceed without the EU Accession process. The EU Accession process will be closely monitored. If EU Accession slows down, project emphasis will be redistributed to those activities/outputs that still can be achieved, and the overall project impact should be maintained.
Collapse or downfall in European tourism sector. Although this may reduce some pressure on biodiversity, the overall impact on biodiversity is likely to be negative, as the momentum towards sustainable tourism in the project area will be lost, and local communities are unlikely to innovate.	This is considered unlikely. Project will closely monitor tourism development. If it shows signs of decline, project design will be reviewed and revised accordingly.
European market for organic and traditional agriculture does not develop quickly.	This is considered possible, hence project design is not fully dependent on the quick development of this market. Project will monitor development of this market, and will revise its focus accordingly. For example, if the market develops quicker than anticipated, project emphasis will be redistributed accordingly.
<b>Project Context</b>	
It is not possible to recruit suitably qualified staff and experts for such a complex project.	UNDP rates in Croatia are very competitive and there is a pool of experienced, national experts willing to work in the project area. However, it can be difficult to find experts with skills in: communication; participatory methodologies; and adaptive management. The project will address this potential challenge as follows: (i) a thorough recruitment process will identify people already having the skills; (ii) the NPM selection will ensure s/he has these skills and a demonstrated ability to pass on these skills; (iii) initial training programmes, and (iv) a continuous mentoring/coaching programme.
Uncertain development of EU policies, such as CFP and CAP, and their impact on biodiversity in the project area.	The EU Accession process is uncertain. Even if it proceeds smoothly, the impacts of CAP and CFP are also uncertain. There are risks and opportunities, and much depends on the capacity of local stakeholders to exploit opportunities and mitigate risks. The project aims to build this capacity.
The project success depends on the Secondees. There is a risk that their work may be limited, to some extent, by the capacity of their host agency.	Several steps have been taken or planned: (i) Letters of Agreement will be signed with each host agency; (ii) host agencies will benefit from project capacity development and other activities; (iii) Secondees report jointly to the PIU; (iv) Secondees will be monitored by the PIU; and (v) Secondees will stay on with host agency after the project is completed.

<p>There are practical limits as to how much one project can achieve in bringing about changes in government policies and incentive schemes, or in promoting greater harmony and integration among sectoral management plans.</p>	<p>The mitigation strategy involves the project closely supporting and complementing national projects and processes – not trying to achieve change in isolation. The project will also work closely with internationally supported projects. Finally, the approach to demonstration, and the length of the project (7 years), also aim to mitigate this risk.</p>
<p>With regards to land tenure, the possible issues are:</p> <ul style="list-style-type: none"> <li>• Fragmentation of private land through successive inheritance process, leading to very small parcels of land, that are difficult to exploit economically or develop for biodiversity. This can also make it difficult to scale-up actions;</li> <li>• ‘Multiple’ ownership of land parcels, again due to successive inheritance process, leading to problems in buying/selling; and</li> <li>• Local land registers are not up-to-date or fully accurate.</li> </ul>	<p>There is a minor risk these may constrain some project activities.</p> <p>These issues were considered in the project development phase by the sectoral studies<sup>26</sup> and as part of the barrier analysis. The project design accounts for these issues.</p> <p>This issue is most closely related to Agriculture. During project development, the project consulted the Ministry of Agriculture to ensure that the Project Objectives would not be affected by these issues. The Ministry confirmed that, when preparing activities, in order to avoid problems, it is necessary to:</p> <ul style="list-style-type: none"> <li>• Clarify and prove ownership of land; and</li> <li>• Verify that the land is large enough for the activity to be successful and reach its objectives.</li> </ul> <p>Within the framework of the project, these issues are to be managed at three levels:</p> <ul style="list-style-type: none"> <li>• At the Demonstration site, in all cases the project will demand proof of property ownership before supporting land-owners;</li> <li>• County level. The project will support County Planning Institutes with activities related to planning and zoning. However, the only ‘plans’ to be directly supported through this project are at the level of the demonstration areas – these cover an area small enough for the project to gather sufficient information of good quality as a basis for planning;</li> <li>• Broad dissemination of project outputs and findings across the counties and the country. This will happen towards the end of the project, say after 2010. Clearly, it would be difficult to disseminate project outputs to areas where land tenure is not sufficiently clear. However, the sectoral studies did not identify this as sufficiently important to challenge project success. Moreover, by 2010, it is expected that further progress will have been made with regards to land tenure in Croatia.</li> </ul>

<sup>26</sup> Notably in the report “Spatial Planning System and Integrated Coastal Management at Counties Level”, prepared by G. Berlengi and M. Maroevic during the project preparation.

## **2.4. Expected global, national and local benefits**

102. As described in previous sections, the project area contains some of the most important and well-conserved biodiversity in the Mediterranean region, and the Mediterranean biodiversity is internationally recognised as being of global significance. This project will catalyse the conservation and sustainable use of this globally significant biodiversity. Specific global benefits will include:

- protection of the complex mosaic of agricultural, terrestrial, coastal, marine and island habitats;
- protection of the individual habitats within this mosaic, including many globally significant large and small habitats;
- conservation of the connectivity across these habitats;
- protection of a healthy population of many important (endemic, relict or endangered) fauna and flora species, including many species of commercial value to man;
- enhancement and conservation of traditional resource management practices and technologies; and
- conservation of rare agricultural breeds and varieties.

103. In addition, the project will demonstrate how to mainstream biodiversity conservation into socio-economic development and how to ensure that the contribution of biodiversity to production is recognised. As this takes place in Europe, in parallel to the EU Accession process, it will deliver many practical lessons concerning biodiversity mainstreaming that can be applied to other biodiversity rich production landscapes across Europe.

104. The project will make a direct contribution to implementing the United Nations Convention on Biological Diversity (UNCBD) and the Croatia Biodiversity Strategy and Action Plan (BSAP). First, the project is designed to support the primary objectives of the CBD, directly contributing to many articles. Notably, the project will support implementation of Article 6 (by supporting the integration of conservation and sustainable use of biodiversity into relevant coastal plans, policies and practices), of Article 10 (through the development and demonstration of alternative, sustainable livelihood options that avoid or minimise adverse impacts on biological diversity, and providing incentives for sustainable use) and Article 13 (by developing linkages and promoting the exchange of information). With regards to the BSAP, the project will contribute directly to Strategic Goals 1, 2, 3, 4, 5, 6, 7, 8, 11, 12, 13, 14, 15 and 16, most of which are classified as high priority. For example, all Project Outcomes will contribute to Strategic Goal 1 (Landscape protection), Strategic Goal 7 (Coasts and Islands). Outcome 1 will notably contribute to Strategic Goal 16 (Public Awareness and Participation).

105. The project will make socio-economic contributions at both the micro and macro level. At the micro level, the project will work with a vast spectrum of individual stakeholders (all kinds of private sector operators, local and national government personnel, NGOs and banks) - and contribute to their development status and capacity. This will lead to direct benefits to a large number of individual stakeholders. At the macro level, the project will ensure that one of Croatia's key economic assets – its coastal landscapes – is well managed. It will thereby ensure that the landscape provides the foundation for the long-term development of the tourism industry. Notably, the project will help reform the tourism industry, so that it is better integrated with cultural heritage and with sustainable agriculture.

106. The project should also have additional impacts on sustainable development in Croatia, as follows: (i) by utilising and developing participatory processes, it will strengthen the overall approach to participation in the project area and in Croatia; (ii) by working with the planning sector, it will strengthen overall capacity to plan economic development in Croatia, which will

have multiple benefits; and (iii) by strengthening data collection and information management systems, it will contribute to strengthening the general socio-economic development process in Croatia.

## **2.5. Country ownership, country eligibility and country drivenness**

107. Croatia ratified the United Nations Convention on Biological Diversity in January 1997 and is fully eligible for technical assistance from UNDP and GEF.

108. The 1990 Constitution obligates Croatians to protect the environment and nature. This obligation is elaborated in the 1992 *Declaration on Environmental Protection* and in the 1994 *Law on Environmental Protection* (LEP). The LEP sets objectives and principles, clarifies rights and responsibilities, and defines environmental liability, monitoring and inspection systems. It also establishes the importance of public participation.

109. The *Croatian National Biodiversity Strategy and Action Plan* (BSAP, August 1999) commits Croatia to conserving biodiversity and fulfilling its obligations to the CBD. It also determines the principles and strategies for conserving biodiversity and conserving unique landscapes. Through the BSAP, the government is committed to the following strategic goals (each of which is supported through this project): protection of coastal areas and islands, protection of biodiversity through other economic sectors and protection of landscape diversity.

110. The *National Environment Strategy* and the *National Environment Action Plan* (NEAP, 2002) further set out the national framework, priorities and actions for managing Croatia's environment and natural resources, including the conservation of biodiversity. The NEAP promotes inter-sectoral approaches to biodiversity conservation, including the establishment and management of Protected Areas, the sustainable utilisation of natural resources outside Protected Areas, improved planning, and the incorporation of biodiversity into economic sectoral development. The BSAP and the NEAP establish that the coastal, island and marine ecosystems of the Dalmatian coast are a priority for conservation. The NEAP identifies the Dalmatian coast/Adriatic Sea area as one of the two priority ecosystems for conservation in Croatia.

111. The preservation of biological and landscape diversity is currently assured through the *Nature Protection Act* (2003). The Act's scope includes conserving biodiversity lying outside of Protected Areas. It states that this is mostly to be achieved by integrating biodiversity conservation into sectoral policies and plans in areas such as forestry, agriculture, hunting, fishing, and water management.

112. Two factors characterise the national development process in Croatia: the transition to a market-oriented economy and the process to EU accession. Following the war in the early 1990s and the break-up of the socialist economy, the overarching goal of the Government of Croatia has been, and continues to be, sustained economic growth. This is being achieved through a series of market-oriented reforms and soft and hard infrastructure investments.

113. In July 2004, Croatia completed initial negotiations with the EU regarding accession. Croatia is now formally a Candidate Country. The earliest anticipated date for accession is 2009. The EU Accession process will be a driving force for economic and sectoral development. Through the process, Croatia will be expected to bring national policy and legislation in line with EU legislation, for example in areas such as biodiversity conservation, landscape conservation, public participation and coastal management.

114. Within this over-arching development framework, specific stated national policy objectives include environmental protection, tourism development, and the accelerated socio-economic development of the country's islands. All sectoral policies recognise the importance of environmental and social sustainability. Moreover, the participatory approach to planning and decision-making has been formally adopted in Government policy. For example, specific measures are taken to promote NGOs and their involvement in the development processes.

115. Tourism is one of the most important economic sectors and an important source of foreign currency and employment. The vast majority of tourists are attracted to the sea and beaches along the Adriatic coast. Hence, development of tourism in the Adriatic coastal regions is a national economic priority. Sustainable tourism and EU Accession both require effective environmental management and sustainable use of natural resources. They both require conservation of biological and landscape diversity. Hence, the importance of the tourism sector and the EU Accession process provide a strong rationale for Croatia to conserve natural resources. The incentives are felt at all administrative levels, they cut across all sectors and they touch all components of society. However, as of yet, these incentives to conserve the biological and landscape diversity remain latent and uncoordinated.

116. In terms of development, Croatia's coastal areas, in particular the islands, have been falling behind the Croatian average for almost a century. In response, present national development policy states the need to support development of rural, coastal and island communities. These policies are supported by government initiatives and credit lines aiming to stimulate growth in rural and coastal areas.

117. The use of land and other natural resources in Croatia is governed by a comprehensive land-use planning framework - consisting principally of the Law on Land-use Planning, the State Land-use Planning Strategy and the State Land-use Planning Programme. This framework also requires an effective public participation in the preparation and adoption of land-use plans. The land-use plans are the only inter-sectoral plans in Croatia and they help guide, regulate and co-ordinate activities across all economic sectors. The Law, although not specifically mentioning biodiversity, requires that all land-use plans contribute to environmental sustainability. This indicates Croatia's overall commitment to protecting its biodiversity and natural resources. For example, a recent bye-law<sup>27</sup> bans constructions within 1,000 m of the sea-line. This Law also requires the demolition of all illegal constructions, notably those too close to the sea-line.

118. At *local levels*, development and environmental programmes and priorities are established at both county and municipality levels. Although these vary from county to county and from town to town, tourism development is a priority in all coastal counties. For example, when there is a need for special measures to protect a town's cultural, historical, aesthetic or natural landscape values, environmental protection programmes are approved by the Town Council (or Municipal Council). In line with the EU Accession requirements, each county is preparing a Regional Operational Programme (ROP). The ROPs guide investments in line with the EU Accession process criteria and requirements at the county level.

119. Several other laws (on Forests; on Agricultural land; on Hunting; on Water; on Freshwater Fisheries; and on Marine Fisheries) have an influence on biodiversity and its conservation. These laws include general statements regarding biodiversity, but deal predominantly with the economic exploitation of the concerned natural resources. For example, the Law on Forests contains nature protection principles, but only as a basis for ensuring greater growth and production.

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<sup>27</sup> Law on Protected Coastal Line, 2004.

### Non-Governmental Commitment to Biodiversity Conservation

120. The private sector is increasingly important in Croatia. This ranges from a large number of family enterprises, to standard small and medium enterprises (SME), to co-operatives, to large-scale private sector (both domestic and foreign owned). There are also many state-owned companies of all sizes. The small-scale private sector is devoted to income generation and to job creation. However, in the project area, most private sector stakeholders generally recognise the importance of the coast's heritage, including its natural resource base. There are many *associations* of private sector enterprises (e.g. the Association of Small Hotel Owners, Small Land Owners Associations and co-operatives). Typically, these are arranged along sectoral lines, and have representation at the county level. These associations focus on supporting survival and aiding the profitability of enterprises, rather than on the strategic development of the sector. There are many NGOs in the coastal region. Although these are predominantly small and un-coordinated, they are very active and can be locally influential. In general, the local NGOs are organised around a specific social or environmental issue, or they focus on a small geographical area. The majority of important environmental or cultural sites in Croatia is supported by at least one local, active NGO. In some cities, there are a number of NGOs addressing issues such as biodiversity conservation.

121. Regional co-operation: Croatia is also party to many international initiatives to protect and manage natural resources in the Adriatic and Mediterranean; these include the Paris Convention on World Heritage Sites and the Barcelona Convention for the Protection of the Mediterranean Sea (Croatia is also party to the related Protocol on Biodiversity and is active in the preparation of the forthcoming Protocol on Integrated Coastal Management).

## **2.6. Sustainability**

122. This mainstreaming project aims to transform sectors, and so permanently change practices and modify behaviour. For example, the project will train, develop management tools, legislation, standards, participation and awareness. Through this transformation, an appropriate incentive framework will be enabled. If the incentive framework is created, the changes should be permanent – unlike a new Protected Area they will not rely on a steady flow of government budget to maintain them. Once the changes are enacted, and the new framework created, there is no obvious reason why policies and practices should ever return to the previous situation. There are many funds in the project area for sustainable development. Not only is Croatia a middle-income country, but also funds in the project area for sustainable development from the EU Accession process will be available. Moreover, substantial revenues are generated from tourism in the project area. Hence, lack of finances for follow-up should not be an obstacle – the challenge is to channel existing finances into biodiversity-friendly investments.

123. Sustainability is integrated into each of the project Outcomes. All the project Outcomes and Outputs are designed to ensure that the achievements under the project will be sustained after the project completion. Examples of this include:

- The emphasis on generating local and county level ownership over the project, over its objectives and over its approach. This includes the use of Focus Groups and the COAST Biodiversity Rapid Response Facility (CBRRF)<sup>28</sup>;
- The focussed efforts to engage the private sector and the banking sector, and to transform these sectors. Both banks and private sector operators have already made commitments to the project;

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<sup>28</sup> This facility will make small funds available to partners willing to invest in pro-biodiversity actions.

- The emphasis on demonstrating the socio-economic values of sound biodiversity management, and on operationalizing the linkages between conserving biodiversity and tourism development. This will illustrate vividly the value of this approach, and so facilitate uptake;
- The focussed efforts to strengthen the capacity of government agencies to manage biodiversity and regulate development;
- The strategic links of this project to the EU Accession process; and
- The use of Seconded, financed wholly or partly by the project, but fully integrated into the working mechanisms of national or local agencies.

## 2.7. Replicability

124. Replication is important at several levels: within the demonstration landscapes; across the four counties in the project area; across Croatia; and internationally. At the demonstration landscapes, the project initially works with selected stakeholders, focus groups and local governments. Successful practices will be demonstrated. The CBRRF will be used to further disseminate successful practices. The capacity of the local government will be strengthened, so they will be enabled to disseminate successes, and better regulate poor practices. These are the tools to ensure there is a subsequent broad uptake of the project approaches across the demonstration landscapes. This will be further supported by the projects support to the participatory preparation of the DATMP and other plans that form the basis for development. DATMP are a key tool for up-scaling. These activities are directly supported by the project under Outcome 1. Most of the project activities focus across the four counties, including activities with the banking sector, the support to the CBRRF, the supporting to developing banking loans and the support to governmental regulatory and technical capacity. All stakeholders at this level will be involved in the demonstration landscapes, will participate in the associated successes and lessons learning, and will be enabled to disseminate and distribute those successes across the four counties. Most notably, the project will develop an incentive structure that acts across the four counties and that transforms the private sector activities in this area. This will be complemented by awareness raising campaigns, education campaigns, etc. Hence, replication across the four counties is fundamental to the project approach and strategy under Outcomes 2 and 3.

125. Outcome 4 focuses on institutionalising project successes and disseminating them across Croatia. Outcome 4 includes:

- developing high-level support, and translating this into direct support to counties for positive action;
- advocating and supporting necessary reforms to the policy, institutional and legal framework; and
- ensuring capacity to replicate project successes.

126. Finally, the project successes will be relevant to other countries, notably transitional countries and countries in the Mediterranean. These successes will be disseminated as follows:

- UNDP Croatia through its networks, including through its participation in the 'Dinaric Arc' initiative;
- UNDP/GEF through its global networks and knowledge systems; and
- The PAP/RAC, through its involvement in implementation of the MAP.

127. To summarise, in-country, across the project area, specific activities for replication include: through the CBRRF, through the facilitated 'credit' line, through the Focus Groups, through the 14 high-level meetings, and through web-based activities. More broadly across Croatia, there will be: presentation conferences in all seven counties, the 14 high-level meetings mentioned above, project

recommendations to Government for the post-project period, and promotion via media and the web.

## **2.8. Lessons incorporated from previous similar projects**

128. This project builds on the lessons learned during the PDF A and PDF B phase, and also on the lessons learned from other GEF projects, from implementation of the Mediterranean Action Plan (MAP) and from other UNDP projects in Croatia.

During the PDF A and PDF B phase, the following lessons were learnt:

129. The critical support of a broad range of stakeholders is required to ensure project success. Stakeholders are in the private sector, in NGOs, in local government and in national government. They also include a range of experts. PDF A and PDF B experience show that taking the time to nurture the support of these stakeholders ensures that the project is supported, can achieve its goals, and can build on the parallel activities of the many stakeholders. The need to adapt to changing opportunities. Notably, during the project preparation period, the situation in Croatia has evolved from a post-war situation, through a 'wild' transition period, to a classical pre-EU Accession period. There have also been several changes of government at national and local levels. Clearly the incentives and plans of many stakeholders have evolved over this time. Hence, the project strategy and implementation arrangements have been designed in order to be adaptable, and to be able to exploit opportunities as they arise.

130. Balance between proposed approaches. During the PDF A and PDF B phase, several alternative approaches were explored. These included having the project focus on Protected Areas and having the project focus on ICZM. Ultimately, the project adopted a classic mainstreaming approach – mainstreaming biodiversity into the tourism, agriculture and fisheries sectors. However, given the mosaic nature of biodiversity, the need to complement the Protected Area system is recognised. Also, given the existence of several economic sectors side by side in the project area, there is a strong need for an integrated approach, and the project will complement existing efforts to develop ICZM in Croatia. Finally, based on previous experience, it is essential that the PIU be in the project area in order to be able to consult with and respond to the very large number of local stakeholders. This increases effectiveness, improves communication and is essential for building stakeholder engagement.

Lessons learned from other GEF projects

131. The COAST project builds upon the lessons of on-going GEF activities in the region, particularly in the field of ICZM, stakeholder mobilisation and microfinance (MedWet, Hungary Tisza River, Bulgaria Coast and Ponor mountains, etc.). Especially valuable lessons were taken out of the UNDP publication and one of the authors: "Local Business for Global Biodiversity Conservation", Andrew Bovarnick and Ajay Gupta, August 2003.

132. Lessons learned from the Mediterranean Action Plan (MAP): The major MAP activities relevant for COAST are those related to the implementation of MAP Coastal Area Management Programmes (CAMPs), Monitoring of Pollution of the Marine Environment from Land-based Sources (MED POL), and those related to Protected Areas and Biodiversity (notably the recently implemented GEF/UNEP Strategic Action Plan for the Protection of Biodiversity in the Mediterranean Basin - SAP BIO). Croatia played a very active role in their implementation, including strong previous involvement of a number of staff and experts of the COAST PDF A and PDF B teams. Some of the key lessons learned are as follows:



- richness, complexity and interrelation of marine and coastal areas resources and ecosystems requires specific approaches, methodologies and tools and their integration;
- management arrangements should be designed to cope with the project complex and multi-level and -disciplinary nature, appropriate for national and project area conditions, but flexible, efficient, and cost-effective;
- the need for practical and efficient measures for smooth and on/going co-ordination, harmonisation and integration of activities, notably at all administrative levels and across sectors and the project area;
- the need for an appropriate participatory approach, as a key but transversal project component, designed through an interactive participation programme involving all stakeholders groups;
- the need to attract and involve the general public, media, youth and individual partners as active participants and potential beneficiaries, in order to develop ownership feeling and create bottom up support; and
- the need for tangible results during project implementation and sustainable impact on project related key processes and actions at national and project area levels.

133. Lessons learned from UNDP portfolio in Croatia: It is crucial that the project is managed by a competent and dedicated professional Project Team and that the resources (both human and financial) are adequate to achieve the required outputs. The Project Team should work in a transparent manner and should keep a close relationship with the key-stakeholders, in particular with the key ministries and partner-agencies (including other donors). The management team should be flexible (able to adopt to changes of the project context) and supported by UNDP CO. It is important to form advisory and focus groups that gather project stakeholders from the early stage of project in order to consult them and to ensure participation in project design and later ownership of project implementation. This is time and resources demanding and should be part of project planning and resources allocation. It is also important to allocate resources for project visibility and media outreach.

### **Part III. Management Arrangements**

#### **Management arrangements**

134. UNDP is the GEF Implementing Agency (IA) and will provide support services as requested by the National Executing Agency (NEA). This may include direct/advance payments, procurement and recruitment. UNDP Croatia will nominate one full-time UNDP staff to support administratively the project. The scheme of implementation and management arrangements are shown in [Annex 2](#).

135. The project will be nationally executed (NEX) by the MEPPPC with the support services provided by UNDP Country Office (CO). MEPPPC will nominate a senior official to be the National Project Director (NPD). MEPPPC will likewise appoint a working level project Focal Point (or Co-ordinator) to support the NPD. Both positions are part-time and financed by the Government. The NPD assumes overall responsibility, on behalf of the government, for the project implementation and the achievement of the project outputs and outcomes. Draft, detailed, Terms of Reference (ToR) for the NPD are provided in Section IV, [Annex 3](#) below.

136. A **Project Steering Committee** (PSC) will oversee the project implementation. The PSC membership includes representatives of concerned Ministries, the four counties, the Croatian Bank for Reconstruction and Development (HBOR), Croatian Fund for Environment and Energy

Efficiency, Croatian Tourism Organisation, Croatian Forests, Croatian Waters and UNDP/GEF. Draft ToR for the PSC are provided in Section IV, Part 3 below.

137. A small **Project Management Group (PMG)** will be responsible for important management decisions between meetings of the PSC. The PMG membership is: NPD, UNDP, NPM and representatives of the four counties.

138. A **Project Implementation Unit (PIU)** will be responsible for day-to-day project co-ordination and management. The PIU will be established in the project area and will have general project management, co-ordination functions and will provide ongoing technical support and guidance. Referring to location of PIU office, one of alternatives to be considered will be the PAP/RAC Centre in Split, as during the PDF B phase. This Centre is willing to offer a similar arrangement for the FP phase. Such an arrangement was proven in the PDF B phase as very effective and cost-efficient. Although unusual in UNDP/GEF portfolio, it could be a very innovative mechanism, particularly because the complex multi-level and multi-sectoral nature of the project, the number of activities and demo areas, and its highly participatory approach needing full support of many private sector stakeholders, all requiring optimal conditions for a highly dynamic and responsive project management. The PIU will ensure that project implementation proceeds smoothly through well-written workplans, Terms of Reference and carefully designed administrative arrangements that meet UNDP's requirements. The PIU will also be responsible for overseeing implementation of the Stakeholder Participation Plan ([Annex 4](#)), although this will be implemented through all project activities, and not as a stand alone set of activities. In this regard, PIU actions will include: organising the consultative Inception mission and workshop, organising the annual high level meetings, organising regular Project Steering Committee meetings, supporting the network of Secondees and Focal Points. Notably, there will be a systematic and co-ordinated interaction with the stakeholders – departments, NGOs, enterprises, co-operatives – by the PIU staff. As in the PDF B stage of the project, this will be through meetings, phone calls, emails, etc. The ToR of the PIU Task Managers (see below) focus considerably on stakeholder engagement.

139. The PIU will be responsible to ensure linkages between the national-level Focal Points at the ministries, the 4 counties Focal Points and Secondees at both national and county-level. The PIU will be staffed as follows:

- A national **Project Manager (NPM)**, with substantial technical skills related to the project and also strong management skills. S/he will provide overall technical direction and leadership for the project.
- **2 full-time Task Managers (Deputy NPM)**. One will be responsible for liaison with ministries and other key stakeholders in Zagreb, and will be hosted by UNDP CO; one will be responsible for liaising within the project area, notably with the demonstration sites.
- One **Administrative Assistant and one Finance Officer**.

140. Four **Core-team sectoral/thematic experts** will be sub-contracted by the project to provide ongoing technical support. These experts will be recruited permanently for the duration of the project, but not full time (the required inputs for each expert have been calculated based on the requirements for each activity in the logical framework). Their ToR will be geared towards supporting specific activities in the logical framework. They will also co-ordinate all activities respectively in the tourism, agriculture, fishing and banking sectors, and in biodiversity. All key partners will nominate and finance **Operational Focal Points**, to liaise with the PIU, to provide operational support to the implementation of activities under partners responsibility/competence, and to support, if appropriate, the concerned secondees in their institution.

141. The Project Executing Agency is the Ministry of Environment Protection, Physical Planning and Construction (MEPPPC). The MEPPPC has the government mandate related to environmental protection, physical planning and housing/communal infrastructure/ construction. The MEPPPC has the mandate for cross-sectoral co-ordination of environment-related matters, and is the only agency responsible for integrated planning. The State Institute for Nature Protection (SINP) was part of the MEPPPC until 2003, when it was transferred to the Ministry of Culture. The SINP continues to play an important role in project development, and has committed itself to supporting project implementation. It is actively involved in the Project Steering Committee, and has committed co-financing.

142. It is important to recognise that COAST is a multi-sectoral and multidisciplinary project. In order to achieve environment and nature protection, it aims particularly to influence the tourism, agriculture, fisheries/mariculture and banking sectors. The MEPPPC and SINP cannot do this alone. Hence the full involvement of the concerned sectoral agencies has been secured. The Ministries and national agencies responsible for tourism, banking, agriculture and fisheries have participated in project development, and are committed to supporting project implementation. All have provided Letters of Support and Co-financing. Local governments will also play a role in project implementation. The county departments responsible for environment, planning, nature protection, agriculture, fisheries and tourism have all been involved and will continue to be involved. In each case, this is under the co-ordination of the County Governor's office.

143. As mentioned in previous sections, a key element of the project strategy is financing highly qualified Secondees in government agencies. PIU will support and approve the process to recruit Secondees. ToR will be prepared by PIU. Secondees will report regularly on progress to PIU. PIU will be responsible for training, coaching and monitoring the Secondees.

144. **Focus Groups** are to be established, one for each demonstration landscape, to secure a broad participation of stakeholders. These Focus Groups will be multi-sectoral including local and national NGOs, local institutes, private sector, SMEs, individual family entrepreneurs, other partners and beneficiaries.

145. Specific implementation arrangements for the Partial Risk Guarantee, to be managed by the Croatian Bank for Reconstruction and Development (HBOR), have been drafted (a draft Loan Guarantee Agreement, please see [Annex 13](#)). These arrangements will be finalised during the Project Inception period (see below).

146. Specific implementation arrangements for the COAST Biodiversity Rapid Response Facility (CBRRF) have been developed (please see [Annex 9](#)). These will be finalised during the Project Inception period (see below). The agency responsible for managing the CBRRF will be selected through a competitive and open process.

#### Project Inception Period and Staff Development

147. At the project outset, in the project Inception Period, all key stakeholders will be consulted and the project co-ordination and technical support arrangements will be established. Also, transparent and manageable mechanisms for tracking parallel project financing and co-financing will be agreed and established. Planning, consultation and co-ordination meetings will be held at all levels. The monitoring framework (see Section 2f below) will be elaborated. The output of this Inception Period will be a comprehensive Inception Report outlining all activities and partnership arrangements. In order to be successful, the project requires the involvement of highly competent personnel in the PIU, in the Core Team and as Secondees. These staff will require not only technical skills and knowledge, but also managerial, communicational and inspirational skills.

UNDP rates in Croatia are competitive, and there is a growing pool of experienced experts in Croatia, who are willing to work in the project area. However, previous experience shows that it can be difficult to find experts with the following skills: (i) Communication; (ii) Participatory methodologies; and (iii) Management, particularly adaptive management.

148. The project will address this potential challenge as follows:

- a thorough recruitment process to identify people already having the above-mentioned-skills;
- selection of an NPM who not only has these skills, but also as a demonstrated ability to pass on these skills;
- initial training programmes during the inception period; and
- a continuous mentoring/coaching programme, directed by the NPM with the support of his/her deputies, and using outside experts when necessary.

149. In order to accord proper acknowledgement of GEF for providing funding, a GEF logo should appear on all relevant GEF project publications, including among others, project hardware and vehicles purchased with GEF funds. Any citation on publications regarding projects funded by GEF should also accord proper acknowledgement to GEF. The UNDP logo should be more prominent – and separated from the GEF logo, if possible, as UN visibility is important for security purposes.

#### **Part IV. Monitoring and Evaluation Plan**

##### **Monitoring and evaluation**

150. Project monitoring and evaluation will be conducted in accordance with established UNDP and GEF procedures and will be provided by the Project Team and the UNDP Country Office (UNDP CO) with support from UNDP/GEF. The Logical Framework Matrix (see [Section II, Part II below](#)) provides *performance* and *impact* indicators for project implementation along with their corresponding *means of verification*. These will form the basis on which the project's Monitoring and Evaluation system will be built. In addition the project team will use the tracking tool for BD2 to monitor the progress mid-term and at the end of the project compared with the baseline. The BD2 Tracking Tool is attached in [Annex 5](#). The following sections outline the principle components of the Monitoring and Evaluation Plan and indicative cost estimates related to M&E activities. The project's Monitoring and Evaluation Plan and budget is attached in [Annex 12](#). Overall costs of Monitoring and Evaluation are estimated at \$200,000.

##### **Monitoring and reporting<sup>29</sup>**

##### Project Inception Phase

151. A Project Inception Workshop will be conducted with the Full Project Team, relevant government counterparts, co-financing partners, the UNDP CO and representation from the UNDP/GEF Regional Co-ordinating Unit, as well as UNDP/GEF (HQs) as appropriate. A fundamental objective of this Inception Workshop (IW) will be to assist the Project Team to understand and take ownership of the project's goals and objectives, as well as finalise preparation of the project's first annual work plan on the basis of the project's LogFrame matrix. This will include reviewing the LogFrame (indicators, means of verification, assumptions), imparting additional details, as needed, and on the basis of this exercise finalise the Annual Work Plan

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<sup>29</sup> As per new GEF guidelines, the project will also be using the SP2 Management Effectiveness Tracking Tool (see Section IV Part XII). New or additional GEF monitoring requirements will be accommodated and adhered to once they are officially launched.

(AWP) with precise and measurable performance indicators, and in a manner consistent with the expected outcomes for the project.

152. Additionally, the purpose and objective of the IW will be to: (i) introduce project staff with the UNDP/GEF *expanded team* which will support the project during its implementation, namely the CO and responsible Regional Co-ordinating Unit (RCU) staff; (ii) detail the roles, support services and complementary responsibilities of UNDP CO and RCU staff vis-à-vis the Project Team; (iii) provide a detailed overview of UNDP/GEF reporting and monitoring and evaluation (M&E) requirements, with particular emphasis on the Annual Project Implementation Reviews (PIRs) and related documentation, the Annual Project Report (APR), Tripartite Review Meetings, as well as mid-term and final evaluations. Equally, the IW will provide an opportunity to inform the Project Team on UNDP project-related budgetary planning, budget reviews, and mandatory budget rephasings. The IW will also provide an opportunity for all parties to understand their roles, functions, and responsibilities within the project's decision-making structures, including reporting and communication lines, and conflict resolution mechanisms. The Terms of Reference for project staff and decision-making structures will be discussed again, as needed, in order to clarify for all, each party's responsibilities during the project's implementation phase.

#### Monitoring responsibilities and events

153. A detailed schedule of project reviews meetings will be developed by the project management, in consultation with project implementation partners and stakeholder representatives and incorporated in the Project Inception Report. Such a schedule will include: (i) tentative time frames for Tripartite Reviews, Steering Committee Meetings, Project Management Group Meetings, and (ii) project-related Monitoring and Evaluation activities.

154. Day to day monitoring of implementation progress will be the responsibility of the NPM based on the project's Annual Work Plan and its indicators. The Project Team will inform the UNDP CO of any delays or difficulties faced during implementation so that the appropriate support or corrective measures can be adopted in a timely and remedial fashion. The NPM will fine-tune the progress and performance/impact indicators of the project in consultation with the Full Project Team at the Inception Workshop with support from UNDP CO and assisted by the UNDP/GEF Regional Co-ordinating Unit. Specific targets for the first year implementation progress indicators together with their means of verification will be developed at this Workshop. These will be used to assess whether implementation is proceeding at the intended pace and in the right direction and will form part of the Annual Work Plan. The local implementing agencies will also take part in the Inception Workshop in which a common vision of overall project goals will be established. Targets and indicators for subsequent years would be defined annually as part of the internal evaluation and planning processes undertaken by the Project Team.

155. Measurement of impact indicators related to global benefits will occur according to the schedules defined in the Inception Workshop. The measurement of these will be undertaken through subcontracts or retainers with relevant institutions or through specific studies that are to form part of the project's activities or periodic sampling.

156. Periodic monitoring of implementation progress will be undertaken by the UNDP CO through quarterly meetings with the project proponent, or more frequently as deemed necessary. This will allow parties to take stock and to troubleshoot any problems pertaining to the project in a timely fashion to ensure smooth implementation of project activities. Annual Monitoring will occur through the Tripartite Review (TPR). This is the highest policy-level meeting of the parties directly involved in the implementation of a project. The project will be subject to TPR at least once every

year. The first such meeting will be held within the first twelve months of the start of full project implementation.

157. The NPM in co-ordination with the CO will prepare a UNDP/GEF Annual Project Report (APR) and submit it to UNDP CO at least two weeks prior to the TPR for review and comments. The APR will be used as one of the basic documents for discussions in the TPR meeting. The NPM will present the APR to the TPR, highlighting policy issues and recommendations for the decision of the TPR participants.

158. The Terminal Tripartite Review (TTR) held in the last month of project operations. The NPM will be responsible for preparing the Terminal Report and submitting it to UNDP CO. It shall be prepared in draft at least two months in advance of the TTR in order to allow review, and will serve as the basis for discussions in the TTR. The terminal tripartite review considers the implementation of the project as a whole, paying particular attention to whether the project has achieved its stated objectives and contributed to the broader environmental objective. It decides whether any actions are still necessary, particularly in relation to sustainability of project results, and acts as a vehicle through which lessons learned can be captured to feed into other projects under implementation or formulation.

#### Project monitoring reporting

159. The NPM in conjunction with the UNDP/GEF extended team will be responsible for the preparation and submission of the following reports that form part of the monitoring process.

#### ***Inception Report (IR)***

160. A Project Inception Report will be prepared immediately following the Inception Workshop. It will include a detailed First Year/Annual Work Plan divided in quarterly time-frames detailing the activities and progress indicators that will guide implementation during the first year of the project. This Work Plan would include the dates of specific field visits, support missions from the UNDP CO or the Regional Co-ordinating Unit (RCU) or consultants, as well as time-frames for meetings of the project's decision-making structures. The Report will also include the detailed project budget for the first full year of implementation, prepared on the basis of the Annual Work Plan, and including any monitoring and evaluation requirements to effectively measure project performance during the targeted 12 months time-frame. The Inception Report will include a more detailed narrative on the institutional roles, responsibilities, co-ordinating actions and feedback mechanisms of project-related partners. In addition, a section will be included on progress to date on project establishment and start-up activities and an update of any changed external conditions that may effect project implementation. When finalised the report will be circulated to project counterparts who will be given a period of one calendar month in which to respond with comments or queries. Prior to this circulation of the IR, the UNDP CO will review the document.

#### ***Annual Project Report (APR)***

161. The UNDP/GEF APR will be prepared on an annual basis prior to the Tripartite Project Review, to reflect progress achieved in meeting the project's Annual Work Plan and assess performance of the project in contributing to intended outcomes through outputs and partnership work. The APR will include the following:

- An analysis of project performance over the reporting period, including outputs produced and, where possible, information on the status of the outcome;
- The constraints experienced in the progress towards results and the reasons for these;
- The three (at most) major constraints to achievement of results;

- AWP and other expenditure reports (ERP generated);
- Lessons learned; and
- Clear recommendations for future orientation in addressing key problems in lack of progress.

#### ***Quarterly Progress Reports***

162. Short reports outlining main updates in project progress will be provided quarterly to the local UNDP CO. The CO will share the report with UNDP/GEF Regional Office.

#### ***Project Terminal Report***

163. During the last three months of the project the Project Team will prepare the Project Terminal Report. This comprehensive report will summarise all activities, achievements and outputs of the project, lessons learned, objectives met, or not achieved, structures and systems implemented, etc. and will be the definitive statement of the project's activities during its lifetime. It will also lay out recommendations for any further steps that may need to be taken to ensure sustainability and replicability of the project's activities.

#### ***Technical Reports***

164. As part of the Inception Report, the Project Team will prepare a draft Reports List, detailing the technical reports that are expected to be prepared on key areas of activity during the course of the project, and tentative due dates. Where necessary this Reports List will be revised and updated, and included in subsequent APRs. These technical reports will represent the project's substantive contribution to specific areas, and will be used in efforts to disseminate relevant information and best practices at local, national and international levels.

#### **Independent evaluation**

165. The project will be subject to at least two independent external evaluations as follows: An independent Mid-Term Evaluation will be undertaken at the mid point of project implementation. The Mid-Term Evaluation will determine progress being made towards the achievement of outcomes and will identify course correction, if needed. It will focus on the effectiveness, efficiency and timeliness of project implementation; will highlight issues requiring decisions and actions; and will present initial lessons learned about project design, implementation and management. Findings of this review will be incorporated as recommendations for enhanced implementation during the final half of the project's term. The organisation, Terms of Reference and timing of the Mid-term Evaluation will be decided after consultation between the parties to the Project Document. The Terms of Reference for this Mid-term Evaluation will be prepared by the UNDP CO based on guidance from the Regional Co-ordinating Unit and UNDP/GEF.

166. An independent Final Evaluation will take place three months prior to the Terminal Tripartite Review meeting, and will focus on the same issues as the Mid-term Evaluation. The final evaluation will also look at impact and sustainability of results, including the contribution to capacity development and the achievement of global environmental goals. The Final Evaluation should also provide recommendations for follow-up activities. The Terms of Reference for this evaluation will be prepared by the UNDP CO based on guidance from the Regional Co-ordinating Unit and UNDP/GEF.

#### **Audit clause**

167. The Government of Croatia will provide the Resident Representative with certified periodic financial statements, and with an annual audit of the financial statements relating to the status of UNDP (including GEF) funds according to the established procedures set out in the

Programming and Finance manuals. The Audit will be conducted by the legally recognised auditor of the Government, or by a commercial auditor engaged by the Government.

#### Learning and knowledge sharing

168. Results from the project will be disseminated within and beyond the project intervention zone through a number of existing information sharing networks and forums. In addition, the project will participate, as relevant and appropriate, in UNDP/GEF sponsored networks, organised for Senior Personnel working on projects that share common characteristics. The project will identify and participate, as relevant and appropriate, in scientific, policy-based and/or any other networks, which may be of benefit to project implementation through lessons learned. The project will identify, analyse, and share lessons learned that might be beneficial in the design and implementation of similar future projects. Identify and analysing lessons learned is an on-going process, and the need to communicate such lessons as one of the project's central contributions is a requirement to be delivered not less frequently than once every 12 months. UNDP/GEF shall provide a format and assist the Project Team in categorising, documenting and reporting on lessons learned. To this end, around 4% of project resources will need to be allocated for these activities.

### **Part V. Legal Context**

169. This Project Document shall be the instrument referred to as such in Article I of the Standard Basic Assistance Agreement between the Government of Croatia and the United Nations Development Programme, signed by the parties on March 12, 1996. The host country implementing agency shall, for the purpose of the Standard Basic Assistance Agreement, refer to the government co-operating agency described in that Agreement.

170. The UNDP Resident Representative in Croatia is authorised to effect in writing the following types of revision to this Project Document, provided that he/she has verified the agreement thereto by the UNDP/GEF Unit and is assured that the other signatories to the Project Document have no objection to the proposed changes:

- a) Revision of, or addition to, any of the annexes to the Project Document;
- b) Revisions which do not involve significant changes in the immediate objectives, outputs or activities of the project, but are caused by the rearrangement of the inputs already agreed to or by cost increases due to inflation;
- c) Mandatory annual revisions which re-phase the delivery of agreed project inputs or increased expert or other costs due to inflation or take into account agency expenditure flexibility; and
- d) Inclusion of additional annexes and attachments only as set out here in this Project Document.



## **Section II. Strategic Results Framework and GEF Increment**

### **Part I. Incremental Cost Analysis**

#### **1. Broad development objective**

The Dalmatian coast of Croatia is the home for approximately 1 million people and plays a key role in the sustainable development of Croatia. The area contains a vast wealth of cultural and historical heritage. The area contains globally significant biodiversity, in the form of landscapes, ecosystems, rare species and breeds. This biodiversity plays a vital role in the local culture and in the local socio-economic development, notably by providing essential inputs to the tourism, fishing and agriculture industries. The overall development objective is sustainable development of the Croatian Dalmatian coast, notably by a sustainable transformation of the tourism, agriculture and fishing sectors.

#### **2. Global environmental objective**

The project will help conserve globally significant biodiversity in the Dalmatian coast. Notably, this project will conserve a dynamic and complex mosaic of habitats, ecosystems, landscapes, seascapes and land-uses, many of which have been recognised both internationally and at the European level. This biodiversity represents systems that were once common throughout the northern Mediterranean, but have almost disappeared from most sites in recent decades due to development pressures. The project will also help conserve a large number of rare and endemic species of plants, insects and marine fauna – on the coast, on islands and in marine ecosystems. Finally, the project will help conserve unique breeds and varieties, and unique indigenous uses and technologies. The project will conserve this biodiversity by supporting the transformation of the tourism, agriculture, and fisheries and mariculture sectors. The project will support development of these sectors (thereby supporting local development) along a path that conserves and sustainably uses biodiversity. This transformation will be achieved by a mixture of regulation, enforcement and by creating appropriate incentive structures. Notably, the project will influence forces that drive development of the sectors, i.e.: the banking system, the EU Accession process, existing integrated planning systems and the Protected Area management system.

#### **3. Overview**

Baseline and Incremental Costs have been assessed over the full project seven years of the GEF intervention, and geographically by the borders of the project area. Thematically, the Costs cover sustainable development of the project area, the main economic sectors interacting with biodiversity (industry, tourism, agriculture, forestry, and fisheries), the costs of the Protected Area system in the project area, and the costs of ongoing efforts to meet EU Accession requirements – notably in water treatment and water pollution control. Costs include the costs of national and county government agencies, semi-governmental organisations and associations, large and small private sector organisations, co-operatives, local and international NGOs, local families and international partners including GEF. Incremental costs include both the costs of reorienting (or modifying) baseline activities and the costs of supporting additional activities required to conserve/sustainable use the biodiversity.

#### **4. Baseline scenario**

In the baseline, the main forces driving development in the project area will be short-term profit, short-term economic development and the EU Accession process. In the baseline, these forces do not adequately account for biodiversity, or the role biodiversity plays in the local economy. In the baseline, capacity to ensure compliance with regulations remains weak – especially with regards to biodiversity conservation. In the baseline, the system of incentives for biodiversity-friendly investments is almost non-existent. In the baseline, there are large-scale investments to treat waste-

water and manage water pollution, but these do not focus on biodiversity rich areas, and to not adequately account for the impacts on biodiversity. In the baseline, the unregulated tourism sector will continue to have a negative impact on biodiversity, mostly through habitat destruction and the unsustainable consumption of water, energy and increasing waste generation. In the fisheries sector, over-fishing will continue to deplete stocks, and harmful practices will destroy habitats and ecosystems. Fish-farming will be increasingly polluting. In the agricultural sector, increasing amounts of land will be abandoned. Waste and polluted water from tourist installations and urban areas will damage very sensitive, very unique marine biodiversity areas. Unique, one-off opportunities for biodiversity-friendly development – through ecotourism, shell-fish farms, organic agriculture, etc. – will be missed in the baseline. In the baseline, banks have little information or concern for biodiversity, and environmental risks are not accounted for in the lending procedures. As a result, many unique habitats will be lost forever, and the biodiversity rich areas will become increasingly fragmented.

## 5. Baseline cost analysis

The overall baseline is huge. Croatia is a middle income country, starting out on the EU Accession process, and the project area has great potential for tourism (one of the global economy's largest sectors). Hence, there is a large number of public and private sector investments in the area, many of which may have an indirect impact on the environment and biodiversity. In this section we limit the baseline analysis to efforts to mainstream biodiversity into the tourism, fisheries and agriculture sectors. In the baseline, there are very few efforts to achieve this mainstreaming. Almost all efforts to conserve biodiversity, in the baseline, focus on protection through Protected Areas. As they do not focus on mainstreaming, we do not consider them in this baseline. The only significant baseline funding is the following:

- Croatian Waters (CW) that is to invest in waste water treatment and pollution control. In the baseline, this does not focus on the key biodiversity areas. In the baseline, CW will invest \$35,55 million directly in the four project demonstration landscapes;
- EU CARDS Programme Support in 2006 to Legal Development, Water Framework Capacity Development and Registry of Marine Goods (\$3 million);
- EU IPA Regional Development, anticipated investments in environmental protection and water treatment (\$7,5 million);
- EU IPA Rural Development anticipated investments in eco-agricultural schemes (\$1,8 million);
- County level government agencies will promote tourist development (\$0,5 million), and will strengthen capacity to inspect tourist facilities (\$0.45 million) and to inspect fishing facilities and markets (\$0,45 million);
- Two private sector enterprises are to invest in educational/visitor centres in the demonstration landscapes. Total investment is \$1,2 million. In the baseline, these centres do not address biodiversity;
- The MEPPPC will collect data and promote sustainable tourism and biodiversity awareness through promotional campaigns. The **Eco-Fund** will also contribute. Total is an estimated \$0,674 million;
- Croatian Forests are to invest in small-scale forest rehabilitation (\$20,000);
- Co-operatives and small scale private sector organisations are to explore biodiversity conservation in agriculture, in tourism and sustainable fisheries, etc. (\$200,000);
- Local enterprise centres are to support development of enterprises (\$100,000); and
- At the national level, related legislative and policy development is estimated at \$70,000.

Hence, total baseline funding on investments aiming to mainstream biodiversity into tourism, agriculture or fisheries sector is **\$51,514,000**.

## **6. Global environmental objective**

To conserve and sustainably use the landscape, ecosystem, species and genetic biodiversity in the Dalmatian coast in Croatia.

## **7. GEF alternative**

The Alternative consists of modifying baseline initiatives and supporting additional initiatives in order to achieve a mainstreaming of biodiversity conservation into tourism, agriculture, fisheries, mariculture and general development across the project area.

Outcome 1 Four demonstration production landscapes were identified and analysed during the PDF B stage. Although very varied, each of these demonstration landscapes has important tourism landscapes, globally important biodiversity, ongoing activities in the tourism, agriculture and fishery sectors, and a broad range of governmental, non-governmental and private sector stakeholders. Under Outcome 1, the project will demonstrate how to remove barriers to mainstreaming biodiversity into economic activities at the local level. The project will also demonstrate the benefits of removing these barriers – benefits in terms of biodiversity and for the economy. This requires strong partnerships between a broad range of stakeholders. Hence, there are many cofinancers. With investment in the baseline at \$12 million, the Alternative Outcome across the four demonstration landscapes costs \$22,16 million. Main co-financers include MEPPPC, MSTTD, Ministry of Agriculture, Croatian Waters, County Governments and Planning Institutes, County Tourism Boards, hotel associations, local hotel owners and farmers and co-operatives. Other co-financers include: Croatian Forests, NGOs, Ministry responsible for agriculture, and Ministry responsible for tourism. GEF contribution to the increment is \$3,48 million.

Outcome 2 The PDF B phase identified a range of investments that, if well managed, could yield both economic and biodiversity benefits. This Outcome aims to make the private sector more willing and able to make these biodiversity-friendly investments across the four counties, with a special focus on the micro, small and medium sized enterprises. This will be achieved through: (i) increasing the availability of affordable capital by initiating reforms in the banking sector; (ii) developing market premiums for biodiversity products using market-based incentives; (iii) increasing consumer demand for biodiversity-friendly services and products; (iv) improving the approval processes for biodiversity-friendly investment; and (v) increasing the demand for capital and providing technical support for new activities. This Outcome will cover all four counties. Again, a large number of partners are needed to successfully reach this Outcome, hence there are also many co-financers to this Outcome. With investment in the baseline at \$1,02 million, the Alternative Outcome costs are \$7,47 million. Main co-financers to this Outcome are: The Ministry of Agriculture, UNDP, HBOR and private banks, private sector organisations that take on loans. The details of these loans can only be determined after the project has started and the risk guarantee is operational. Other co-financers include farmers, NGOs, fishermen, CTBs, schools and enterprise centres. GEF Contribution to the increment is \$1.599 million.

Outcome 3 This Outcome aims to reduce the negative impacts of all ongoing activities by all actors in the related sectors across the project area. This Outcome will increase compliance with existing biodiversity-related regulations in the tourism, fisheries and agriculture sectors. It will also increase compliance with Protected Area regulations, and it will strengthen capacity to enforce biodiversity-related planning regulations. Finally, where appropriate, the project will help develop new county level regulations. The main approaches to strengthening this compliance are: (i) developing monitoring and inspections systems, with training and technical support; (ii) developing targeted public support for regulations; and (iii) developing economic incentives. With the investment in the baseline at \$37,2million, the costs of the Alternative Outcome are \$50.16 million. Main co-

financers are MEPPPC (CARDS), CW, Ministry of Agriculture, SINP, Eco-Fund, private investors, and Inspectorates for tourism and fisheries. Other co-financers are CTB, farmers, shell-fish farmers and Protected Areas. The GEF Contribution to the increment is \$1.17 million.

Outcome 4 This Outcome aims to set in place the necessary national context to support achievement of project objectives in the four counties. This includes: (i) developing high level support, and translating this into direct support to counties for positive action. This support will ensure that policy and legislative reform is given appropriate authority, and that sufficient resources are allocated to compliance; (ii) advocating and supporting necessary reforms to the policy, institutional and legal framework; and (iii) ensuring capacity to replicate project successes. Many national governmental and private agencies are involved in this Outcome, as partners and co-financers. With the investment in the baseline at \$1,17 million, Alternative Outcome costs are \$2,85 million. The main co-financing is the time and support of national ministries and HBOR. County governments will also support this Outcome. The GEF Contribution to the increment is \$0,532 million. Monitoring and Evaluation costs, to be covered by GEF, amount to \$200,000.

## **8. Incremental Cost Matrix**

The Matrix below summarises the baseline, alternative and incremental costs expenditures during the project. The total incremental cost of the project is \$31,322,000 (excluding the PDF B), with a GEF contribution of \$6,988,000 (i.e. 22% of the total).

**Table 4. Incremental Cost Matrix**

<b>Outputs</b>	<b>Description</b>	<b>Baseline</b>	<b>Alternative</b>	<b>Total Incremental Cost (US\$)</b>	<b>GEF Contribution (US\$)</b>
1.1	Demonstration in Dubrovnik County	7,954,000	10,296,000	2,342,000	407,000
1.2	Demonstration in Split County	1,204,000	2,685,000	1,481,000	369,000
1.3	Demonstration in Zadar County	1,008,000	2,745,000	1,737,000	328,000
1.4	Demonstration in Šibenik County	1,904,000	2,987,000	1,083,000	325,000
1.5	Uptaking and disseminating lessons	0	48,000	48,000	48,000
CBRRF for Outcome 1		0	910,000	910,000	310,000
Technical and Managerial support for Outcome 1 <sup>30</sup>		0	2,492,120	2,492,120	1,695,960
2.1	More capital available for biodiversity investments	0	3,502,000	3,502,000	500,000
2.2	MBIs functioning	0	195,000	195,000	82,000
2.3	More consumer demand for biodiversity products	500,000	724,000	224,000	74,000
2.4	Faster approval process	224,000	262,000	38,000	28,000
2.5	More demand for biodiversity loans	300,000	1,406,000	1,106,000	198,000
CBRRF for Outcome 2		0	310,000	310,000	135,000
Technical and Managerial support for Outcome 2		0	1,068,320	1,068,320	582,260
3.1	Strong planning basis	0	394,000	394,000	50,000
3.2	Compliance in tourism sector	450,000	616,000	166,000	88,000
3.3	Compliance in agriculture sector	2,250,000	2,511,000	261,000	60,000
3.4	Compliance in fisheries sector	1,650,000	2,709,000	1,059,000	98,000
3.5	Compliance in mariculture sector	700,000	900,000	200,000	54,000
3.6	Water quality control	32,200,000	39,380,000	7,180,000	14,000
3.7	Compliance across Protected Areas	0	2,455,000	2,455,000	76,000
CBRRF for Outcome 3		0	330,000	330,000	155,000
Technical and Managerial support for Outcome 3		0	862,610	862,610	578,530
4.1	High level support	0	152,000	152,000	62,000
4.2	Policy and legislative reform	1,170,000	1,976,000	806,000	144,000
4.3	Dissemination and replication	0	282,000	282,000	100,000
Technical and Managerial support for Outcome 4		0	437,950	437,950	226,250
<b>Totals</b>		51,514,000	82,636,000	31,122,000	6,788,000
Monitoring and Evaluation				200,000	200,000
<b>Grand Total</b>		<b>51,514,000</b>	<b>82,636,000</b>	<b>31,322,000</b>	<b>6,988,000</b>

<sup>30</sup> Includes Seconded, PIU support, and UNDP CO support.

## Part II. Logical Framework Analysis

**Table 5. Logical Framework Analysis**

Project Strategy	Objectively verifiable indicators				
<b>Goal</b>	To ensure that the development path of the Croatian coast is environmentally friendly, with the conservation of biological diversity firmly mainstreamed into that development path.				
	Indicator	Baseline	Target	Sources of verification	Risks and Assumptions
<b>Objective:</b> To effectively transform actions, practices and approaches of private operators in the tourism, agriculture and fisheries sectors in the four coastal counties, in part by influencing the banking sector, and thereby mainstream biodiversity conservation into these sectors.	The volume of investments into biodiversity-friendly activities across the entire project area.	0	Increase by the end of the project (year 7) by 60%	Official data and project records	<b>Overall risks and mitigation strategies:</b> 1. The EU Accession process slows or stops due to external or political reasons. <u>Mitigation:</u> This is considered unlikely. Moreover, most project activities and outputs can proceed without the EU Accession process. The EU Accession process will be closely monitored. If EU Accession slows down, the project will undertake measures to compensate/alleviate the resulting weaknesses, if any.  2. Collapse or downfall in European tourism sector. Although this may reduce some pressure on biodiversity, the overall impact on biodiversity is likely to be negative, as the momentum towards sustainable tourism in the project area will be lost, and local communities are unlikely to innovate. Local economic stagnation will lead to further degradation of natural resources. <u>Mitigation:</u> This is considered unlikely. Project will closely monitor tourism development. If it shows signs of decline, project design will be reviewed and revised
	<b>Biodiversity Indicator No. 1.</b> The total number of flora taxa ( $\alpha$ -diversity) found at the following 8 representative monitoring spots across the project area: 1. Island Pag, Velo blato (id. ref. 1947) <sup>31</sup> 2. Island Žirje, Kapić & Veli vrh (id. ref. 7671) 3. Blaca, far east on island Mljet (id. ref. 7574) 4. Hum, island Vis (id. ref. 6809) 5. Veli Drvenik island, near Split (id. ref. 23) 6. Biokovo, Podglogovnik (id. op. 336) 7. Island Prvić (id. ref. 6671) 8. Island Ugljan (id. op. 879)	2004 monitoring results: 1. id. ref. 1947, number of taxa: <u>359</u> 2. id. ref. 7671, No. Taxa: <u>207</u> 3. id. ref. 7574), No. Taxa: <u>20</u> 4. id. ref. 6809, No. Taxa: <u>318</u> 5. id. ref. 23, No. Taxa: <u>398</u> 6. id. op. 336, No. Taxa: <u>70</u> 7. id. ref. 6671, No. Taxa: <u>277</u> 8. id. op. 879, No. Taxa: <u>119</u>	The number of species remains constant or increases at each site	The Department of Botany, University of Zagreb, monitors the sites annually, and posts the results into the Flora Croatica Database (FCD). This national database on vascular flora is found at FCD URL hirc.botanic.r/fcd	

	<b>Biodiversity Indicator No. 2.</b> The percentage (by mass) of fish from the class Chondrichthyes <sup>32</sup> ( <i>Raja clavata</i> , <i>Prionace glauca</i> ,) in the total commercial catch.	5.7% 2004	To rise to 6.5% or higher in 2007	Institute for Oceanography and Fishery keeps the data	accordingly.
	<b>Biodiversity Indicator No. 3.</b> Species composition and abundance in key habitats <sup>33</sup> :  - Salt marshes (alliance <i>Arthrocnemion</i> ) at 3 localities in project area: (1) Blace-Neretva; (2) Privlaka (Zadar); (3) Vlačići (Pag).  - Mediterranean xeric grasslands (NKS 34.5) with typical plant communities which depend on permanent traditional pasture, at 3 points: (1) south Pag (Vlačić-Povljane); (2) Pelješac; (3) Ravni Kotari (Vransko jezero).	2005 situation – as recorded in the Flora Croatica Database	Remains unchanged	Published papers in Flora Croatica Database (FCD), national database on vascular flora held by Department of Botany, University of Zagreb FCD URL <a href="http://hirc.botanic.hr/fcd">hirc.botanic.hr/fcd</a>  Habitat Maps (2005)	3. European market for organic and traditional agriculture does not develop quickly. <u>Mitigation</u> : This is considered possible, hence project design is not fully dependent on the quick development of this market. Project will monitor development of this market, and will revise its focus accordingly. For example, if the market develops quicker than anticipated, project emphasis will be redistributed accordingly.  4. Co-financers, either governmental or non-governmental, are unable to meet commitments due to developments not anticipated at project design stage. <u>Mitigation</u> There are two aspects to managing this risk: (i) The project team will continuously monitor the co-financing, report to key project stakeholders, identify likely problems in advance, and react as appropriate; (ii) The project's approach to communication and outreach ensures that the project will continuously identify new partners. Hence, even if the initially identified partners are unable to contribute at the committed level, the level of co-financing should rise with co-financing from the new partners. This was the experience in the final weeks of the project design stage, where the level of expected/committed co-financing continued to increase.
<b>Outcome 1:</b> Biodiversity-friendly development is demonstrated in four small, globally important, productive landscapes.	The <i>revenue</i> from the biodiversity-friendly investments, in the four demonstration landscapes.	0	\$500,000 in year 5 \$1,000,000 in year 7	Project Records, based on stakeholders partners annual reports	
	Application of GEF biodiversity "tracking tool" shows increased scores throughout life of project	Biodiversity Tracking tool attached	Improved ratings at the mid-term and final evaluation	BD2 Tracking Tool Reports	

<sup>31</sup> The Department of Botany, University of Zagreb undertakes a taxa count at over 100 sites along the coast annually. 8 representative sites have been chosen. The Id.ref. refers to the site reference number in the Flora Croatica Database (FCD).

<sup>32</sup> This class of fish is economically important and subject to excessive catches. A decreasing percentage of this class is indicative of poor fishing practices and so indicative of the overall decline of the marine eco-system.

<sup>33</sup> This indicator uses the quality of key habitats to indicate the overall biodiversity quality across the coasts. 6 key habitats have been chosen, 3 *xeric* grasslands and three saltmarshes. The quality of these habitats is measured in terms of the abundance and composition of species present.

	Reduction in number of businesses not complying with the environmental/BD-related dimensions regulations in each of the Demonstration Areas.	Existent records for 2005 of the official inspectorates' in tourism, agriculture and fisheries	Reduction by 25% in year 3 Reduction by 40% in year 7	Reports from inspections carried out by local/regional agencies. Seconddees reports. Project reports	
<b>Outcome 2:</b> An improved investment climate for BD-friendly enterprises across the four counties.	No. or volume of loans to BD-friendly businesses and BD-friendly investments in the project area.	0	\$3 million in year 4 \$6 million in year 7	HBOR records	
	No. of banks fully participating in the loan schemes.	0	1 bank in year 4 3 Banks in year 7	Project records	
	No. of units applying for Tourism eco-label scheme and award competition.	0	10 in year 4 25 in year 6	Project and CTBs records	
<b>Outcome 3:</b> Compliance with biodiversity-related regulations has increased significantly across all sectors across the four counties.	Percentage of operators complying with an 'indicator' regulation (e.g. regulation on fish catch size).	0	Annual increases of 10% or more	Surveys undertaken by the local agencies;  Project reports	
	Local physical and development plans take better account of environmental conditions and are more applicants friendly to green businesses.	None	Input documents prepared by the project and presented to 4 counties. Local planning institutes adopt BD-related project inputs as mandatory for future practices /planning / system of permits	PIU reports; official documents of MEPPPC / local planning institutes	
<b>Outcome 4:</b> A national-level enabling environment that appreciates, supports, institutionalises and disseminates biodiversity-friendly development in	Increased number of inspections (tourism, agricult, fisheries/mariculture) at county level.	See official records for 2005 for baseline.	Increase by 25% in year 3 Increase by 35% in year 7	Official records, detached ministerial departments	
	The number of Parliamentary or Governmental laws, regulations or other measures that relate to coastal areas and integrate or directly target biodiversity conservation goals	0	At least <b>two</b> new measures respectively in agriculture, fisheries, tourism, banks	Official Gazette	



coastal areas.	Funds leveraged (incremental budget allocations, co-funding agreements).	0	\$500,000 in year \$1,500,000 in year 7	Project reports based on official information	
<b>Outcome 1:</b> Biodiversity-friendly development is demonstrated in four small, globally important, productive landscapes.	<p><b>Output 1.1</b> On Pelješac Peninsula, Dubrovacko Primorje, Malostonski Bay and Malo More, biodiversity-friendly and diversified tourism is growing, all fish farms are biodiversity-friendly, traditional shell-fish farming and BD-friendly agriculture has expanded, abandoned lands recultivated with traditional/endemic sorts / plants / herbs, and critical micro eco-systems are protected;</p> <p><b>Output 1.2</b> Across Vis Island and remote islands, sustainable use of biodiversity is driving economic development (notably, in the small hotel sector, the marina sector and in the micro-agricultural sector), degraded lands have been rehabilitated using traditional practices, and critical micro eco-systems are protected;</p> <p><b>Output 1.3</b> In Krka estuary, significant number of large and small scale private sector enterprises (tourism, organic and traditional agriculture and shell-fish culture) are operating in a biodiversity-friendly manner, abandoned lands recultivated with traditional/endemic sorts / plants / herbs, all contributing to the local economy;</p> <p><b>Output 1.4</b> In Northwest Zadar county, traditional agriculture and traditional food production has expanded and has increased in profitability, mariculture and family-run tourist enterprises are biodiversity-friendly, abandoned lands recultivated with traditional/endemic sorts / plants / herbs, and critical marine ecosystems are protected;</p> <p><b>Output 1.5</b> The findings and the lessons learned from the four demonstration landscapes are systematically fed into county and national level practices (notably, through Outcomes 2 – 4).</p>				
<b>Outcome 2:</b> An improved investment climate for BD-friendly enterprises across the four counties.	<p><b>Output 2.1</b> Increased availability of affordable capital;</p> <p><b>Output 2.2</b> Functioning market-based incentives for biodiversity products;</p> <p><b>Output 2.3</b> Increased consumer demand for biodiversity-friendly services and products;</p> <p><b>Output 2.4</b> Improved approval processes for BD-friendly investments;</p> <p><b>Output 2.5</b> Increased demand for capital to invest in profitable, biodiversity-friendly investments.</p>				
<b>Outcome 3:</b> Compliance with biodiversity-related regulations has increased significantly across all sectors across the four counties.	<p><b>Output 3.1</b> A strong planning basis for regulating the biodiversity aspects of private sector investments and production;</p> <p><b>Output 3.2</b> Strengthened capacity to increase compliance with biodiversity-related <i>tourist</i> regulations and guidelines;</p> <p><b>Output 3.3</b> Strengthened capacity to increase compliance with biodiversity-related <i>agriculture</i> regulations and guidelines;</p> <p><b>Output 3.4</b> Strengthened capacity to increase compliance with biodiversity-related <i>fishery</i> regulations;</p> <p><b>Output 3.5</b> Strengthened capacity to increase compliance with biodiversity-related <i>mariculture</i> regulations;</p> <p><b>Output 3.6</b> Strengthened capacity to control water quality;</p> <p><b>Output 3.7</b> Strengthened capacity to enforce biodiversity regulations in and around <i>Protected Areas</i>.</p>				
<b>Outcome 4:</b> A national-level enabling environment that appreciates, supports, institutionalises and disseminates biodiversity-friendly development in coastal areas.	<p><b>Output 4.1</b> Effective political support to the project goal from high-level government and high-level private sector decision-makers;</p> <p><b>Output 4.2</b> Essential policy and legislative changes in both government and private sector;</p> <p><b>Output 4.3</b> Project successes disseminated and communicated across project area and beyond.</p>				

### Section III. Total Budget and Workplan

**Table 6. Summary of Incremental Costs by Project Outcome.**

<b>Outcome</b>	<b>GEF</b>	<b>Co-Funding</b>	<b>Total</b>
1. Biodiversity-friendly development is demonstrated in four small, globally important, productive landscapes	\$3,482,960	\$6,610,160	\$10,093,120
2. An improved investment climate for biodiversity-friendly enterprises across the four counties	\$1,599,260	\$4,844,060	\$6,443,320
3. Compliance with biodiversity related regulations has increased significantly across all sectors across the four counties	\$1,173,530	\$11,734,080	\$12,907,610
4. A national-level enabling environment that appreciates, supports, institutionalises and disseminates biodiversity- friendly development in coastal areas	\$532,250	\$1,145,700	\$1,677,950
Monitoring and Evaluation	\$200,000	0	\$200,000
<b>Totals</b>	<b>\$6,988,000</b>	<b>\$24,334,000</b>	<b>\$31,322,000</b>

**Table 7. Sources of Project Co-Financing**

<b>Name of co-financier</b>	<b>Classification</b>	<b>Type<sup>34</sup></b>	<b>Amount (\$US)</b>	<b>Status</b>
MEPPPC	Government	Grant and in-kind	\$1,891,000	Committed by letter
MSTTD	Government	Grant and in-kind	\$2,029,000	Committed by letter
MAFWM	Government	Grant and in-kind	\$628,000	Committed by letter
MC-SIPN	Government	Grant and in-kind	\$973,000	Committed by letter
MSES	Government	Grant and in-kind	\$300,000	Committed by letter
Ecofund <sup>35</sup>	Government	Grant	\$700,000	Committed by letter
HBOR	State owned bank	Mostly grant	\$207,000 <sup>36</sup>	Letter of support
County of Zadar	Government	Grant and in-kind	\$1,235,000	Committed by letter
County of	Government	Grant and in-	\$923,000	Committed by letter

<sup>34</sup> In many cases, the co-financer is to implement its existing workprogramme (e.g. preparing plans, collecting data, planting trees or constructing water treatment plants) but, as a result of negotiations and commitment to this project, they are to implement their existing workprogrammes in a way that contributes to the conservation and sustainable use of biodiversity.

<sup>35</sup> The Croatian Fund for Energy and Environment.

<sup>36</sup> Project's estimation based on the committed inputs of HBOR.

Sibenik		kind		
County of Dubrovnik	Government	Grant and in-kind	\$363,000	Committed by letter
County of Split	Government	Grant and in-kind	\$1,019,000	Committed by letter
Croatian Waters	State owned service enterprise	Mostly grant	\$4,632,000	Committed by letter
Croatian Forests	State owned service enterprise	Mostly grant	\$390,000	Committed by letter
Institute for Oceanography and Fisheries	State owned scientific institute	In-kind	\$1,490,000	Committed by letter
WWF	NGO	Grant and in-kind	\$220,000	Committed by letter
PAP/RAC <sup>37</sup>	International organisation (UNEP/MAP)	In-kind	\$16,000	Committed by letter
Split County Protected Areas	Local state owned unit	In-kind	\$180,000	Committed by letter
County Tourism Boards	Local government	In-kind and grant	\$113,000	Committed by letter
UNDP	Implementing Agency	Grant	\$300,000	Committed by letter
Various	Private sector (SMS, Ston saltpan, etc)	Mostly in-kind	\$2,525,000	Committed
Various	Private sector –	Beneficiaries of concessional loans	\$2,400,000	To be determined during project
Various <sup>38</sup>	NGO, Private sector, associations, etc	Beneficiaries of the Small Grant Programme	\$1,800,000	To be determined during project
<b>Total Co-financing</b>			<b>\$24,334,000</b>	

<sup>37</sup> The Priority Actions Programme/Regional Activity Centre of UNEP/s Mediterranean Action Programme

<sup>38</sup> A very large number of NGOs, small-scale private sector and agencies have committed to support the project. Most have made written commitments.

**Table 8. Total Budget and Workplan**

<b>Award ID:</b>									
<b>Award Title: PIMS 2439 BD FSP: Conservation and sustainable use of biodiversity in the Dalmatian coast through greening coastal development</b>									
<b>Project ID:</b>									
<b>Project Title:PIMS 2439 BD FSP: Conservation and sustainable use of biodiversity in the Dalmatian coast through greening coastal development</b>									
<b>Executing Agency: Government of Croatia - MEPPPC</b>									
<b>GEF Outcome/Atlas Activity</b>	<b>Responsible Party (Implementing Agent)</b>	<b>Source of Funds</b>	<b>Atlas Budgetary Account Code</b>	<b>ERP/ATLAS Budget Description/Input</b>	<b>Amount (USD) Year 1</b>	<b>Amount (USD) Year 2</b>	<b>Amount (USD) Year 3</b>	<b>Amount (USD) Year 4</b>	<b>Amount (USD) Year 5</b>
<b>OUTCOME 1:</b> Biodiversity friendly development is demonstrated in four small, globally important, productive landscapes	MEPPPC	GEF	71200	international consultants	5,000	14,500	9,500	9,500	
			71300	local consultants	28,000	84,600	56,280	56,280	
			71400	contractual services - individuals	129,809	348,191	239,000	239,000	
			72100	contractual services - companies	55,000	169,000	111,800	111,800	
			71600	travel	3,000	10,000	6,200	6,200	
			72200	equipment	10,000	13,000	5,000	5,000	
			72600	grants	0	20,000	55,000	55,000	
			73100	rental premises	3,000	10,500	6,700	6,700	
			74500	miscellaneous	3,300	3,700	3,300	3,300	
				<b>sub-total</b>	<b>237,109</b>	<b>673,491</b>	<b>492,780</b>	<b>492,780</b>	
<b>OUTCOME 2:</b> An improved investment climate for BD friendly enterprises across the four counties	MEPPPC	GEF	71200	international consultants	5,000	27,000	20,000	12,000	
			71300	local consultants	9,000	34,000	19,000	19,000	
			71400	contractual services - individuals	35,000	107,500	68,000	68,000	
			72100	contractual services - companies	12,000	60,000	35,000	35,000	

			72200	equipment	7,000	10,000	7,000	4,000	
			72600	grants	0	10,000	200,000	200,000	
			73100	rental premises	2,000	6,500	3,500	3,500	
			74500	miscellaneous	1,000	3,000	2,000	2,000	
				<b>sub-total</b>	<b>71,000</b>	<b>258,000</b>	<b>354,500</b>	<b>343,500</b>	
<b>OUTCOME 3:</b> Compliance with biodiversity related regulations has increased significantly across all sectors across the four counties	MEPPPC	GEF	71200	international consultants	0	7,500	7,500	0	
			71300	local consultants	5,000	20,000	20,000	20,000	
			71400	contractual services - individuals	50,500	95,000	95,000	95,000	
			71600	travel	1,500	6,500	6,000	6,000	
			72100	contractual services - companies	8,000	20,000	19,000	20,000	
			72200	equipment	7,000	7,000	0	0	
			72600	grants	0	18,000	18,000	18,000	
			73100	rental premises	1,000	2,000	2,000	2,000	
			74500	miscellaneous	8,000	9,000	9,000	9,000	
				<b>sub-total</b>	<b>81,000</b>	<b>185,000</b>	<b>176,500</b>	<b>170,000</b>	
<b>OUTCOME 4:</b> A national-level enabling environment that appreciates, supports, institutionalizes and disseminates biodiversity friendly development in coastal areas	MEPPPC	GEF	71200	international consultants	10,000	14,500	14,500	14,500	
			71300	local consultants	5,000	15,000	10,000	10,000	
			71400	contractual services - individuals	15,000	32,000	31,000	32,000	
			72100	contractual services - companies	10,000	15,000	15,000	15,000	
			72200	equipment	3,000	6,000	0	1,000	
			73100	rental premises	1,000	1,500	1,500	1,500	
			74500	Miscellaneous	2,100	3,100	3,100	3,000	
				<b>sub-total</b>	<b>46,100</b>	<b>87,100</b>	<b>75,100</b>	<b>77,000</b>	
<b>OUTCOME 5:</b> Learning, evaluation and adaptive management	UNDP	DAS	71400	contractual services	50.000***				
	MEPPPC	GEF	71200	internat'l consultants	0	0	0	25,000	
			71300	national consultants	0	0	0	25,000	

increased									
			72100	contractual services - companies	2,000	72,000	82,000	52,000	
			74500	Miscellaneous***	10,000	42,700	42,700	42,700	
				<b>sub-total</b>	<b>12,000</b>	<b>114,700</b>	<b>124,700</b>	<b>144,700</b>	

<b>Grand Total (GEF)</b>	<b>447,209</b>	<b>1,318,291</b>	<b>1,223,580</b>	<b>1,227,980</b>
UNDP (cash)	50,000			
<b>GEF+UNDPtotal</b>	<b>497,209</b>			

#### TOTAL BUDGET SUMMARY

<b>MEPPPC</b>		270,143	270,143	270,143	270,143	
<b>UNDP</b>		75,000	150,000	75,000		
<b>Other national agencies*</b>		691,000	691,000	691,000	691,000	
<b>Other**</b>		2,472,286	2,472,286	2,472,286	2,472,286	

#### Subtotal co-financing

#### GRAND TOTAL (GEF + Co-financing)

\* MSTTD, MAFWM, MC, MSES, EcoFund

\*\* The list of co-financers is too long to include here. See Table 6 in Section 3a of the approved Project Brief for the list of main co-financers

\*\*\* the additional 25.000 is added to still active PDF B budget, because this one might not be activated before late summer and we would like to have some funds available now

\*\*\*\* the amount includes various costs that are hard to specify in detail at this point, but will cover costs of travel for monitoring purposes, project visibility and communication

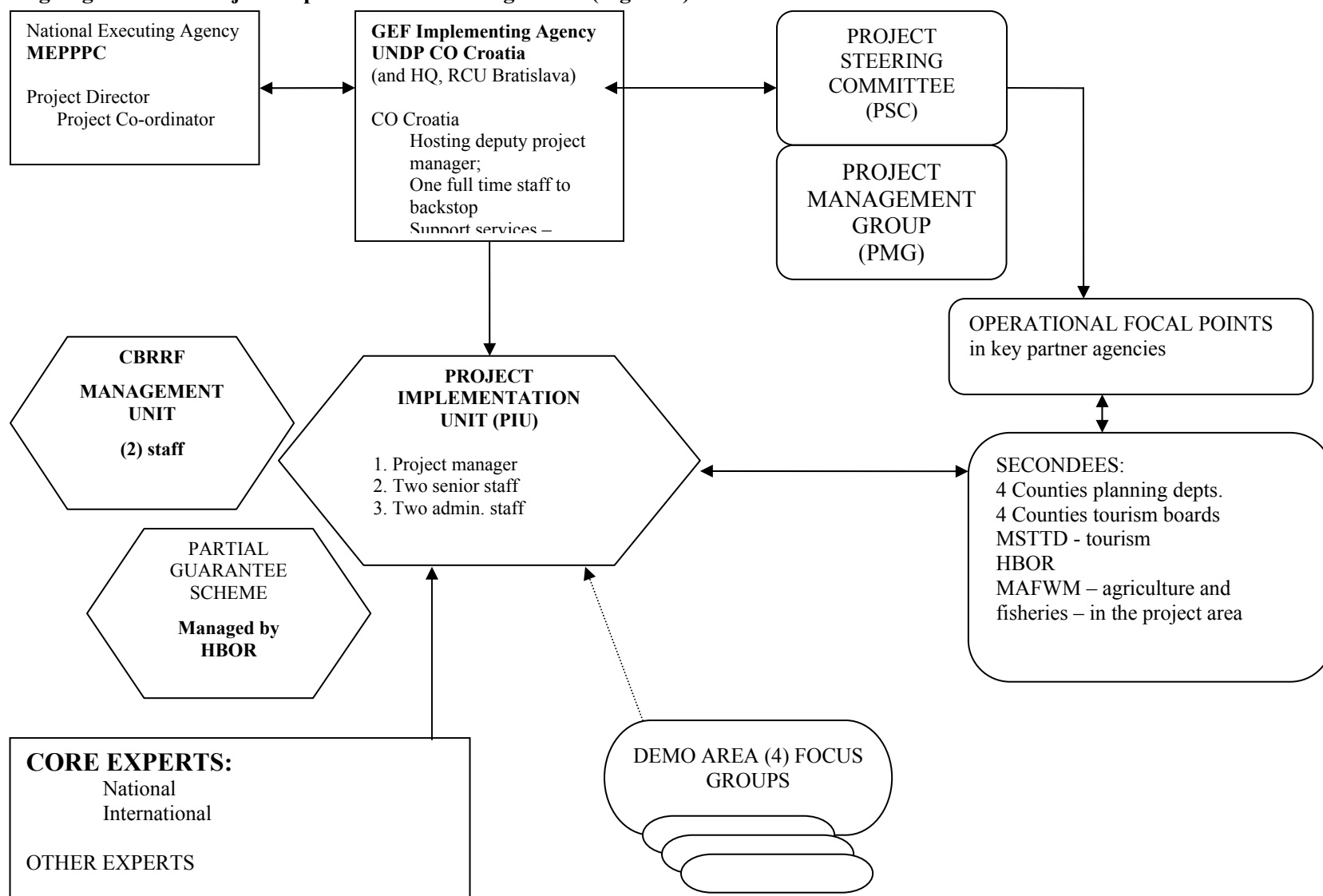
## **Section IV. Additional Information**

### **Annex 1. Other Agreements**

A series of agreements with partners was secured during project formulation. These have been codified through Letters of Co-financing from the concerned partners. These letters are all attached in a separate file. Endorsement letter is attached in a separate file as well.

**Annex 2.**

**Organigramme of Project Implementation Arrangements (Figure 1)**





### **Annex 3. Terms of Reference for Key Project Staff and Main Sub-contracts**

#### **Terms of Reference**

##### **NATIONAL PROJECT DIRECTOR**

The National Project Director (NPD) will be a senior official appointed and provided by the National Executing Agency, i.e. MEPPPC. The NPD works on the project on a part-time basis and should be able to devote a reasonable amount of time to project activities. The NPD will be authorised to make key decisions on behalf of the government. S/he will be supported by a part-time MEPPPC working level Focal Point or Co-ordinator, also provided by the MEPPPC.

#### **Duties and responsibilities**

##### **Overall**

1. Assume overall responsibility for the successful execution and implementation of the project towards achieving the outcomes and outputs;
2. Ensure the proper use of project resources;
3. Support resource mobilisation efforts to increase resources in cases where additional outputs and outcomes are required.

##### **Co-ordination**

4. Serve as the Focal Point for co-ordination of the project with implementing agencies, UNDP, Government, participating ministries and other key partners;
5. Ensure full co-ordination with government, in particular related with the on-going EU Accession process and with internationally supported projects in the project area;
6. Facilitating the involvement of sectoral government ministries and national agencies, notably the ministries responsible for tourism, agriculture, fisheries/mariculture, EU Accession process, as well as counties, HBOR, CTO and Eco-Fund, during project implementation and gaining their agreement and support to implement the reforms promoted through the project;
7. Ensure that government inputs are available in a timely manner;
8. Assist the PSC and act as Secretary to the PSC, convening regular PSC meetings (working closely with the NPM). Determining the meetings agendas, resource persons and reference documents;

##### **Representation**

9. On behalf of the Government and MEPPPC, present the project to national and international fora as appropriate;
10. Represent the Government and MEPPPC at project meetings and annual reviews;
11. Lead efforts to build partnerships for the support of the project outcomes, in government and in society in general;
12. Convene the High Level Conferences envisaged by Outcome 4 (working closely with the NPM). Help finalise the Conference agendas, resource persons and reference documents; facilitate participation of high level decision makers and representatives of key stakeholders;

##### **Management**

13. Convening and chairing the PMG, working closely with the National Project Manager (NPM);
14. Lead and co-ordinate partners in the selection of the NPM;
15. Supervise the NPM;
16. Facilitate the work of the project staff;

17. Ensure that the project Workplan is prepared and updated in consultation and agreement with UNDP and Government, and finalised in line with procedures, and distributed as appropriate;
18. Lead and arrange for the recruitment of the project professional and support staff in line with laid out recruitment processes;
19. Authorise the commitment of resources for inputs, including staff, consultants, goods, services and training (this includes approving all payments);
20. Appoint an alternate that can direct the project in the absence of the NPD;
21. Assume ultimate responsibility for all financial aspects of the project.

## NATIONAL PROJECT MANAGER

The National Project Manager (NPM) is selected by Government and UNDP and is financed by the project. The NPM is responsible to ensure that the project is implemented and administered to the satisfaction of UNDP and MEPPPC as the National Executing Agency (NEA). The NPM will play a key role in driving and managing the project and managing all project inputs and activities. NPM is directly responsible to UNDP CO and NPD, and will operate under their supervision and instructions.

### Duties and responsibilities

The NPM is responsible for all the following (although s/he may delegate certain functions to the Deputy NPMs and other PIU staff, the NPM retains responsibility):

#### Co-ordination and leadership

1. Assume operational management of the project in consistency with the Project Document and the policies and procedures for nationally executed projects;
2. Initiate and administer the mobilisation of project inputs under the responsibility of the NEA;
3. Represent and promote the project in national and international meetings and fora;

#### Management

4. Become fully familiar with UNDP NEX Execution procedures and regulations and internal operational procedures and mechanisms;
5. Assume operational management of the project in consistency with the Project Document and UNDP policies and procedures for nationally executed projects;
6. Establish an atmosphere of creativity, participation, diligence and competence in the PIU;
7. Periodically review and strengthen the project vision, with full participation of PIU;
8. Facilitate the Project Inception Phase and ensure all the outputs are achieved as described in Part 4 Monitoring and Evaluation Plan of the Project Document;
9. Prepare and regularly (at least annually) update the project Workplan and submit it for approval, as provided for in the Project Document;
10. Prepare regular (at least annual) progress reports, in line with UNDP and GEF and Government requirements;
11. Assist UNDP CO and NPD in the identification and recruitment of the PIU staff, Secondees, project experts, consultants and of all international experts;
12. Oversee the preparation, or directly prepare, the ToRs and contracts/agreements for each project activity and all contracts for each project expert;
13. Supervise directly all the PIU staff in line with their contractual agreements and ToRs;
14. Working closely with the two DNPMs, supervise the Secondees, the core team, and all consultants assigned to the project, in line with their contractual agreements and ToRs;

15. Technically support the work of the partners/stakeholders, and ensure they contribute to the project as envisaged in the Project Document, and alert UNDP/GEF of any related problems regarding co-financing;
16. Ensure that implementing agencies and sub-contractors and consultants mobilise and deliver inputs in accordance with agreements and that payments are made accordingly;
17. Draft the agenda for PSC meetings, propose dates for meeting, identify and propose resource persons and prepare reference documents, in collaboration with the NPD;
18. Draft agenda for the APR meetings and ensure meetings are held punctually and professionally;
19. Draft agenda for PMG meetings, identify and propose resource persons, prepare reference documents for PMG meetings;
20. Appoint a Deputy to fully replace NPM when on leave or mission;

#### Monitoring and evaluation

21. Establish clear cut internal and external monitoring and reporting mechanisms and procedures and standardised office best practices (this includes an effective electronic and paper filing system, communications and delineation of responsibilities);
22. Ensure that internal project monitoring and reporting procedures are in place and functioning effectively;
23. Ensure that the Inception Report (IR) is prepared and submitted;
24. Ensure that the Annual Project Implementation Reviews (PIRs), the Annual Project Report (APR), the Terminal Report are prepared and submitted, and Tripartite Review Meetings are conducted;
25. Prepare ToRs and organise the selection, recruitment and mission of independent mid-term and terminal evaluation missions;
26. Assure project monitoring and evaluation is fully in line with GEF requirements, and liaise with UNDP staff to organise the annual review, evaluation missions and project visits;

#### Finance and accountability

27. Finalise and submit Quarterly Progress Reports and Quarterly Financial Workplans;
28. Ensure that project funds are made available when needed by taking proactive steps for release of funds;
29. Ensure that proper accounting records are kept (although records are kept in the UNDP CO);
30. Ensure that the financial procedures for NEX are followed;
31. Facilitate and co-operate with the audit processes at all times, as required;
32. Manage the project resources, e.g. office equipment, furniture, stationery procured under the project;

#### Technical (working closely with the DNPM-Project Area)

33. Contribute to the design and organisation of key project workshops, training activities and meetings, especially those taking place in the project area, under Outcome 1-3;
34. Facilitate and guide implementation of the Stakeholders Participation Plan and in particular the activities of Demonstration Area Focus Groups.

#### Inception and staff development

A key time is the Inception Period. In that period, the NPM shall:

- review all project documentation and consult key project stakeholders;
- help identify and recruit two DNPMs;
- establish the PIU;
- develop final ToR for the two DNPMs;
- design and organise a project Inception Workshop;
- facilitate the project Inception Workshop;

- draft the complete project Inception Report, with full Workplan and full ToR;
- identify CTE and finalise ToR;
- prepare training programme for NPM, DNPMs, Core Team of Experts (CTE) and Secondedes covering adaptive management, communication and participatory methods;
- develop the M&E plan;
- launch project activities.

#### Qualifications

- University degree, preferably a post-graduate in a directly related field;
- Professional/technical skills and 5 to preferably 10 years of experience in one of the key sectors/themes of the project (agriculture, fisheries/mariculture, tourism, banking, environment protection, biodiversity, physical planning and/or ICM, or environmental economics);
- Excellent, proven management, communication and team-building skills;
- Demonstrated and proven experience, at least five years, in successfully managing similar international projects;
- Excellent, proven interpersonal, networking and team-building skills;
- Excellent knowledge of the project area, and experience of successfully working in the project area;
- Full-time availability;
- Substantive knowledge and technical skills in at least one of the key sectors/themes covered by the project (agriculture, fisheries, mariculture, tourism, banking, environment protection, biodiversity, physical planning and/or ICM, or environmental economics). Preferably a related post-graduate degree;
- Excellent English language skills, both written and verbal;
- High familiarity with the goals and procedures of international organisations, in particular those of the GEF and its partners (UNDP, UNEP, the World Bank, major NGOs, and current and future potential donors) would be an asset;
- Demonstrable skills in using information technology (word processing, spread sheets) and familiarity with GIS applications would be an advantage;
- Ability and willingness to travel.

#### Reporting

The NPM reports to the NPD and liaises closely with UNDP staff.

#### Input

Full time for project duration.

### **DEPUTY NATIONAL PROJECT MANAGER - ZAGREB**

#### Guidelines

Due to the complex, multilevel and multidisciplinary nature of the project and physical distance between key partners in Zagreb and those in the project area, demonstration areas in particular, two full-time task managers will be appointed: one located in the Project Implementing Unit, i.e. in the project area; the other located in Zagreb, hosted by UNDP CO. They will also act as Deputies to the NPM (DNPM) and one of them will officially replace the NPM when s/he is unavailable.

The two DNPMS will implement tasks under their responsibility in accordance with the Project Workplan; providing for liaison, harmonisation and co-ordination of activities to be implemented with and/or by the key partners and stakeholders; also surveying, assisting and instructing relevant institutions and consultants contracted by the project. The two DNPMS will act under supervision, facilitation, guidance and operational instructions of the NPM, to whom they will be directly responsible.

### Duties and responsibilities

Overall, the DNPMS-Zagreb will be responsible for: (i) co-ordinating, managing, facilitating and organising inputs and activities in Zagreb; and (ii) replacing or representing the NPM, when appropriate.

Specific duties include:

#### Co-ordination

1. Ensure an operational liaison with the MEPPPC, the participating Ministries and National Agencies and other key partners in Zagreb (including, notably, UNDP, HBOR, and any co-financers), primarily through the network of Operational Focal Points (OFPs);
2. Facilitate the involvement and support of the MEPPPC, the participating Ministries and National Agencies and other key partners in Zagreb (including, notably, UNDP, HBOR, and any co-financers), primarily through the network of OFPs;
3. Assure a permanent and effective communication and exchange of information with key partners and stakeholders located in Zagreb;
4. Provide logistical support and assistance to the NPD and MEPPPC in organising the PSC and PMG meetings and High Level Conferences, as well as to other project-related meetings to be held in Zagreb;

#### Management

For all activities, events and project inputs at the national level or in Zagreb:

5. Prepare regular draft workplans and progress reports;
6. Participate in the process to recruit and identify experts, Seconded, contractors, services, goods, etc.;
7. Assist the NPM to draft ToRs for Seconded to be seconded in Zagreb and in preparing respective Secondment Agreements with hosting institutions, and in negotiating the finalisation of the Secondment Agreements;
8. Assist the NPM in drafting ToRs for experts and institutions to implement project activities;
9. Identify, in a timely manner any problems, needs and opportunities, alert NPM, undertake appropriate actions within his/her mandate and possibility, and propose measures to be undertaken at project level;
10. On behalf of the PIU, fully supervise and provide technical backstopping to all Seconded, experts, focus groups, consultants and sub-contractors taking place in Zagreb, notably with regards to Outcome 4;
11. Monitor the Secondment Agreements, and propose measures to improve when appropriate;
12. On behalf of the PIU, and under the supervision of and with the assistance of the NPM, be responsible (through supervision and technically supporting) for the following:
  - Synergistic interactions between the project and on-going EU Accession process;
  - Smooth start up and implementation of the COAST Biodiversity Rapid Response Facility (with assistance from the PIU, notably by the DNPMS-Project Area);
  - Smooth start up and implementation of the COAST Facility for Partial Risk Guaranties to reduce the risk by banks when lending to COAST biodiversity-friendly investments (assisted also by PIU);
13. Directly implement other actions related with mandate, as envisaged by Workplan or as requested by NPM;

14. Support PIU communications, monitoring and other activities;

Other

15. Attend regular project planning meetings at PIU;

16. As requested, replace the NPM when s/he is unavailable or on mission or leave.

#### Qualifications

- University degree, preferably a post-graduate in a directly related field;
- Professional/technical skills and at least 5, preferably 10, years of experience in one of the key sectors/themes of the project (agriculture, fisheries/mariculture, tourism, banking, environment protection, biodiversity, physical planning and/or ICM, or environmental economics);
- Excellent, proven management, communication and team-building skills;
- Demonstrated and proven experience in successfully managing international projects;
- Excellent, proven interpersonal, networking and team-building skills;
- At least five years experience working with or in government agencies in Zagreb;
- Full-time availability;
- Substantive knowledge and technical skills in at least one of the key sectors/themes covered by the project (agriculture, fisheries, mariculture, tourism, banking, environment protection, biodiversity, physical planning and/or ICM, or environmental economics). Preferably a related post-graduate degree;
- Excellent English language skills, both written and verbal;
- Familiarity with the goals and procedures of international organisations, in particular those of the GEF and its partners (UNDP, UNEP, the World Bank, major NGOs, and current and future potential donors) would be an asset;
- Demonstrable skills in using information technology (word processing, spread sheets) and familiarity with GIS applications is considered an advantage;
- Ability and willingness to travel.

Reporting: Reports to National Project Manager

Input: Full Time for the project duration.

### **DEPUTY NATIONAL PROJECT MANAGER - PROJECT AREA**

#### Guidelines

Due to the complex, multi-level and multi-disciplinary nature of the project and physical distance between key partners in Zagreb and those in the project area, demonstration areas in particular, two full-time task managers will be appointed: one located in the Project Implementing Unit (PIU), i.e. in the project area; the other located in Zagreb, hosted by UNDP CO. They will also act as Deputies to the NPM (DNPMS) and one of them will officially replace the NPM when s/he is unavailable.

The two DNPMS will implement tasks under their responsibility in accordance with the Project Workplan; providing for liaison, harmonisation and co-ordination of activities to be implemented with and/or by the key partners and stakeholders; also surveying, assisting and instructing relevant institutions and consultants contracted by the project. The two DNPMS will act under supervision, facilitation, guidance and operational instructions of the NPM, to whom they will be directly responsible.

## Duties and responsibilities

Overall, the DNPM-project area will be responsible for (i) working closely with the NPM to co-ordinate, manage, facilitate and organise inputs and activities taking place in the project area, (ii) replacing or representing the NPM, when appropriate.

Specific duties include:

### Co-ordination

1. Operational liaison with the participating County Administrations, Authorities and detached national institutions, and other key stakeholders in the project area, primarily through the network of OFPs;
2. Facilitating and supporting the involvement of the participating County Administrations, Authorities and detached national institutions, and other key stakeholders in the project area, primarily through the network of OFPs;
3. Permanent communication and exchange of information with key partners and stakeholders located in the project area;

### Management

For all activities, events and project inputs in the project area:

4. Prepare regular draft workplans and progress reports;
5. Participate in the process to recruit and identify experts, Seconddees, contractors, services, goods, etc.;
6. Assist the NPM to draft ToRs for Seconddees and in preparing and finalising the respective Secondment Agreements with the following hosting institutions:
  - Seconddees to the County Tourism Boards (4);
  - Seconddees to the Ministry of Agriculture, Forestry and Water Management (for Agriculture);
  - Seconddees to the Ministry of Agriculture, Forestry and Water Management (for Fisheries/Mariculture);
  - Seconddees to the Ministry of Sea, Transport, Tourism and Development (for Tourism).
7. Assist the NPM in drafting ToRs for experts and institutions to implement project activities;
8. Identify, in a timely manner, any problems, needs and opportunities, alert NPM, undertake appropriate actions within hers/his mandate and possibility, and propose measures to be undertaken at project level;
9. On behalf of PIU, fully supervise and provide technical backstopping to all Seconddees, experts, focus groups, consultants and sub-contractors in the project area;
10. Monitor the Secondment Agreements, and propose measures to improve when appropriate;
11. On behalf of PIU, and under the supervision of and with the assistance of the NPM, supervise and technically support all activities related to Outcome 1 (all Outputs), Outcome 2 (notably Output 2.4) and Outcome (notably Outputs 3.1, 3.6 and 3.7);
12. Working closely with the CTE, design and establish four Focus Groups, one in each demonstration area. Design a process whereby the Focus Groups become quickly self-sustaining and lose their dependence on the project for support;
13. Assist the DNPM-Zagreb with activities in the project area related to the COAST Biodiversity Rapid Response Facility and to the Partial Risk Guarantee Facility;
14. Assist the NPM in designing and organising training and all other activities/meetings to be implemented in the project area;
15. Directly implement other actions related with mandate, as envisaged by Workplan or as requested by NPM;
16. Support PIU communications, monitoring and other activities;

### Other

17. Attend regular project planning meetings at PIU;

18. As requested, replace the NPM when s/he is unavailable or on mission or leave;

#### Qualifications

- University degree, preferably a post-graduate in a directly related field;
- Professional/technical skills and at least 5, preferably 10, years of experience in one of the key sectors/themes of the project (agriculture, fisheries/mariculture, tourism, banking, environment protection, biodiversity, physical planning and/or ICM, or environmental economics);
- Excellent, proven management, communication and team-building skills;
- At least five years experience successfully working in participatory planning and management, preferably in the project area;
- Excellent knowledge of the project area;
- At least 5 years experience successfully working on project implementation in the project area;
- Excellent, proven interpersonal, networking and team-building skills;
- Full-time availability;
- Substantive knowledge and technical skills in at least one of the key sectors/themes covered by the project (agriculture, fisheries/mariculture, tourism, banking, environment protection, biodiversity, physical planning and/or ICM, or environmental economics). Preferably a related post-graduate degree;
- Excellent English language skills, both written and verbal;
- Familiarity with the goals and procedures of international organisations, in particular those of the GEF and its partners (UNDP, UNEP, the World Bank, major NGOs, and current and future potential donors) would be an asset;
- Demonstrable skills in using information technology (word processing, spread sheets) and familiarity with GIS applications would be considered an advantage;
- Ability and willingness to travel.

Reporting: Reports to National Project Manager.

Input: Full Time for the project duration.

### **PROJECT STEERING COMMITTEE (PSC)**

#### Guidelines

The Project Steering Committee (PSC) will oversee the project implementation as a multi-sector body responsible for supporting the project and ensuring government support to the project. The PSC membership will consist of key participating ministries, national agencies, four participating counties, key stakeholders and UNDP CO.

PSC will be assisted by the NPD, acting as Secretary, and it will be technically/logistically supported by the MEPPPC and the PIU.

#### Membership

The initial PSC membership consists of:

1. Ministry of Environmental Protection, Physical Planning and Construction (Chair);
2. Ministry of Sea, Transport, Tourism and Development;
3. Ministry of Agriculture, Forests and Water Management;



4. Ministry of Culture/State Institute for Nature Protection;
5. Ministry of Science, Education and Sports;
6. Ministry of Foreign Affairs and European Integration;
7. Croatian Waters (national agency);
8. Croatian Forests (national agency);
9. County governments: Zadar, Šibenik-Knin, Split-Dalmatia, Dubrovnik-Neretva;
10. Croatian Bank for Reconstruction and Development (HBOR);
11. Croatian Tourism Organisation (CTO);
12. Croatian Fund for Environment and Energy Efficiency; and
13. UNDP CO.

As the project progresses, and as private sector becomes increasingly engaged, key persons from the private sector might be invited to participate in the PSC. This may include leading bankers, tourism businessmen, representatives of sector associations, Chief Executive Officers (CEOs) of large corporations, etc. Finally, representatives of major co-financiers to the Full Project may be invited to join the PSC.

### Duties

1. Review, comment and approve the Project Inception Report, annual Workplans and Budgets;
2. Review and approve Yearly Progress Reports, comment, identify problems, recommend solutions and measures;
3. Provide for the two-way transfer of information between members, facilitate co-ordination among, involvement of, and contribution by the member organisations;
4. Review and comment upon quarterly Workplans, if needed and as appropriate;
5. Facilitate co-ordination with other government projects and programmes;
6. Facilitate consultation with, and participation of, a broad range of stakeholders;
7. Help mobilise government and third-party cost-sharing;
8. Regularly review the membership of the PSC, with a view to involving non-governmental stakeholders;
9. Individual members of the PSC, where relevant, will be responsible for:
  - Ensuring their agency appoints a competent Operational Focal Point to the project;
  - Ensuring that a Seconded is able to function effectively, and is supervised.

At the first meeting of the PSC, the present ToRs and membership will be reviewed, and changes adopted, if needed and as appropriate.

### Procedures

The Project's Quarterly Progress Reports (prepared by PIU) will be distributed (electronically) by the NPM to the PSC members, as will other significant reports and project documents. PSC members are authorised to comment, ask for additional information, identify problems, propose solutions.

Yearly Progress Reports will be presented annually by the NPD at the PSC meetings. The respective meetings will discuss, comment upon and evaluate these reports, providing recommendations/measures for problems arisen and for further project implementation.

### Meetings

The PSC shall meet annually to discuss and evaluate the respective Yearly Report. The first PSC meeting will evaluate and approve the Project Inception Report, Project Workplan and Budget. The MEPPPC will convene and chair the meetings. The NPD will organise the meetings and act as Secretary. The National Project Manager (NPM) will facilitate the meetings. The NPM will prepare and distribute all concerned

documents at least 1 week in advance of meetings, including the meeting agenda. If requested, other project staff will act as resource persons.

The NPD may convene extraordinary meetings, if needed or upon request of the UNDP CO or other PSC member.

#### Input

Regular meetings during the project, in total at least 7 formal meetings.

### **PROJECT MANAGEMENT GROUP (PMG)**

The ToRs presented below will be evaluated, revised, if needed and as appropriate, and confirmed by the first PSC meeting.

#### Guidelines

A small Project Management Group (PMG) will be responsible for important operational management decisions in-between meetings of the PSC.

The PMG will be assisted by the NPM, acting as Secretary, and supported both technically and logistically by the PIU.

#### Membership

The PSC membership consists of:

- NPD (Chair);
- UNDP PO;
- Representatives of the four counties;
- NPM (Secretary).

#### PMG procedures/meetings

The PMG will meet at least bi-annually. Extraordinary meetings will be convened in case of need for important operational management decisions in-between meetings of the PSC, upon request of any member of the PMG, or upon proposal of the NPM. PSC members may also propose extraordinary meetings of the PMG. The NPD will convene and chair these meetings, if properly justified. UNDP will be the alternate Chair.

Accordingly, NPM will propose the meeting agenda, resource persons and reference documents.

If needed and/or requested, the meeting will be attended by interested PSC member(s), key stakeholder(s), and/or project resource persons.

The key tasks of the PMG are:

- Providing advice and guidance;
- Reviewing and approving progress reports and workplans;
- Trouble-shooting;
- Facilitating linkages and information exchange.

The minutes of all PMG meetings (with information on decisions, recommendations and instructions) will be disseminated to the PSC members.

### **Outline Terms of Reference**

#### **SECONDEES TO KEY MINISTRIES, NATIONAL, AND COUNTY LEVEL INSTITUTIONS**

##### **Guidelines**

A key mainstreaming project strategy is to permanently ‘embed’ biodiversity into the working practices of ministries, county planning and environmental protection departments, banking, and tourism agencies, through the financing of seconded staff. Highly qualified national experts will be recruited by the project to work within key local and national agencies – thereby supporting the agencies *and* promoting biodiversity conservation and sustainable use in a co-ordinated manner within the project framework. The aim is to ensure that the project activities are driven from within the hosting institutions, that biodiversity aspects become *owned* by hosts, and that the results of other relevant project activities will be directly mainstreamed into the host agency’s working programme and practices.

As envisaged, Secondees will be seconded in key ministries and selected national, and county level institutions, as follows:

- Secondee to the Croatian Tourism Organisation;
- Secondee to HBOR;
- Secondees to the County Planning Institutes (4) ;
- Secondees to the County Tourism Boards (4);
- Secondee to the Ministry of Agriculture, Forestry and Water Management (for Agriculture);
- Secondee to the Ministry of Agriculture, Forestry and Water Management (for Fisheries/Mariculture);
- Secondee to the Ministry of Sea, Transport, Tourism and Development (for Tourism).

Detailed ToR for each Secondee will be prepared by PIU in close consultation with the NPD, UNDP CO and the hosting institution. These latter will approve the ToR.

Prior to finalising the detailed ToRs for each Secondee, a ‘Hosting Agreement’ will be developed and agreed upon between the project and each hosting institution/Ministry. These Agreements will provide a basis for the ToR.

The NPM and the two DNPMS will support and approve the process to recruit Secondees.

The respective PSC members will ensure the related Secondees are able to function, and will play a role in their overall supervision.

The PIU will be responsible for training, coaching and monitoring the Secondees.

Secondees will be operationally responsible to the NPM (through the two DNPMS) and to the respective Operational Head of the hosting institution.

Each Secondee will report quarterly on progress to the PIU, to the UNDP CO and to the hosting institution.

The reports and performance of the Secondees will be evaluated jointly by the NPM and the hosting institutions.

In case of need and as appropriate, comments, suggestions and instructions will be presented to the Secondee. Instructions presented will be considered as mandatory.

Inputs:

Full time, duration in accordance with the respective Hosting Agreements.

## **CORE TEAM OF EXPERTS (CTE)**

Guidelines

Four sectoral/thematic experts will be sub-contracted by the project to provide on-going technical support to the project related to: biodiversity, agriculture, fisheries/mariculture and tourism. Together, these four experts will form the Core Team of Experts (CTE). These experts are responsible for assuring the substantive and technical excellence of the project. These experts will be recruited permanently for the duration of the project, but not full time.

Their tasks are geared towards co-ordinating, supervising and supporting technical aspects of key thematic/sectoral specific project activities, as well as in evaluation and monitoring project progress and the achievement of project indicators.

The CTE will be responsible and report to, and be supported and facilitated by, the NPM (in many cases through the DNPMS).

The CTE will also assist the NPM and the DNPMS in drafting the detailed project Workplans, the Inception Report. They will participate in the Inception Workshop and other meetings as related to their thematic/sectoral mandate.

Indicative duties

Within the theme/sector under their competence, they will:

- assist the NPM and DNPMS in drafting the ToR for each activity and input;
- evaluate the profile and references of candidates for secondment, as and when requested by the NPM;
- supervise, guide, advice and support the work of subcontractors/consultants/experts contracted/involved in individual project activities, including reviewing and approving reports;
- provide professional clearance for respective consultants' outputs;
- assist/advise Secondees as they perform their tasks in the concerned theme/sector;
- assist the NPM in activities related to monitoring and evaluating the project.

The CTE will also directly implement a significant number of project activities within her/his sector of competence. These activities are defined in the project Workplan, and will be further defined by the NPM in the finalisation of these ToR.

The CTE will co-operate with respective international experts recruited in the project, under the co-ordination of the NPM.

### Qualifications requested

The Core Team of Experts should be highly competent and experienced professionals with proven substantive skills, as well as a demonstrated ability to communicate, to manage and to build and participate in teams.

Notably:

- the biodiversity expert should have an in-depth knowledge of marine, coastal and terrestrial biodiversity in the region, of the trends and threats, and of methods for conserving and sustainably using biodiversity, including the use of market-oriented tools;
- the tourism expert should be knowledgeable on the national and international situation and trends in tourism, notably sustainable tourism, impacts of tourism on and interrelations with environment, and the protection and biodiversity conservation and sustainable use;
- as appropriate for other sectors.

In addition, each expert should:

- have worked on internationally supported projects previously;
- be able to communicate and draft reports in good English;
- preferably, be acquainted with UNDP and GEF methodologies; and
- preferably with a related post-graduate degree.

### Inputs

For the entire project duration. Details to be defined when preparing detailed ToRs. Preliminary estimate: 3 - 4 months/year over for seven years.

## **Annex 4. Stakeholder Involvement Plan**

### **I Context and Background**

Concept. The Stakeholder Participation Plan (SPP) builds on experience achieved and strategy implemented in the PDF B phase, as described in the main body of the Brief, Chapter 2, sub-chapter e).

In addition, the Plan takes fully into account the differences and requirements, specific for the Full Project, notably:

- its complex nature;
- its duration;
- implementation under partnership conditions;
- project objectives, in particular awareness on BD as economic driver and protection, and replicability of project results; and
- stakeholders: very large number, needed intensity of interactions, high level group of decision-makers involved.

Finally, the SPP builds on the facts that:

- the project is conceived and designed as a highly participative one, a successful participatory approach being one of prerequisites for its success and replicability; and
- its nature implies the implementation of the participatory approach as a transversal project component.

Objectives. Being based on general and standard participatory objectives common for large and complex projects, the COAST SPP focuses on:

- full and continuous information of stakeholders and public at large;
- generating of new ideas;
- creation of ownership feeling, for the project and its activities;
- interactive implementation of the partnership intensity;
- awareness raising on BD as economic driver and protection;
- impact on replicability of project results; and
- creation of bottom-up impact, to influence strengthening compliance and mainstreaming.

Approaches. The standard approach to project SPP understands its participatory component as a transversal one, to be implemented throughout the project within the implementation of four project Outcomes. Key elements taken into account when designing SPP were: (i) Stakeholders Analysis, the number of stakeholders identified, some already committed during PDF B phase, (ii) stakeholders grouping and the number of those to be involved within each, (iii) the needed levels and intensity of interaction, and (iv) the tools/methods for stakeholders management to be applied. Finally, the approach is methodologically based on the standard Strategic Approach, with some elements of Joint Learning Approach, due to the fact that additional stakeholders will be identified through actions, in particular related to Outcome 1 and implementation of CBRRF, and included in the implementation process.

### **II Analysis of Stakeholders**

Stakeholders Analysis. PIU will at the project outset update and, if needed, revise the PDF B phase Stakeholders Analysis. Grouping of stakeholders and the respective key ones identified in each group are presented in the Table below.

**Table 9. Grouping of stakeholders and key ones identified during PDF B phase**

<b>Stakeholder groups:</b>	<b>Key stakeholders identified:</b>
1. <u>National level</u> : ministries, authorities and institutions, agencies, services	<u>Ministries</u> : MEPPPC, MSTTD, MAFWM, MC/SINP, MSES, MF Eco-fund <u>Others</u> : CTO, HBOR, CroBanksAss., CroWaters, CroForests, InstAgrServ, CroChEc.
2. <u>Project area level</u> : counties, municipalities, national level dislocated departments, others	<u>Counties</u> : CAdm., CInstPl, CEnvProt., CTBs, ministries' and CroWaters, CroForests dislocated departments <u>Municipalities</u> : local authorities, LTBs <u>Others</u> : CPAs Agencies, CEntrep.Centers.
3. Business: banks, private companies, group or individual entrepreneurs, owners associations, co-operatives, individual entrepreneurs, owners of sites/estates of particular project interest	<u>National level</u> : included in point 1 <u>Project area level</u> : Large Hotels, Ass. of Small Hotel Owners, tourism agencies (Atlas, Elite, others); SMS, agriculture co-operatives and association of private agro-farmers; fisheries and fish-farmers and shell-fish-farmers co-operatives, associations and privates; local banks; estate owners: Pag salt pans, Vis edu-center, Pantan, about 15 outstanding individuals; a large number of potential applicants for CBRRF.
4. The scientific community, institutes: universities, faculties, individual scientists and scholars, int. agencies	StFacEcon., IOFSt, IOFDbk, WWF, PAP/RAC, individuals - members of AWG, Falconry Center.
5. Civil society: NGOs, non/profit associations	Sunce, Otoce volim te, Lijepa naša - Kastela, Dolphins Dream, school-children associations, a number of local NGOs.
6. The general public at national, regional, local, micro-sites levels	General public, target sub-groups: schools, settlements in demo areas.
7. Media: Tv, radio, newspapers, at national, project area and local levels	Operational and mailing lists to be updated at project outset.

The levels of interaction, usual number of stakeholders, intensity, and tools to be applied are presented in the Table below:

**Table 10. Levels, intensity, tools**

Level of interaction	Number of stakeholders	Intensity of interaction	Tools, methods (COAST)
Information (provision of information)	large	weak	Printed documents, newsletters, e-mail, info to media, web-site, informal techn.
Consultation (two-way information)	significant	significant	Questionnaires, group meetings (PSC, Co-ord.harm.meets, demo areas focus groups), through training, workshops, seminars, high level conferences, face-à-face dialogues, AWG, feed/back information.
Participation (inputs in decision-making)	significant large, potential CBRRF applicants	strong  strong	Opinion structuring meetings and groups, negotiations, policy dialogue: all key partners, through PSC, focus group meetings, on-going direct policy and progress dialogue, <u>CBRRF as a specific tool for a large number of appl.</u>
Partnership (substantial involvement)	small - selected ones only	very strong	Endorsement Letters, agreements, contracts, on-going direct policy and progress dialogue, shared decision making, co-ordination, inputs exchange, joint progress monitoring / evaluation.

CBRRF as a specific SPP tool. A large number of potential applicants for CBRRF were identified and sensibilized during PDF B phase. Therefore, a well designed and funded and applicant-friendly CBRRF is considered as one of key tools for a successful implementation of SPP and of the entire project. A large number of small-scale beneficiaries, not affecting their competitiveness, will contribute meeting some of key project objectives (BD awareness, dissemination of "green" practices, impact on replicability, positive public opinion, ownership feeling and bottom-up support).

Stakeholders, impacts, role, attitudes, management strategy. The respective analysis made in PDF B phase is presented in the following Table. When approaching stakeholder sub-groups, and in particular individual stakeholders or individual persons, differences in attitudes might be expected, as indicated in the following Table, this particularly due to different category and or potential conflicts vs. opportunities that should be taken into account. Therefore, the identified stakeholders management strategies will be applied only after careful analysis of individual stakeholders to be involved in participation and implementation of partnership activities, case by case.



**Table 11. Stakeholders Analysis: impacts, role, attitudes, management strategy**

Stakeholder group	Potential impact, influence	Category	Attitudes	Potential conflicts // opportunities	Strategy: Intensity level	Strategy: Approach, tools	Strategy: Responsibility
<b>Group 1 and 2: Authorities, institutions, agencies, etc.</b> All  Key group: key ministries, others at national level; key county departments and others at project area/county level	High	Active, some individuals potentially affected, some potentially beneficiary  Same	In favour, strongly in favour, if motivated; some individuals indifferent or weakly opposed  Same	Excessive regular workload, mis-understandings, resilience to changes, low capacity, poor English (some cases in counties, local) //Benefits public / professional expected, novelty, interest to be involved in intern. projects, opportunity to witness personal capacity	Information, consultation  Participation, partnership	Printed documents, e-mail, mail, regular consultations, focus groups, meetings, conferences, dialogue  Consultative, harm/integr. meetings; on-going dialogue, partnership in decision making	Project management and all international and national experts
<b>Group 3: Business, private sector, etc.</b> All relevant  Banks  "Green" business  Entrepreneurs, individuals	Medium / high  Medium / high  High  Medium / high	Active  Active, careful approach  Potent. beneficiary  Potent. beneficiary	In favour, some indifferent, rarely potent. affected, most potentially beneficiaries. In favour, some indifferent, waiting high level decisions  Strongly in favour  Strongly in favour	Conflicts, if affected or promoting unsust. practices/ indifferent, if no tangible profit // in favour, if opportunity for benefit / profit visible Opportunities for benefit and profit - " -	Information, consultation  Partnership  Partnership  Partnership	Printed docs, e-mail, mail, web-site, consultations, focus groups, train.  Consultations, focus groups, training, partnership in decision making - " - - " -	Same

Stakeholder group	Potential impact, influence	Category	Attitudes	Potential conflicts, opportunities	Strategy: Intensity level	Strategy: Approach, tools	Strategy: Responsibility
<b>Group 4: Scientific community</b>	High / medium	Active, some potentially beneficiary	In favour, some strongly in favour, if beneficiary	Resilience, if not involved // Opportunities for involvement	Information, consultation	Printed docs, AWG, consultations, round tables, focus groups, wshops, etc.	Project management, national experts
<b>Group 5: Civil society, NGOs, etc.</b> All relevant	Medium / low	Active	In favour	Resilience, if not involved	Information, consultation	Printed docs, information, consultation	Project management, national experts
Target NGOs	Medium	Active, potentially beneficiary	Strongly in favour	Opportunities for involvement	Participation, partnership	Consultation, focus groups, wshops, partn. building	
<b>Group 6: General public</b> All	Medium / little	Active	In favour	Resilience due to poor or wrong information or if affected // Opportunities for general, local, group, individual benefits	Information	Printed docs, information	Project management, adm. person expert in PP, national experts
Public in demo- and micro- locations	Medium	Active, some potentially beneficiary or affected	Strongly in favour, some opposed, if affected		Consultation, participation	Printed docs, information, public consultations, focus groups	
<b>Media</b>	Medium	Active	In favour or weakly in favour	Indifference or resilience if poorly informed, neglected	Information	Printed docs, press releases and conferences, regular invitations to attend meetings, interviews, study tours	Project management, adm. person expert in PP, national experts

### Assumptions and risks.

The essential assumption related to SPP is that the key management actors and experts are familiar with principles, and practices of PP, and mastering tools to be applied.

Potential risks are related to:

- long period of project duration, possibility of losing PDF B and FP initial stage impetus; and
- low capability of key management actors to manage SPP.

### **III Strategies for Assuring Participation**

The strategy consists of (i) ensuring project staff and personnel have the appropriate competences and attitudes, and (ii) ensuring project activities are designed appropriate, and exploit all opportunities.

(i) Personal requirements for actors. Management staff and experts (notably the two PIU Task Managers, but also the Core Team of Experts), implementing the project and its participatory component, and in particular those directly involved in contacts with key stakeholders, should meet certain personal criteria, concerning their capacity for presentation of information and interaction with stakeholders. Some of these criteria are "qualifying", others might be understood as the »eliminating« ones:

"Qualifying" criteria:

- professional competence in at least one of key project sectors/themes;
- full understanding of the project beyond personal expertise, in particular the project objectives, actions to be implemented, the expected benefits, and its participative component;
- understanding of essential elements of participation and of the participatory process;
- mastering key SPP tools;
- a genuine democratic feeling and respect for all participants / stakeholders;
- capacity for transparent presentation and interpretation, for animation of participants, for an interactive guidance of interviews, informal conversations, moderation of meetings;
- capacity to interpret, synthesise, structure the group opinion;
- patience;
- personal integrity and respectful behaviour.

"Eliminating" criteria:

- absence of several qualifying criteria;
- arrogance, cynicism, disrespect for different opinions or their authors;
- "conflict proneness" - tendency to getting upset, angry, or feeling offended by different opinions or by their authors;
- use of highly sophisticated, »academic« wording, long speeches, over-explanation;
- tendency or practice of exercising pressure on participants, stakeholders.

The above personal criteria, as appropriate, will make part of personal requirements when selecting staff and experts.

In addition, documents on PP produced during PDF B will be disseminated to all staff and engaged experts.

(ii) Key project activities relevant for SPP.

Although SPP will be implemented transversally across the entire project, the following activities will require carefully planned and implemented participatory approach and tools:

Output 1:

- Focus Groups meetings;
- participatory preparation of Tourism Demonstration Management Plans for four demo areas;
- CCA tourism;
- Bisevo rehabilitation;
- fishing, fish-farming, shell-fish-farming zones;
- all training activities;
- CBRRF lines.

Output 2:

- marketing plans;
- BD identity;
- public awareness programme;
- tourists awareness programme;
- guidelines F/M practices.

Output 3:

- implementation of compliance strategies;
- promotional campaigns: organic agriculture, BD respectful fisheries;
- no-take zones;
- conflict resolution strategies, PAs, and strategies implementation.

Output 4:

- high level conferences;
- communication strategy;
- project achievements - promotional campaigns across seven counties.

Operational planning of above-listed activities will be made by PIU in accordance with the present SPP.

## Annex 5. Biodiversity Tracking Tool

### I. Project General Information

1. Project name: CRO/03/G41 Croatia - Conservation and Sustainable Use of Biodiversity in the Dalmatian Coast through Greening Coastal Development ("COAST" Project)

2. Country (ies): Croatia

National Project: ☒ Regional Project: \_\_\_\_\_ Global Project: \_\_\_\_\_

3. Name of reviewers completing tracking tool and completion dates:

	<b>Name</b>	<b>Title</b>	<b>Agency</b>
<b>Work Program Inclusion</b>	Dennis Fenton, Arsen Pavasovic	Expert PDF B Project Manager	UNDP
<b>Project Mid-term</b>			
<b>Final Evaluation/project completion</b>			

### 4. Funding information

GEF support: US\$ 6,953,000

Co-financing: US\$ 23,725,000

Total Funding: US\$ 30,678,000

5. Project duration: **Planned** 7 years **Actual** \_\_\_\_\_ years

6. a. GEF Agency: ☒ UNDP ☐ UNEP ☐ World Bank ☐ ADB ☐ AfDB ☐ IADB ☐ EBRD ☐ FAO ☐ IFAD ☐ UNIDO

6. b. Lead Project Executing Agency (ies):

Ministry of Environmental Protection and Physical Planning, Croatia

7. GEF Operational Program:

☐ drylands (OP 1)

☒ coastal, marine, freshwater (OP 2)

☐ forests (OP 3)

☐ mountains (OP 4)

☐ agro-biodiversity (OP 13)

☐ integrated ecosystem management (OP 12)

☐ sustainable land management (OP 15)

Other Operational Program not listed above: \_\_\_\_\_

#### 8. Project Summary (one paragraph):

A comprehensive set of activities demonstrating BD-friendly development, sustainable use and protection, related to private operators in tourism, agriculture and fisheries/mariculture, will be implemented in four selected sections of the project area. Capacity building, assistance to, co-operation with and direct support to the banking system will be implemented to provide for an improved investment climate for BD-friendly initiatives. Market-based incentives, as well as actions to increase consumer demand for BD-friendly products and strengthen compliance capacity in key sectors and around PAs buffer zones will be designed and implemented in a participatory way. Supporting actions aimed at institutional strengthening, capacity building and joint implementation of demonstration activities will be undertaken with the developmental and physical planning system at national and counties level to incorporate BD aspects into national and counties policies, plans and practices. At national level, policy and legislation targeted activities will be implemented with key private stakeholders and ministries, aiming at policy and legislative changes. Finally, a comprehensive CBRRF will be implemented across the project area and notably in demonstration areas involving a large number of applicants, to demonstrate at micro-scale BD related opportunities and benefits, raise awareness and replication interest, and create bottom-up impacts on local, counties and national administration and decision makers.

#### 9. Project Development Objective:

The Development Objective of the project is to ensure that the development path of the Croatian coast is environmentally friendly, with the conservation of biological diversity firmly mainstreamed into that development path.

10. Project Purpose/Immediate Objective: To effectively transform actions, practices and approaches of private operators in the tourism, agriculture and fisheries sectors across four coastal counties, in part by influencing the banking sector, and thereby mainstream biodiversity conservation into these sectors.

#### 11. Expected Outcomes (GEF-related):

**Outcome 1:** Biodiversity-friendly development is demonstrated in four small, globally important, productive landscapes.

**Outcome 2:** An improved investment climate for BD-friendly enterprises across the four counties (most of activities under this Outcome will be directly linked to the Outputs under Outcome 1).

**Outcome 3:** Compliance with biodiversity-related regulations has increased significantly across all sectors across the four counties (many activities at this Outcome will directly support the Outputs under Outcome 1)

**Outcome 4:** A national-level enabling environment that appreciates, supports, institutionalises and disseminates biodiversity-friendly development in coastal areas

#### 12. Production sectors and/or ecosystem services directly targeted by project:

12. a. Please identify the main production sectors involved in the project. Please put “P” for sectors that are primarily and directly targeted by the project, and “S” for those that are secondary or incidentally affected by the project.

Agriculture P  
 Fisheries P  
 Forestry S  
 Tourism P  
 Mining  
 Oil  
 Transportation  
 Other (please specify) Banking P

12. b. For projects that are targeting the conservation or sustainable use of ecosystems goods and services, please specify the goods or services that are being targeted, for example, water, genetic resources, recreational, etc.

1. Coastal and marine resources
2. Unique landscape and biological diversity

## **II. Project Landscape/Seascape Coverage**

13. a. What is the extent (in hectares) of the landscape or seascape where the project will directly or indirectly contribute to biodiversity conservation or sustainable use of its components? An example is provided in the table below.

<b>Targets and Timeframe</b>	<b>Foreseen at project start</b>	<b>Achievement at Mid-term Evaluation of Project</b>	<b>Achievement at Final Evaluation of Project</b>
<b>Project Coverage</b>			
Landscape/seascape <sup>39</sup> area <u>directly</u> <sup>40</sup> covered by the project (ha)	663,000 land 702,000 sea		
Landscape/seascape area <u>indirectly</u> <sup>41</sup> covered by the project (ha)	629,000 land 1,640,000 sea		

### **Explanation for indirect coverage numbers:**

<sup>39</sup> For projects working in seascapes (large marine ecosystems, fisheries, etc.) please provide coverage figures and include explanatory text as necessary, if reporting in hectares is not applicable or feasible.

<sup>40</sup> Direct coverage refers to the area that is targeted by the project’s site intervention. For example, a project may be mainstreaming biodiversity into floodplain management in a pilot area of 1,000 hectares that is part of a much larger floodplain of 10,000 hectares.

<sup>41</sup> Using the example in footnote 5 above, the same project may, for example, “indirectly” cover or influence the remaining 9,000 hectares of the floodplain through promoting learning exchanges and training at the project site as part of an awareness raising and capacity building strategy for the rest of the floodplain. Please explain the basis for extrapolation of indirect coverage when completing this part of the table.

Project area is the area to be affected, both directly and indirectly. The land area includes all the municipalities that lie along the coast in the four **project** areas. For marine areas, the area affected is estimated based on mapping and simple estimates of areas to be affected.



**13. b. Are there Protected Areas within the landscape/seascape covered by the project? If so, name these PAs, their IUCN or national PA category, and their extent in hectares.**

	Name of Protected Areas	IUCN and/or national category of PA	Extent in hectares of PA
1.	Mljet	National Park	5,400
2.	Biokovo	Nature Park	19,550
3.	Krka	National Park	11,100
4.	Kornati	National Park	21,800
5.	Vransko lake	Nature Park	5,700
6.	Telašćica	Nature Park	6,700

### **III. Management Practices Applied**

14.a. Within the scope and objectives of the project, please identify in the table below the management practices employed by project beneficiaries that integrate biodiversity considerations and the area of coverage of these management practices. Note: this could range from farmers applying organic agricultural practices, forest management agencies managing forests per Forest Stewardship Council (FSC) guidelines or other forest certification schemes, artisan fishermen practicing sustainable fisheries management, or industries satisfying other similar agreed international standards, etc. An example is provided in the table below.

<b>Targets and Timeframe</b>	<b>Area of coverage foreseen at start of project</b>	<b>Achievement at Mid-term Evaluation of Project</b>	<b>Achievement at Final Evaluation of Project</b>
<b>Specific management practices that integrate BD</b>			
1. BD-friendly organic and traditional agricultural practices	presently data not available – to be determined immediately after project start-up	increase 25%	increase 35%
<b>2. BD-friendly:</b> - fish farming - shell-fish farming	Starting capacity 2,300 t/y 3,000 7/y	increase: 10% min 15% min	increase 25% 30%
3. Tourism, BD-friendly: - Visitor Management Plans - Itineraries	none none	2 4	4 8

**14. b. Is the project promoting the conservation and sustainable use of wild species or landraces?**

☐ Yes ☒ No

If yes, please list the wild species (WS) or landraces (L): N/A

Species ( <i>Genus sp.</i> , and common name)	Wild Species (please check if this is a wild species)	Landrace (please check if this is a landrace)
1.		
2.		
3.		
4...		

**14. c. For the species identified above, or other target species of the project not included in the list above (E.g., domesticated species), please list the species, check the boxes as appropriate regarding the application of a certification system, and identify the certification system being used in the project, if any.**

Certification  Species	A certification system is being used	A certification system will be used	Name of certification system if being used	A certification system will not be used
1. Mytilus Oyster		XXX		
2...				

**14. d. Is carbon sequestration an objective of the project?**

☐ Yes ☒ No

If yes, the estimated amount of carbon sequestered is: \_\_\_\_\_

#### **IV. Market Transformation and Mainstreaming Biodiversity**

**15. a. For those projects that have identified market transformation as a project objective, please describe the project's ability to integrate biodiversity considerations into the mainstream economy by measuring the market changes to which the project contributed.**

The sectors and subsectors and measures of impact in the table below **are illustrative examples, only**. Please complete per the objectives and specifics of the project.

Name of the market that the project seeks to affect (sector and sub-sector)	Unit of measure of market impact	Market condition at the start of the project	Market condition at midterm evaluation of project	Market condition at final evaluation of the project
Sustainable agriculture	US\$ of sales of BD-friendly and/or certified / yr	To be determined at project outset	To be determined at project outset	To be determined at project outset
BD-friendly tourism	No. of BD-friendly itineraries performed by tourist groups/y	none	20	60
BD-friendly mariculture: - fish-farming - shell-fish farming	t/y produced:	To be determin. at project outset	Increase:  10% min	Increase:  25%

			15% min	30 %
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15. b. Please also note which (if any) market changes were directly caused by the project. N/A

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## **V. Improved Livelihoods**

**16. For those projects that have identified improving the livelihoods of a beneficiary population based on sustainable use/harvesting as a project objective**, please list the targets identified in the LogFrame and record progress at the mid-term and final evaluation. An example is provided in the table below.

<b>Improved Livelihood Measure</b>	<b>Number of targeted beneficiaries (if known)</b>	<b>Please identify local or indigenous communities project is working with</b>	<b>Improvement Foreseen at project start</b>	<b>Achievement at Mid-term Evaluation of Project</b>	<b>Achievement at Final Evaluation of Project</b>
2.					
3...					

## **VI. Project Replication Strategy**

17. a . Does the project specify budget, activities, and outputs for implementing the replication strategy? Yes\_ **X** \_ No

Replication is important at several levels: within the demonstration landscapes; across the four counties in the project area; across Croatia and internationally.

Activities under Outcomes 1-3 will address replication at the demonstration and four counties levels. Under Outcome 1, only Output 1.5 aims specifically at replication. GEF budget for this Output is \$48,000. Under Outcomes 2-3, there are no activities dedicated to replication, although there are many activities that will contribute to replication.

Outcome 4 is devoted largely to replication across Croatia. The budget for Outcome 4 is \$479,000. It is reasonable to estimate that 50% of this is dedicated to replication, i.e. \$239,500.

17. b. Is the replication strategy promoting incentive measures & instruments (e.g. trust funds, payments for environmental services, certification) within and beyond project boundaries?  
Yes X No     

If yes, please list the incentive measures or instruments being promoted:

Certification, marketing plans, negotiations with responsible Ministries to adapt the present system of incentives, see f.ex. agriculture, and indicators...

17. c. For all projects, please complete box below. Two examples are provided.

This to be determined at project outset.

<b>Replication Quantification Measure (Examples: hectares of certified products, number of resource users participating in payment for environmental services programs, businesses established, etc.)</b>	<b>Replication Target Foreseen at project start</b>	<b>Achievement at Mid-term Evaluation of Project</b>	<b>Achievement at Final Evaluation of Project</b>

## **VII. Enabling Environment**

For those projects that have identified addressing policy, legislation, regulations, and their implementation as project objectives, please complete the following series of questions: 18a, 18b, 18c.

**An example for a project that focused on the agriculture sector is provided in 18 a, b, and c.**

18. a. Please complete this table at **work program inclusion for each sector** that is a primary or a secondary focus of the project.

Please answer YES or NO to each statement under the sectors that are a focus of the project.

Sector	Agriculture	Fisheries	Forestry	Tourism	BANKI NG	Other (please specify)
<b>Statement: Please answer YES or NO for each sector that is a focus of the project.</b>						
Biodiversity considerations are mentioned in sector policy	NO	YES		NO	NO	
Biodiversity considerations are mentioned in sector policy through specific legislation	NO	NO		NO	NO	
Regulations are in place to implement the legislation	NO	NO		NO	NO	
The regulations are under implementation	NO	NO		NO	NO	
The implementation of regulations is enforced	NO	NO		NO	NO	
Enforcement of regulations is monitored	NO	NO		NO	NO	

18. b . Please complete this table at the project mid-term for each sector that is a primary or a secondary focus of the project.  
Please answer YES or NO to each statement under the sectors that are a focus of the project.

Sector	Agriculture	Fisheries	Forestry	Tourism	BANKI NG	Other)
<b>Statement: Please answer YES or NO for each sector that is a focus of the project.</b>						
Biodiversity considerations are mentioned in sector policy						
Biodiversity considerations are mentioned in sector policy through specific legislation						
Regulations are in place to implement the legislation						
The regulations are under implementation						
The implementation of regulations is enforced						
Enforcement of regulations is monitored						

18. c. Please complete this table at **project closure for each sector** that is a primary or a secondary focus of the project. Please answer YES or NO to each statement under the sectors that are a focus of the project.

<b>Sector</b> <b>Statement: Please answer YES or NO for each sector that is a focus of the project.</b>	<b>Agriculture</b>	<b>Fisheries</b>	<b>Forestry</b>	<b>Tourism</b>	<b>BANKI NG</b>	<b>Other</b>
Biodiversity considerations are mentioned in sector policy						
Biodiversity considerations are mentioned in sector policy through specific legislation						
Regulations are in place to implement the legislation						
The regulations are under implementation						
The implementation of regulations is enforced						
Enforcement of regulations is monitored						

All projects please complete this question at the project mid-term evaluation and at the final evaluation, if relevant:

**18. d. Within the scope and objectives of the project, has the private sector undertaken voluntary measures to incorporate biodiversity considerations in production? If yes, please provide brief explanation and specifically mention the sectors involved.**

**An example of this could be a mining company minimising the impacts on biodiversity by using low-impact exploration techniques and by developing plans for restoration of biodiversity after exploration as part of the site management plan.**

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### **VIII. Mainstreaming biodiversity into the GEF Implementing Agencies' Programs**

19. At each time juncture of the project (work program inclusion, mid-term evaluation, and final evaluation), please check the box that depicts the status of mainstreaming biodiversity through the implementation of this project with on-going GEF Implementing Agencies' development assistance, sector, lending, or other technical assistance programs.

<b>Time Frame</b>	<b>Work Program Inclusion</b>	<b>Mid-Term Evaluation</b>	<b>Final Evaluation</b>
<b>Status of Mainstreaming</b>			
The project is not linked to IA development assistance, sector, lending programs, or other technical assistance programs.			
The project is indirectly linked to IAs development assistance, sector, lending programs or other technical assistance programs.			
The project has direct links to IAs development assistance, sector, lending programs or other technical assistance programs.	XXXX		
The project is demonstrating strong and sustained complementarity with on-going planned programs.			

### **IX. Other Impacts**

20. Please briefly summarise other impacts that the project has had on mainstreaming biodiversity that have not been recorded above.

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## **Annex 6. Maps of the Project Area and Demonstration Landscapes**

See separate file:

Map 1 is of the overall project area

Maps 2 – 5 show distribution of biodiversity and hotspots

Map 6 is the map of pollution hotspots

Maps 7 – 10 show each demonstration landscape



## **Annex 7. Summary of Sectoral and Thematic Analyses.**

This annex provides a summary of the major findings of the technical reports prepared under the Project PDF B phase. Copies of all reports are available.

G. Berlengi and M. Maroevic, "Spatial Planning System and Integrated Coastal Management at Counties Level", Split, January 2005, pp. 83, 6 Tables, 1 Figure.

Key issues identified: policy integration: sectoralism and lack of policy co-ordination; public participation is formally binding but ineffective; centralisation of decision-making: local units incapable of development planning; science to policy link: lack of policy-oriented information; equity and land ownership problems: unequal distribution of costs and benefits; and implementability of plans: goal-oriented plans without adequate instruments for implementation.

The proposed solutions: development of spatial planning system with stronger ICM capacity; improved coastal policy making and policy co-ordination and integration, including legal and institutional aspects (national and county level); capacity building at county (county planning departments) and national level; development of coastal planning and management methodologies and tools in order to improve County Plans as ICM documents; development of participatory planning methodologies and practices; knowledge base development, particularly for nature/biodiversity/landscape protection through provision of policy-oriented information; development of methodologies for preparation of policy-oriented information; public awareness development through improved information dissemination on coastal planning, biodiversity and landscape values and importance in terms of public and stakeholders' private interest.

A need was stressed for participatory planning, and preparation of Pilot ICM projects for demo areas, including capacity building through learning by doing.

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G. Berlengi and M. Maroevic, "Spatial Planning System and Integrated Coastal Management at Counties Level: Summary", Split, January 2005, pp. 11, 2 Tables, summarising the above-described Full Report on Spatial Planning System and ICM at Counties Level.

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A. Bjelica, "Banking and Large Private Biodiversity Sector at Local Level (Final Report)", Split, February 2005, pp. 68, 12 Tables.

The report presents the state of financial and large private biodiversity sector at local level and lists relevant activities implemented within the COAST project. Root causes analysis and barriers analysis identify problems of inclusion of biodiversity concerns in banking sector operations, as well as reasons for still relatively underdeveloped private biodiversity business.

The main problems identified: unawareness of biodiversity concept and relevant issues; inadequate assessment of environmental risks in banks' credit allocation procedures; lack of market motivation for inclusion of ecological concerns into banking practices; strict banking rules on providing collateral for environment-friendly investments; inadequate training of bank staff for environmental risk assessment; weak private sector overall and especially weak private biodiversity sector; lack of entrepreneurship culture and tradition; heavy reliance on government sector and redistribution; bureaucratic procedures and information barriers suppressing faster private sector growth; inability of domestic eco-production to command substantially higher market prices than the conventional products; and non-existent public-private partnerships for environment and development projects.

Major barriers identified: perception of the assessment of environmental risks of projects exclusively as a cost; faced with strict bureaucratic procedures in banks when dealing with new initiatives and emerging businesses; black market of undisclosed size as the single most important barrier to faster growth of local biodiversity business; national tax and subsidies system not stimulating enough to private sector for more environment-friendly practices; the low environmental awareness of local people and their low purchasing power; lack of mechanism for dissemination of information on financing opportunities for biodiversity business; weak enforcement of the law related to ecological production and eco-labelling; and scarce and scattered external sources of funding of private eco-producers.

Mainstreaming/greening strategies and outputs proposed for the Full COAST project include: finding optimal mix of soft and hard measures for greening of banking industry; using HBOR and/or environmental funds as a lever in greening banking industry and private sector through a mandatory environmental/biodiversity risk assessment procedure; offering technical assistance to banks for introduction of environmental risk assessment into regular credit assessment procedures; creating an independent expert group for assessment of environmental impacts of investment projects; training bank credit sector staff in environmental risk assessment and environmental compliance procedures; announcing a competitive bid for a bank's hosting of the Full COAST Biodiversity Rapid Response Facility; stimulating banks to promote their biodiversity-related programmes by featuring some easy recognisable local amenity (e.g. some flag species, well preserved localities); organising basic and advanced training courses on environmental risk assessment; carrying out a comparison of environmental practices of banks mother-firms and their domestic subsidiaries with regard to their attitudes toward environment and related credit allocation procedures; and supporting large biodiversity sector in its biodiversity-friendly activities; creating a web-based clearinghouse mechanism on local biodiversity issues (list of producers, products, programmes, good practices, sources of funding for biodiversity; training courses on preparation of business plans and prefeasibility studies for biodiversity-related projects to be submitted to banks for financing).

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C. Evans, "Report on Planning for Sustainable Tourism: Relevant International Experience", London, January 2005, pp. 94, 3 Tables, 1 Figure.

Following the first tourism workshop in Split, in October 2004, the brief of the international tourism expert was amended to focus on identifying and presenting international case studies relevant to a number of key themes and issues that had emerged from the work of the national and local tourism experts. These can be summarised as: the development/management of sustainable island tourism, particularly on environmentally and socially sensitive islands; the development/management of nautical tourism, including cruise ships; the development/management of the rural hinterland, including new sustainable rural tourism initiatives, farm diversification, development of rural tourism infrastructure, interpretation, integration of food and farming, crafts, activity tourism, spas/wellness, extreme sports, nature watching, etc.; the development of urban tourism, particularly small heritage towns; and the development of appropriate tourism facilities by small-scale, private sector operators, displaying local distinctiveness, greening initiatives; the development of legislation and/or regulations, institutional framework, monitoring, visitor management including CCA, capacity building/training, stakeholder participation, taxation and other funding schemes that link planning, tourism and bio-diversity management.

Mediterranean case studies were used where possible to reflect the Croatian situation but particularly good examples from elsewhere in the world have also been included. The case studies are presented in a logical format, starting with strategic planning issues before turning to specific greening processes and then looking at the issues relevant to different destination types.

A. Frankic, "Sectoral Study: Protected Areas: Final Report", Boston, February 2005, pp. 59, 6 Tables, 2 Figures.

The report presents and addresses identified issues and problems related to PAs at national, regional and local levels, and provides potential solutions and recommendations.

Key problems identified are: inadequate financing; the lack of benefits to local communities; inconsistent enforcement of the law and regulations; the low environmental awareness and education at all the levels; and the lack of professional capacity and knowledge.

Major barriers identified are: the lack of understanding of and support to biodiversity conservation and responsible uses within and outside of the PAs as the main base for economic sustainable development of the country; and non-existence of PAs management plans.

Key solutions/strategies/actions recommended are: the establishment of the National System of PAs; the preparation of PAs management plans together with tourism and business plans; the preparation of a COAST Biodiversity Rapid Response Facility for PAs; and the establishment of the Croatian Conservation Foundation.

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M. Fredotovic, "Multisectoral Analysis at the National and Project Area Levels (Document I)", Split, January 2005, pp. 45, 20 Tables.

In the introductory part of the report, a methodological approach and constraints to the research are explained. The second part brings about the stakeholders identification and analysis from the national to local level. The report gives a review of legislative and developmental framework of agricultural sector at the national level and an introduction to the implications of EU Accession policies. The analysis of the present state of agricultural sector at the project area level is done with special reference to ecological agriculture and problems encountered in the sector, (potentially) causing threats to landscape and biodiversity. Analysis of root causes and barriers is done related to agriculture, but also to some other economic sectors, such as transport, extraction and industry. Position of agriculture is established with regard to ICM and Protected Areas. Finally, potential demonstration sites are presented, as well as selection criteria, with a short description of selected sites from the agricultural standpoint.

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M. Fredotovic, "Multisectoral Analysis: Strategies and Actions to be Envisaged by the Full Project (Document II)", Split, January 2005, pp. 9.

The document deals with greening alternative to change practice in agricultural sector in the project area. To that end, possible Project Outcomes at the three basic levels are drafted, as well as the activities to achieve these outcomes. Each activity is linked with the previously identified barriers, and stakeholders to carry out these activities are defined for each activity as well.

At demonstration sites level, the emphasis is put on the private sector, education and awareness raising about the importance of biodiversity and landscape diversity on the one hand, and on some activities proposed to demonstrate possibilities of the greening option, on the other hand. At the project area (four counties) level, the activities are mainly institution-oriented aiming to strengthen agriculture-related institutions as to improve the market position of the sector in general, enhancing, at the same time, the development of ecological agriculture in the area. At the national level, the two main lines of activities are suggested: the first is related to the necessary change in economic instruments, both within agriculture policy and environmental policy, as to allow for more biodiversity-friendly practices; and the second is a completion of cadastres of agricultural land, as well as gene banks of varieties and breeds in the area as a scientific precondition for revitalisation of original breeds and varieties in the project area, based on the sound environment and economy.

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M. Fredotovic, “Multisectoral Analysis Summary Report”, Split, February 2005, pp. 14, summarising the two above-described reports at national and project area levels.

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J. Kostelac Bjegovic, “Review of EU Requirements and Croatian Policy in Biodiversity and Nature Protection Sector”, Zagreb, October 2004, pp. 43, indicating the main requirements stipulated within the EU legal framework regarding protection of biodiversity and integrated coastal zones management. Financial instruments available in the pre-accession period are also presented, as is Croatia’s current legislative status in biodiversity protection where the emphasis was on the ongoing approximation process.

The main purpose of this document was to present in general terms the EU requirements regarding biodiversity conservation in relation with other sectoral policies that are also considered to be factors leading to serious pressure on the environment. The ongoing process of approximation is one of the key elements of this document, showing the efforts and measures already taken in that respect. A brief overview of EU financial instruments available to Croatia is given, that deserves a special attention and consideration. It should be noted that the approximation process has its own dynamics that needs to be taken into account.

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G. Kuspilic, “Anthropogenic Inputs, Ecological State, and Impact on Biodiversity in the Marine Environment”, Split, March 2005, pp. 47, 15 Tables, 42 Figures.

Discharge of municipal, industrial and tourist wastewater out of sewage systems, fish and tuna farming in shallow and semi-enclosed areas, as well as the use of fertilisers in agriculture were identified as major driving forces for eutrophication and biodiversity changes in Croatian coastal zone. Inputs of pollutants and nutrients, ecological state, toxic pollutant concentrations in sediment and biota are all presented, as well as the impacts on biodiversity. Potential endangered areas are identified.

Major barriers to improvements are: uncompleted project documentation (especially qualitative and BD-oriented EIAs) for *Project Jadran* sewage systems (Wastewater); the lack of qualitative EIAs and estimations of area carrying capacities (Fish and Tuna Farming); missing stimulation and solutions for organic production (Agriculture). Solutions are proposed through: *COAST - Croatian Waters* partnership building (Preparation of Guidelines for BD-oriented EIAs); *COAST* support to MEPPPC county offices (Preparation of Guidelines for BD-oriented EIAs and CCAs, definition of indicators for Farm monitoring programmes); mainstreaming of agricultural production in sensitive areas (near to estuaries and semi-enclosed bays).

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T. Nikolic, G. Guzvica, I. Jardas, S. D. Jelaska, V. Kusan, H. Peternel, supported by Z. Major, GIS expert, “Biodiversity in COAST Project Area - Final Report”, Zagreb, January 2005, pp. 87, 20 Chapters, 12 Tables, 33 Figures, including Maps.

The report firstly discusses general biodiversity issues, different criteria for demo site selection, and data background for document preparation. The main part of the report contains analysis of different biodiversity aspects in the project area, including: topography, land use, habitats diversity, flora and fauna diversity with separate emphasis on marine ecosystem and conservation-related issues (national ecological network, habitat directive, Protected Area). The multiple criteria methodology for identifying priority sites was elaborated and utilised. The results were analysed and discussed.

Using this methodology, twenty priority sites in the project were detected and described; one site in each county was selected and described as a proposed demonstration landscape for the Full Project.

In Zadar county, the area covers the south-eastern part of the island of Pag and the adjacent mainland (the north-western part of Ravni Kotari), including two salt pans and small water bodies on the island of Pag (i.e. Kolansko Blato, Malo Blato and Velo Blato). In Šibenik-Knin county, the demo site includes the Krka estuary covering the area from Skradin to Channel of St. Ante. In Split-Dalmatia county, the proposed area includes the island of Vis and the adjacent archipelago. In Dubrovnik-Neretva county, the area includes the three main sub areas, i.e. the island of Mljet, Pelješac peninsula and the Channel of Mali Ston, and contiguous zones. According to experts' knowledge and related data, strategies and action plans for biodiversity conservation were suggested for three levels: the project area, the counties and the priority sites levels. These were further grouped into four tasks with up to 60 action plans. The GIS database developed during the report preparation is described at the end of the document, and a CD with all public available data, themes and layers is attached to the report.

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T. Nikolic, G. Guzvica, I. Jardas, S. D. Jelaska, V. Kusan, H. Peternel, supported by Z. Major, GIS expert, "Biodiversity in COAST Project Area – Summary", Zagreb, February 2005, pp. 29, 14 Chapters, 1 Table, 7 Figures, 4 Maps. The report summarises the above-described Final Report from January 2005.

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A. Pavasovic, Stakeholders Analysis, Split, August 2004, pp. 10, 2 Annexes, 1 Table.

The document summarises the Stakeholders Analyses prepared individually by 17 project experts, the identification procedure and selection of key stakeholders, and elaborates the stakeholders management strategy.

The initial extensive stakeholders list included about 250 stakeholders, i.e. the key Ministries and institutions at the national level, county administration and key institutions, a large number of micro, small and medium-sized enterprises (MSME) and a few larger enterprises (tourism, agriculture, fisheries and mariculture, banks, individual farmers), scientists, NGOs, media.

After a detailed analysis, the list was reduced to about 150 stakeholders to be involved in consultations and establishment of the relevant Focus Groups. The potential impact, influence, attitudes, conflicts and opportunities of each stakeholder category are determined. Accordingly, the approach strategies, intensity level, tools and responsibilities are defined for each stakeholder category.

Annex I. presents a summarised review of individual lists identified by each project expert, while Annex II presents the analysis and proposed stakeholder management strategy in a tabular form.

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L. Petric, "Summary of Sectoral Documents on Tourism", Split, February 2005, pp. 38, 3 Tables, summarising the local level tourism expert's report (counties level).

Actual situation and trends in tourism supply and demand at counties level are presented, as well as impacts of tourism on biodiversity in general and with special stress on Protected Areas, the need to introduce the concept of "bio-and landscape" diversity (BD/LD) as economic driver in tourism, and the GEF alternative are introduced.

The following key problems were identified: illegal building of accommodation facilities and other tourism-related facilities (small ports, promenades, concrete beaches, etc.) that affect BD/LD; impacts on BD/LD by users of ports for nautical tourism (marinas and others); pollution and impacts by users of sea and sea resources through different types of sea-related tourist activities; impacts on BD/LD by tourism developers in rural areas; impacts by users of natural resources through tourism-related activities in rural areas; impacts by users of natural resources through tourism-related activities in Protected Areas; and pollution, landscape degradation and overuse of energy resources by tourist enterprises.

Major barriers identified: unwillingness to accept entrepreneurial risks; administrative obstacles; physical and financial capacity to control and monitor is weak; non-existent and/or poor regulation regarding environmental protection; the low awareness of tourists and staff; strong influence of political decisions on investments; the lack of knowledge of alternative market opportunities; poor planning and building codes; high initial costs of introduction of high-quality standards; poor and/or non-existent incentives for green tourism businesses; and the local population not educated, nor included in the process of tourism development.

Key solutions/strategies and actions have been proposed as to overcome the identified barriers: I) Global strategies/strategic framework: (1) mainstreaming (national, county level), (2) greening industry; and II) Response strategies to overcome the identified barriers: Ad 1) Awareness raising; Providing information/interpretation; Capacity building to mainstream BD/LD into development; Regulatory incentives; Policies; Fiscal adjustments; Banks/Finance; Ad 2) Raising awareness of the private sector; Training; Providing information/interpretation; Finance/support; Demonstration (to change practices); Capacity building (provision of tools, i.e. CCA, VMP, etc.); Improving management.

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B. Shipman, "A Review of International Integrated Coastal Management Experience and Recommendations for the COAST Project", UK, February 2005, pp. 28, 7 Figures.

The report reviews current international practice and external drivers relevant to integrating landscape and biodiversity into the economic development of the coastal area of Croatia. Examples of best practice from around the world are presented for marine spatial planning, information and knowledge management, financial mechanisms, and capacity building. Impacts of future EU Accession are also discussed.

Key problems were identified in a SWOT analysis. Major barriers identified: the lack of effective and strategic marine spatial planning; lack of relevant and readily available information; inadequate financial mechanisms. The policy, regulatory and financial aspects of potential EU Accession were identified as key drivers of coastal activity. Best practice models of international experience relevant to Croatia were presented.

Key recommendations were based around a model 'Shared Vision' and included: proposals for a comprehensive system of strategic marine spatial planning in the coastal and marine zone; the management of information and knowledge through the establishment of a marine information network, the selection of a lead body for reporting and monitoring, a coastal observatory as a centre of excellence; the establishment of an accountable public agency based on the French *Conservatoire du littoral* to secure the long-term protection of the most important stretches of the Croatian coast. Recommendations are made concerning the integration of COAST project activities into work on future EU Accession. Further recommendations included the development of the institutional and human capacity to deliver the process in both the short and long term including, training and capacity building for both existing and future staff and the establishment of a recognised centre of excellence in coastal management in Croatia.

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V. Sonje, "Role of Banks and Other External Financing Support", Zagreb, March 2005, pp. 11, 1 Table, summarising expert's reports and results of consultation meetings with key stakeholders (individual banks including the Croatian Bank for Reconstruction and Development, Croatian Banking Association and the Ministry of Finance).

Key problems identified are: the lack of banks' knowledge of environmental risk assessment; and difficult access of SMEs to banks' loans because banks apply the same risk assessment procedures to large and small businesses. Therefore, the major barriers are: understanding of environmental risk; and access to banks for SMEs. The following key actions to remedy this situation are

proposed: educate all stakeholders about BD and environmental risk assessment and audit; identify BD preserving businesses in the region and facilitate their access to loans; develop a partial government guarantee scheme supported by external partner, which would increase creditworthiness of BD preserving activities.

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V. Ticina, “Analysis of Fisheries/Mariculture Sector and its Effects on Biodiversity within the COAST Project Area (Final Report)”, Split, December 2004, pp. 49, 5 Tables, 2 Figures.

The general overview and actual situation and trends in fisheries and mariculture sector are presented, and the stakeholder community is defined; the need was stressed to introduce the concept of bio- and landscape diversity as economic driver in fisheries and mariculture, and the GEF alternative.

Key problems identified: possible impacts of fishing and mariculture on marine ecosystem and BD (marine animals and marine habitats) and, in particular, possible adverse effects of different fishing gears/activities on marine ecosystem and BD; special attention was given to the most serious one – the impact of IUU fishing on marine ecosystem and BD, proposing possible measures to prevent, deter and eliminate IUU fishing activities. Possibilities of mainstreaming BD into policies, programmes and practices at national, county and particularly at demonstration site levels are analysed, and some legislative changes are suggested. The ecosystem-based management concept was introduced as the best strategy for a long-term sustainability of fisheries and mariculture sectors, and reconciliation between the needs for resources exploitation and conservation of BD.

The major barriers identified: the weak knowledge of marine BD; poor planning; economic issues; the low level of environmental education; the lack of employment opportunities; weak and inefficient inspections; low penalties; the slow legislation system; institutional problems; the low level of understanding ecosystem-based management principles; doubtful data available and insufficient databases; the low selectivity of fishing gears; absence of restrictions within spawning and nursery grounds – juveniles fishing; tradition, information barriers.

Key solutions proposed: SEA and EIA studies; sea-use planning; the baseline studies on marine BD; specific educational programmes through public aquarium; the GIS-based species/habitat cadastral register of assessment; awareness raising campaigns; capacity building guidelines development and establishment of monitoring indicators; education and training; data verification; databases design in accordance to EBM needs and principles; mandatory monitoring in fisheries/mariculture; highly adaptive management; the “smart” gears use; inspection capacity building; protection of spawning/nursery areas; new technologies and BD-friendly practices; BAT for waste treatment; economic incentives; competitive actions and rewarding; and improvement of zoo-technical measures in mariculture.

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V. Ticina, “Analysis of Fisheries/Mariculture Sector and its Effects on Biodiversity within the COAST Project Area” (Extensive summary of above, with annexes), Split, January 2005, pp. 19, 3 Tables, 1 Figure, 2 Annexes.

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I. Trumbic, “Integrated Coastal Management in the National Context”, Split, February 2005, pp. 50, 2 Tables, 10 Figures, full report at the national level.

An analysis of the actual situation with ICM in Croatia, barriers analysis, rationale for ICM for biodiversity protection and conservation in the national context, a GEF alternative, and a list of proposed actions are presented.

The following key problems in coastal areas were identified: population growth and cumulative effects of human activities; linear coastal urbanisation; tourism development, not respecting the environmental conditions; conflicting fishing, mariculture and fish farming activities, the low quality of environmental services provided, regulatory "split" in coastal areas management; inadequate integration of coastal marine and terrestrial domains; inadequate institutional arrangement for ICM; the low level of financing; the low priority and low public perception of ICM as a feasible technical discipline to solve coastal conflicts.

The major barriers identified are: bureaucratic inertia; resistance to changes; resistance of the sectoral economic interests; lacking political will to start the ICM process; legal complexity in defining the coastal zone; the lack of understanding between planners and scientists dealing with the coastal zone; missing strategic view of the Croatian coast; persistence of coastal conflicts.

The key strategic actions proposed are: define the national policy framework for the coast; adopt specific coastal legislation; establish institutions for coastal management; apply modern management tools; increase the level of national financing to stimulate coastal management; organise an educational system for coastal management; improve exchange of information.

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I. Trumbic, G. Berlangi, M. Maroevic and B. Shipman, "Coastal Policy and Management Framework: Integrating Landscape and Biodiversity into Economic Development - Joint Summary Report", Split, January 2005, pp. 15, 4 Tables, 1 Figure, summarising experts' reports at international, national and project area levels.

The state of coastal policy and management framework, barriers to ICM in Croatia, rationale for the ICM as instrument for biodiversity protection and conservation, linkages with spatial planning at the county level, SWOT analysis, strategy for coastal policy and management framework, and concrete activities are presented. The following key challenges to coastal biodiversity are identified: population growth and cumulative effects of human activities; linear coastal urbanisation; tourism development, which is a significant sector of the coastal as well as of the overall national economy; fishing, mariculture and fish farming, very often in conflict with one another, as well as with other coastal uses. The report concludes that the Croatian coastal area is a resource of national importance but not properly managed.

It identifies a number of barriers: the current management structure to resolve competing uses is generally fragmented and regulatory-based; numerous shortcomings in the organisation and implementation of the system of physical planning in general, while an organised system of integrated coastal management hardly exists; the coast is "dealt with" by a large number of governmental actors, where the principal role is played by 7-8 ministries, of which each believes that it is the one that is exclusively responsible for coastal development; the lack of co-ordination and communication among the ministries, which is a common case even with departments of the same ministry, is the principal problem of coastal area management. Key strategic elements for implementation of ICM proposed are: improved governance and stakeholders involvement; capacity building; knowledge and information management; and awareness raising.

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B. Vukonic, "Sectoral Study on Tourism", Zagreb, February 2005, pp. 62, 5 Tables.

The following key problems were identified: biodiversity and landscape concern and use as economic driver not yet part of the national development strategy or national tourism development strategy; tourism has been recognised as one of priorities of Croatian economic development; tourism has a long tradition based mainly on natural tourist attractions along the coast and on the islands, practising the mass tourism pattern; tourism density on the coast is quite high (more than 65% of arrivals and overnights are registered in this area); the average daily consumption per tourist is rather low and most of the tourists rank the "value for money" very low; it is necessary to



develop certain coastal tourism destinations with their own image; and Croatia's Adriatic coast is still underused in comparison with other Mediterranean destinations, but, nevertheless, faces a big threat in the form of unplanned and uncontrolled tourism development.

Major barriers identified are: the lack of strategic tourism policy and awareness in the public and private sector; discontinuity in the process of decision-making practice, a weak co-ordination among the relevant ministries and with the private sector; the lack of present economic conditions; and the lack of sufficient financial incentives.

Key solutions/strategies/actions proposed are: preparation of a (Visitor) Management Plan at the counties or destination level (and/or at one or more demo areas); preparation of BD/LD itineraries; preparation of and actions dealing with obtaining the Eco certificate; Promotional Conference(s) for small private entrepreneurs (at each demo area), hotels, travel agencies, Tourism Boards, etc.; and Capacity Building training.

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B. Vukonic, C. Evans and L. Petric, “Tourism Joint Summary Report”, Split, February 2005, pp. 23, 6 Tables, summarising experts' reports at national and project area levels, and inputs from international experience.

Actual situation and trends are presented, as well as the impacts of tourism on biodiversity in the project area (degradation of landscape and biodiversity, environmental hazards, loss of identity, sea pollution), and the need to introduce the concept of bio- and landscape diversity as economic driver in tourism. The GEF alternative is also presented, focusing on raising awareness through education, integrating biodiversity and landscape diversity into sectoral development at national and local levels, developing integrated management procedures, working directly with the private sector, and hence increasing understanding of all stakeholders of the drivers, constraints and opportunities for business development and biodiversity and landscape-friendly management across the Dalmatian coast.

The barriers to attaining this alternative are: inadequate information and interpretation available to responsible policy makers; a weak co-ordination among the ministries and with the private sector; discontinuity in the process of decision-making practice; present economic conditions; non membership of EU; institutional capacity, as well as the lack of needed strategies and outcomes.

Proposed strategies to be applied: LD/BD ownership building; awareness raising; capacity building; partnership building; information/interpretation development; new policy planning; proactive approaches building; joint demo actions.

The expected outcomes are: demonstrated approaches to changing private sector activities in order to improve impact on BD/LD as economic driver in demo areas and across the project area; demonstrated capacity to mainstreaming BD/LD into development of the four counties; and demonstrated capacity to mainstreaming BD/LD into national environment development.

## **Annex 8. Demonstration Landscape Profile Sheets**

### **1. The Pelješac Peninsula, Dubrovacko Primorje, Malostonski bay and Malo more area** (Dubrovnik-Neretva county)

1. Boundaries. The demonstration area is located at the NW part of the Dubrovnik-Neretva county, encompassing the Pelješac peninsula, the coastal area of Dubrovacko Primorje, inner marine areas of Malostonski bay and Malo more, and the marine areas adjacent to Pelješac peninsula, including the Pelješac-Mljet channel, see Map in Annex 5. Administratively, the area covers parts of the municipalities of: Dubrovacko Primorje, Ston, Janjina, Orebic, and Trpanj. The basic data on population number and area of the municipalities are presented in the Table below.

**Table 12. Population number and area of the municipalities in the Dubrovnik-Neretva county demonstration area**

<b>Municipalities:</b>	<b>Population</b>	<b>Area, km.sq</b>
Dubrovacko Primorje	2,400	197
Ston	2,800	169
Janjina	560	30
Orebic	3,900	131
Trpanj	900	37
<b>Total, demonstration area:</b>	<b>10,560</b>	<b>564</b>

#### 2. Socio-economic: Population, economic sectors, socio-economic challenges

The mainland part of the demo area consists of Pelješac peninsula and Dubrovacko Primorje, the marine part encompasses the Pelješac open outer sea and the semi-enclosed inner sea with Malostonski and Malo more bays. The outer sea makes part of the South Adriatic valley, with deep waters, strongly influenced by sea current entering the Adriatic from eastern Mediterranean and going up the coast. This current is of particular importance for the biodiversity of the outer sea. The inner sea, enclosed by Pelješac is strongly influenced by the mainland and Neretva river. Due to specific geomorphologic and environmental characteristics, the increased natural productivity provides most favourable conditions for shell-fish culture and as a fish-spawning area.

The area faces serious socio-economic and development problems. Dubrovacko Primorje is strongly underdeveloped, there is a marked depopulation process (notably Gornja Sela, Janjina, Trpanj). Ston and Orebic municipalities indicate a somewhat better situation, but far from possible and desirable.

Traditional agriculture, well developed fish- and shell-fish culture, and tourism (presently significant only in Orebic) are the major economic activities in the area.

Agriculture is a relatively well established activity in the north-southern watershed of the peninsula, with most famous grape and vine sorts, olives and olive oil production. Consequently, contrary to other parts of Pelješac, this area is better developed, planned and managed. Nevertheless, opportunities for profitable expansion in other parts, including recultivation of abandoned and degraded lands, are high and should be enhanced and supported by COAST, providing BD needs and concerns being applied.

Tourism is for the time being a great unexploited opportunity, taking into account the nearby Dubrovnik as a world famous destination, and natural values of the area, the biodiversity, landscape diversity, and cultural and historic heritage. The basic data on registered units, hotels number and capacities are presented in the table below.

**Table 13. Registered units, number of hotels and capacities in the municipalities in the Dubrovnik-Neretva county demonstration area**

<b>Municipality</b>	<b>Registered units</b>	<b>Hotels</b>	<b>Rooms, in private accommodation</b>	<b>Rooms, total</b>
Dubrovacko Prim.	3	1	300	600
Ston	4	2	450	900
Janjina	-	-	300	300
Orebic	14	4	1,750	3,100
Trpanj	1	1	300	400
<b>Total</b>	<b>22</b>	<b>8</b>	<b>3,100</b>	<b>5,300</b>

Barriers identified concerning a sustainable tourism development relate to:

- unreliable and uncompleted data on BD,
- low awareness on and lack of understanding of BD potential as tourism development driver, not only in the demo area, but primarily among tourism operators and hotel groups in Dubrovnik, and
- absence of adequate Tourism Management Plans for the area, diversified itineraries, green accommodation capacities, based on rural and eco-tourism, gastronomic offer, all to be included in the Dubrovnik destination.

Mariculture, including fish- and shell-fish farming, is rather well established and profitable. Shell-fish farming is a traditional activity from ancient times. Fish farming is based on sea bass and sea bream farming, the actual production amounting at 300 t/y (13% of national production). The production of mussels amounts to 2,000 t/y (app. 2/3rds of national production) and 800,000 pieces of oysters (practically 100% of national production). It should be noted that the shell-fish farmers association counts about 200 members, the natural and market conditions indicate opportunities for a very strong further expansion. The basic problems are related to need for identification of areas suitable for expansion, based on reliable BD data and on a properly implemented zoning as prerequisite for concession issuing procedure. Furthermore, there is the need to establish the trace stability protocol procedure and eco-labelling of shell-fish production, to provide for a better position at international markets. From COAST point of view, shell-fish culture is not only a BD-friendly activity, but is also otherwise contributing to project objectives, by providing basis for gastronomic offer, by positive impact on tourists indicating highest sea water quality, and by eliminating potential unfriendly users of respective coastal and marine areas. Finally, the problem of depletion of the reproductive stock of the autochthonous Ston oyster should be mentioned, needing a particular preventive action (sanctuary).

Fish-farms on the other hand as potential local polluters, need auditing, strengthened regular monitoring and introduction of pollution abatement technologies, all to be assisted by COAST.

Pollution. The inner sea area is under negative impacts of river borne pollution (Neretva), and from Neum tourism area (in Bosnia & Herzegovina). Pollution by municipal waste waters will be gradually reduced by completing the programme of construction of respective treatment facilities,

being implemented by Croatian Waters, to be assisted by COAST FP. The sensitive areas identified include Malo more, Malostonski bay; consequently, there is a need to strengthen and adapt present monitoring programmes.

### 3. Biodiversity: richness, values, risks

The Malostonski bay and Malo more areas are under protection with the status of a Special Marine Reserve. Malostonski bay is 28 km long with the max. width of 6,1 km between the port of Drače and Soline cove; the width of the Bay between the capes of Rat and Rivine is 4,5 km. The central part of the Bay's coast is poorly indented, while the outer and inner parts are very well-indented with relatively large coves: the Bay of Klek - Neum, the coves of Brijesta, Bijejevica, Bistrina and Kuta, and with about 20 small islands and craggy islets. The total length of the coast is about 102 km of which 6,5 km belonging to the islands. The coast is mainly smooth and rocky, extensively overgrown with macchia reaching in some places sea level. Surrounding hills are steep and high, such as the Vepar hill between Usko and Bistrina (398 m).

Close to the coast, the sea bed is cliff-studded, changing gradually into marine ooze. The whole Bay is shallow with the max. depth of 29 m. Almost 80% of the Bay's area is between 20 and 29 m deep. At the end of the Bay, the sea is not deeper than 10 m, which is the main reason for using this area for the traditional shell farming. In the cove of Morašnica, in Bistrina, where from time to time *vrulja* (submerged freshwater spring) is registered, the depth of 17,5 m has been measured.

Biodiversity is reflected in specifically developed pelagic and benthic populations and communities. The specificity of these communities is their ability to adapt to particular oceanographic characteristics due to influence of freshwater originating from *vruljas* running from the hinterland and Neretva river in the western side of the Bay. Following the well balanced changes of the surface and deep-sea currents, and in weakly eutrophised conditions, plankton communities are rich in species characteristic for the coastal ecosystems. Benthic communities are well developed and characterised by a large number of different molluscs, in particular shell-fish, of which oysters (*Ostrea edulis*) and mussels (*Mytilus galloprovincialis*) farming has a thousand-year-old tradition.

Bacterioplankton. Population density of free bacteria determined by a direct method varies from  $3.3 \times 10^5$  to  $8.6 \times 10^6$  cells in  $\text{ml}^{-1}$ .

Phytoplankton. A total number of 195 taxons (species and lower taxonomic categories) of microphytoplanktons (cells bigger than 20  $\mu\text{m}$ ) has been determined.

Zooplankton. A high density of mesozooplankton has been registered during the whole year, in particular below 6 m depth. The total biomass increases in the summer time, while the relative share of organic matter and caloric value increases in the winter-spring period. The maximum biomass (dry matter) registered in July is 6.8 - 9.7  $\mu\text{g l}^{-1}$ . As the analysed results are comparable to those obtained in the North Adriatic, Malostonski bay and Malo more can be classified as areas rich in mesozooplankton. Night-and-day differences are obvious because mysids, cumaceans and amphipods can be found in plankton only during the night.

Benthic flora. The Bay is rather rich in benthic flora. A number of 244 taxons have been registered of which 243 being algae and one marine phanerogam.

Benthic fauna communities. A number of 219 animal species classified in the following taxonic categories have been determined: *Porifera* (19), *Cnidaria* (11), *Annelida* (20), *Echiurida* (1), *Arthropoda* (312), *Molusca* (91), *Tentakulata* (6), *Echinodermata* (29) and *Tunicata* (12). The most important are *Molusca* among which 89 species from 35 families have been registered.

Fisheries biology. The area is characterised by a rich benthos production and a considerable number of fish, Crustacea and Cephalopoda species. Based on benthic (trawl) catch, 41 fish, 6 Cephalopoda and 2 Crustacea species have been registered. According to gill nets catch, 48 fish, 6 Cephalopoda and 5 food Crustacea species have been registered.

### Pelješac Peninsula

Note: due to the fact that the Pelješac area was included as demo area only at a later stage of PDF B, data on respective biodiversity were presented across the project area and or the county, for reference see the Final Report on Biodiversity in the Project Area, prepared by Nikolic et al., including maps presented in Annex 5.

Regarding landscape diversity the Pelješac area makes part of the coastal area of Central and Southern Dalmatia, consisting of a steep coastal range of limestone mountains, characterised by carstic morphology and poor vegetation. There is a number of micro-Protected Areas: a park forest on Orebic (cypressus alley), Vucina and Papratno coves, cypressus grove by Carmel Monastery and by Our Lady Church. Plans foresee the protection of other important sites: Kuna Peljeska cypresses grove, Divna and Duba cove, Pod Mokalo forest.

Risks. The major risks for biodiversity are:

- impacts on biodiversity in Malostonski bay and Malo more, if the level of pollution increases (Neum, fish farms, municipal waste waters),
- loss of reproductive stock of autochthonous Ston oyster without establishment of a sanctuary,
- danger of uncontrolled / unsustainable development, notably in the north-eastern area of Pelješac and in Dubrovacko Primorje, combined with the present lack of / gaps in knowledge on spatial aspects of BD, in particular at operational / micro scale,
- mismanagement and improper behaviour by population and tourists due to absence or poor or inadequate information, partly as consequence of lack of data and of their user-friendly interpretation,
- planning and licence permitting based on uncompleted and/or unreliable information on BD, use of updated tools (CCA,SEA, zoning with integrated approach) not in practice,
- forest fires and, if occurred, absence of proper BD concerned post fire rehabilitation planning and implementation process.

4. Key stakeholders. among a large number of potential stakeholders, sensibilized during PDF B, the following might be mentioned:

- from county level: Croatian Waters, Croatian Forests, County Planning Institute,
- tourism: County Tourism Board (CTB), Dubrovnik Tourism Board, Local (municipal) TBs, Babin Kuk Hotels Group, a number of small family-owned hotels, Atlas agency, Elite Agency, a large number of private owners of accommodation facilities,
- agriculture: several agro co-operatives, a large number of farmers interested in eco- and certified agriculture,
- fish- and shell-fish culture: 50 group or individual private fish- and shell-fish farmers,
- others: Ston salt pans, PAP/RAC, Lijepa naša (across all demo areas), other NGOs, school-children associations, Mljet National Park.

5. Baseline initiatives might be summarised as:

- population further abandoning traditional economic activities,

- initiatives by population and private sector not exploiting development and profit making opportunities through eco- and certified production, notably of famous traditional articles,
- unsustainable development, notably of the north-eastern part of Pelješac,
- unsustainable expansion of tourism, with highly negative impacts on fragile BD and habitats,
- shell-fish production below BD-friendly capacity limits, autochthonous Ston Oyster of highest quality to disappear, slow expansion due to lack of information on suitable new areas,
- gradual increase of pollution,
- planning and development based on unreliable and/or uncompleted knowledge on BD protection and sustainable use,
- uncontrolled purchase of land, in many micro areas needing protection or carefully defined and imposed conditions for use.

#### 6. Key characteristics common for or different comparing with other demo areas:

- biodiversity: high values and richness not identified at planning/development scale, gaps in knowledge, not interpreted,
- tourism: Dubrovnik as a world known destination, large opportunities for involvement of demo area existing tourism capacities, Dubrovacko Primorje with high potential for rural tourism, in general potential for further tourism expansion, rich BD neither identified nor exploited as driver,
- fisheries and mariculture: famous Ston autochthonous oyster, large opportunities for environment-friendly expansion, planning prerequisites not adequately met, fish farms - needs for BD-friendly management,
- agriculture: large areas suitable for eco and certified agriculture, famous sorts of vine, interest for BD-friendly expansion,
- NE area of Pelješac under heavy development pressure, urgent need for zoning based on improved knowledge and interpretation of BD,
- adjacent Mljet National Park: opportunity for economic liaison with productive sectors, need for conflict resolution activities.

#### 7. Project's mainstreaming strategies

- development and adoption of a Destination Visitors Management Plan based on reliable information on biodiversity, harmonised with and integrated into Dubrovnik destination plans, including diversified itineraries, green local tourism, training for local TBs and guides, etc.,
- establishment of conditions for BD-friendly expansion of fish- and shell-fish culture through zoning and easement of permit issuing practices, trace protocol, eco-labelling,
- assistance in preventing depletion of the Ston oyster reproductive stock,
- green auditing of fish farms,
- enhancement of and support to BD-friendly agriculture, recultivation of abandoned lands and expansion of traditional cultures and practices,
- pollution control and abatement: adapting monitoring practices, construction of BD-friendly waste water treatment facilities,
- assistance and support to transformation of Ston salt pans into a Visitors Education and Exhibition Centre, promoting BD values and concerns,
- organisation of participatory conceived educational and promotional campaigns and feasible participatory BD monitoring.

## **2. Vis island and remote islands (Split-Dalmatia county)**

1. Boundaries. The demonstration area consists of the island of Vis and remote islands Bisevo, Sveti Andrija, Brusnik, Jabuka and Palagruža (see Map in Annex 5). The island of Vis encompasses the municipalities of Vis and Komiža. The basic data on population number and area of the municipalities are presented in the table below.

**Table 14. Population number and area of the municipalities in the Split-Dalmatia county demonstration area**

<b>Municipalities:</b>	<b>Population</b>	<b>Area, km.sq</b>
Vis	2,000	51
Komiža	1,700	50
<b>Total, demonstration area:</b>	<b>3,700</b>	<b>101</b>

2. Socio-economic: Population, economic sectors, socio-economic challenges

It should be noted that the level of development of the Vis island is very low, due to the historic circumstances (being for decades a military zone) and other conditions (demographic, institutional, economic, etc.). Local population is still involved in traditional activities, representing an important source of many products potentially interesting for the tourism market. Owing to the lack of control Vis has for a long period faced the problem of the growing tendency of illegal building of the houses aimed at tourist accommodation. Considering the results of a CCA study done in 1991 by PAP/RAC, the acceptable number of complementary capacities on the island has already been surpassed, while some key capacities as well as the marina have not yet been built. The present tourism development is characterised by the lack of planning and control. An ever growing demand for real estate by foreigners (with the aim of building secondary residences) in a due time might limit BD-friendly development projects. To prevent such a future, support to the sustainable and BD-friendly tourism development is urgently needed.

Traditional economic activities on the island are agriculture and fishery.

Agriculture is based on the production of vine, olives, citrus fruits and vegetables. The development potentials are extraordinary (aromatic herbs in addition, climatic conditions and market demand).

Agriculture on the island has a strong and still viable tradition. The vineyards and large surfaces covered with typical Mediterranean herbal species suitable for medicinal and pharmaceutical purposes have always been a part of the island landscape. Moreover, there used to be a large production of vegetables on the island. Vis is highly suitable for citrus and similar trees, as well as other sorts of fruit trees. However, modern development trends (tourism, urbanisation, speculative activities, etc.) seriously threaten the available agricultural land. Currently, there is rather strong conflict among the local authorities wanting to "transform" arable land into the construction-dedicated land, and the associations of vine producers and craftsmen, desiring to conserve the land and pursue the agricultural activities.

There is a problem of the available quantities of water for agriculture on the island. Croatian Waters, the regional water supply agency, has clearly stated to the islanders to decide what they want: agriculture or tourism, because they cannot get enough water for both. Nevertheless, there is the opportunity to increase the present water supply capacity for 20%. In all cases, the area would be a perfect site to demonstrate the alternative ways for water supply or recuperating water for agriculture from waste waters treatment.

Problems are also related to the small parcels of land and the difficulties to introduce modern equipment.

Finally, there is the parcel of land of ca. 40 ha that could be used for demonstration purposes, of interest for farmers, but managed by the local authorities. In any case, the whole island could be the place to demonstrate integrated development effects from various economic activities and sustainable management practices.

Fishing history is as old as the island. Some of the most important fishing zones are located in the demo area (Jabuka, Palagruža). The fish processing plant in Komiža was another source of employment on the island, but it has been facing severe financial problems. There were some initiatives to build a tuna farm in the vicinity of Komiža, where the fish processing plant is located, but it was denied by the local population. Moreover, state announced the construction of fishing port and fish market in Komiža, implying reconstruction and enlargement of the old port and waste water collection network. Environmental impacts of the fishing port and fish market were strongly discussed, but no works have begun so far. Komiža is a well-known fishermen city, at the same time very important fishermen's port. Here, all the categories of fishermen are present, and their problems are mostly the same as the ones in other demo areas. Mariculture is less important here. The wider area around Jabuka island (known as Jabuka pit area) is the most important spawning and nursery ground for hake and Norway lobster, two principal species on which bottom trawling fisheries depend.

Being a partly restricted military area, for many decades Vis was off-the-limits for tourism. Therefore, it preserved its natural beauties. Today it is one of the most pristine islands in this part of the world and, as such, it is a target for many tourists, especially nautical tourists. The most frequent tourists are those from Italy, coming directly across the Adriatic by fast boats or large yachts. The basic data on registered units, hotels number and capacities are presented below.

**Table 15. Registered units, number of hotels and capacities in the municipalities in the Split-Dalmatia county demonstration area**

Municipality	Registered units	Hotels	Rooms, in private accommodation	Rooms, total
Vis	4	2	300	475
Komiža	1	1	300	435
<b>Total</b>	<b>5</b>	<b>3</b>	<b>600</b>	<b>910</b>

Intensified construction activities are mainly oriented towards tourism, notably on its south and north-east part.

The energy supply is sufficient, the water supply network exists, and the supplied quantities are not enough, especially during the summer due to low technical capacity for supply. There are natural water wells on the island, but the water is frequently mixed with seawater and therefore not potable. Waste water collection systems exist in Vis and Komiža, the latter one to be reconstructed by CroWaters because the outlets are situated at the entrance of the harbour.

As for municipal waste, there are two uncontrolled dumps on the island (used by municipality utility companies). There are also many other sites, located mainly near the roads, where the waste is dumped by the individuals.



The roads need reconstruction and enlargement, and the ports as well. The port of Vis has recently been reconstructed as to allow secure anchorage of the ferry. The port of Komiža, however, has become insufficient for all the fishing and nautical vessels incoming during the summer.

As for future, main environmental concerns would be related to the tourism development, both nautical and stationary tourism. Tourist accommodation facilities should not be built from scratch, but the abandoned army facilities should be used first. Besides, no large accommodation facilities should be permitted on the island. Alternative forms of tourism can be fostered on the island, especially in the co-operation with local population and firms. Nautical tourism should be welcome, since nautical tourists are usually well-off tourists. However, a reasonable and sustainable development strategy should be elaborated, keeping in mind all kinds of waste discharged from these vessels. Moreover, some additional wet moors would have to be provided for the nautical tourism as well.

Pollution. The island of Vis and the remote islands are located in an offshore area, resulting with extremely good ecological sea water quality. Nevertheless, there is the need to finalise the construction of sewage systems. Also, there is the need for: (a) development of alternative water supply systems for eco-agriculture and farming activities; (b) introduction of techniques for olive oil production with lower waste water oil concentrations; and (c) introduction of distillery equipment (vineyards) producing wastes with reduced biological oxygen demand.

### 3. Biodiversity: richness, values, risks

#### **Biodiversity**

The island of Vis is the biggest open sea island (88 km<sup>2</sup>), relatively elevated (rising to 587 m above sea level), situated approximately in the centre of the Adriatic Sea. Flora of Vis contains representatives of 76 plant families, about 500 species. Although rich, but not very rich in floristic sense, Vis has exceptional habitats quality. Habitat preservation is in part a result of long military presence on island with a relatively small human impact. In the last decade island Vis come in focus as an elite tourist destination with all possible negative impact. In the group of south Adriatic open sea islands there are several small islands with surface area less than 20 km<sup>2</sup>: Jabuka (<0,3 km<sup>2</sup>), Svetac (<0,3 km<sup>2</sup>), Biševo (5,3 km<sup>2</sup>), Sv. Andrija (<0,3 km<sup>2</sup>), Sušac (4,6 km<sup>2</sup>) and Palagruža (20 km<sup>2</sup>) often considered as a small archipelago (*i.e.* Palagruža contains besides 2 main islands additional 14 small land parts). Those islands personify classical example of strongly isolated area and habitats, which are acting as evolutionary separated units. Long evolutionary history caused the speciation of extremely stenoendemic forms, described on levels of subspecies and species, now well-known in the world. Besides endemism, some of islands are characterised by high species richness. For example, on island Svetac, with area of only 5,1 km<sup>2</sup>, there were found almost 400 species of vascular flora. As reservoirs of genetically unique organisms those islands have, besides national, the great global importance. Some of islands have specific geomorphological characteristics, as marine Blue cave on Biševo, or signs of volcanic activities in the past on Jabuka and Brusnik, which are categorised as Geomorphological monument of nature. There are several threats, especially from tourism, vicinity of important tanker route, over-picking of endemics, hazard of gene transfer between islands (unintentional or intentional species transfer) and hazard of introduced predators (cats, rats, etc.).

As a result of long military presence on the island and relatively small human impact Vis has exceptional habitats quality. North-west coast of the island, near Oključana, is one of epicentres of endemism in Croatia. On the Vis there are 535 plant taxa recorded until now of which several are endemic: *Anthyllis vulneraria* L. subsp. *weldeniana* (Rchb.) Cullen, *Centaurea ragusina* L.,

*Portenschlagiella ramosissima* (Port.) Tutin, *Dianthus ferrugineus* subsp. *liburnicus* (Bartl.) Tutin and *Tanacetum cinerariifolium* (Trevir.) Sch. Bip.

In the north-eastern part of the island of Vis sandy beaches are present with a number of Critically Endangered and endemic plant species such as: *Pancratium maritimum*, *Eryngium maritimum*, *Limonium subanfractum*, *Elymus farctus*, *Echinophora spinosa*. All cliffs on the island (inland and coastal) are important as habitats of endemic plant species: *Portenschlagiella ramosissima* (Port.) Tutin, *Centaurea ragusina* L., *Brassica mollis*. The Vis archipelago is one of the radiation centres of the genus *Asperula*. The Vis archipelago is inhabited by more than 20 endemic species (5% of total flora). The most significant are: *Asperula visianii* Kor., *Brassica botteri* Vis., *Centaurea chritmifolia* Vis., *Centaurea jabukensis* Ginzb. et Teyb., *Centaurea pomoensis* Ginzb. & Teyb., *Centaurea fridericii* Vis., *Centaurea issaea* Lovrić, *Dianthus multinervis* Vis., *Puccinellia teyberi* Hay., *Asperula staliana* Vis., *Brassica cazzae* Ginzb. et Teyb., *Brassica frutescens* (Vis.) Schloss. & Vukot., *Limonium vestitum* Salmon, *Limonium vestitum* subsp. *brusnicense* Trinajstić, *Limonium subanfractum* Trinajstić, *Limonium diomedaeum* Brullo, *Muscari speciosum* March., *Ornithogalum visianicum* Tømm., *Aurinia affinis* (Ten.) M. G., *Orthocaulos tertoniaria* M. G., *Crocus thomasi* Ten.

Data about terrestrial fauna of the island of Vis and surrounding open sea fauna are relatively scarce and scattered in the scientific literature. It is surprising, as those islands are well known as classical example of strongly isolated area and habitats, which are acting as evolutionary separated units. Study of underground fauna led to the discovery of the troglobiotic snail *Pholeoteris euthrix* on the island of Vis, which is the first insular record in Croatia (ŠTAMOL et al. 1999). Other underground species include *Aegonethes cervinus* and *Aegonethes antilocarpa* (Crustacea). The true bug (*Issus novaki*) is an endemic of island Sušac and Critically Endangered species. The reptile fauna is characterised by the number of endemic taxa of lizards: Dalmatian wall lizard *Podarcis (melisellensis) melisellensis* on the island Brusnik, *Podarcis melisellensis ssp. pomoensis* from the island of Jabuka, and *Podarcis sicula pelagosana* from the island of Palagruža. Taxonomic status of these lizards is currently studied and first results will be published soon (N. TVRTKOVIĆ, pers. com.). In the cave Vora at the island of Vis is a winter colony with about 400 Greater Horseshoe Bat (*Rhinolophus ferrumequinum*) (IUCN: LR.nt, HR: LR.nt).

Vis and surrounding islands are breeding site for some important bird species. The Eleonora's Falcon (*Falco eleonora*) (HR: EN, EU: Rare) breeds only in this area. The total population was estimated to 60-70 pairs in 2000, with about half of Croatian population at single site (small off-shore island). Population is significantly fluctuating (RADOVIĆ et al. in prep.). This species is highly susceptible to egg collecting, rat predation and disturbance (TUCKER & HEATH 1994). Local people traditionally use falcon chicks for food, but this practice is being uncommon in last years. Islands represent also only breeding area for two shearwaters. There is a gap in knowledge about distribution of nesting colonies of the Yelkouan Shearwater (*Puffinus yelkouan*) (HR: DD, EU: Secure). Croatian population is probably less than 150 breeding pairs (RADOVIĆ et al. in prep.). Almost the whole Croatian population of Cory's Shearwater (*Calonectris diomedea*) (HR: NT, EU: VU) is breeding at the single island (Sv. Andrija). Main threats are introduced predators, human disturbance and exploitation (Tucker and Heath 1994). Breeding species also include the Peregrine Falcon (*Falco peregrinus*) (HR: VU, EU: Secure).

Especially important island is Sveti Andrija (Svetac) with breeding colony of Cory's Shearwater (*Calonectris diomedea*) with 1,000-1,200 pairs (almost whole Croatian population), and breeding site of Eleonora's Falcon (*Falco eleonora*) with about 30 pairs (about half of Croatian population). Numerical threshold for Cory's Shearwater is 330 pairs (HEATH & EVANS 2000). The site is not protected.

The Palagruža archipelago is the most southern archipelago in Croatia. The past researches have already confirmed its uniqueness. Up to now 220 plant species were recorded. Among them *Euphorbia dendroides* is dominating. Some endemic plant species recorded on Palagruža are: *Porina ginsbergeri*, *Muscari neglectum* var. *speciosum*, *Ornithogalum visiani*. On the cliffs of Mala Palagruža *Centaurea friderici* and *Brassica botteri* were found. Over 120 resident animal species have been registered until now, including three taxa of endemic snails (*Eobania vermiculata pelagosana*, *Chondrula quinquedentata pelagosana* and *Siciliaria gibbula pelagosana*), four endemic beetles (*Ottiorrhynchus juvencus* var. *pelagosanus*, *Pimelia rugulosa* var. *pelagosana*, *Stenosis brentoides pelagosana* and *Asida meliselensis*), and endemic ruin lizard (*Podarcis sicula pelagosana*). The archipelago has invaluable role as a stopover site for the migrant birds passing over the Adriatic Sea. During the autumn 1997, the most numerous migrating raptors were Honey Buzzard (*Pernis apivorus*) and Marsh Harrier (*Circus aeruginosus*) and most numerous migrating songbirds Garden Warbler (*Sylvia borin*), Willow Warbler (*Phylloscopus trochilus*) and Icterine Warbler (*Hippolais icterina*). Other migrant species includes many songbirds, raptors, White Stork (*Ciconia ciconia*), Grey Heron (*Ardea cinerea*) and Spoonbill (*Platalea leucorodia*). There is a colony with about 1,500 pairs of Yellow-legged Gulls (*Larus cachinnans*), and breeding of the Cory's Shearwater (*Calonectris diomedea*) and endemic Illyric Pallid Swift (*Apus pallidus illyricus*) is confirmed.

Around Palagruža archipelago 321 taxa of macrophytic algae and 1 marine phanerogam were recorded. Although some preliminary surveys were undertaken no detailed data exist for fauna, especially benthic. Being more productive than expected area around Palagruža has been for a long time important fishing ground due to upwelling (INSTITUTE OF OCEANOGRAPHY AND FISHERIES, 1999).

Small part of Vis Island, Islets of Jabuka and Brusnik are of magmatic origin. Due to its offshore position and inaccessibility of its shores Jabuka remained poorly explored. In geomorphological and biological perspectives Jabuka considerably differs from the other (limestone) eastern Adriatic shores. The magmatic rock surfaces are usually smooth and homogenous. ZAVODNIK et al. (2000) review rare surveys around and on islet and add results of their research. About 300 taxa have been identified so far, more than 150 being noted for the first time for the area. ZAVODNIK et al. (2000), in only a short-time diving survey on Jabuka recorded 159 taxa. With the reference to the European Habitat Directive Jabuka islet is definitely a locality worth preserving and conservation due to its geomorphological, oceanographical and biological peculiarities.

The area of Jabuka pit (the deepest in the central Adriatic – 270 m) is important as fishing ground for bottom trawling (fishing of hake *Merluccius merluccius* and Norway lobster *Nephrops norvegicus*). This is the area that borders with the project area and yet it is threatened. In the case of hake Jabuka pit represents the main nursery ground in the Adriatic Sea and in case of Norway lobster the most vulnerable ground. High fishing pressure and non-standardised (non-selective) fishing gear already caused negative effects on demersal ecosystem and species biodiversity (JUKIĆ-PELADIĆ et al., 2001).

Littoral biocoenoses in the area of Central Dalmatian Islands were explored by GAMULIN-BRIDA (1979). Life communities by their essential properties belong to biogeographical entity of the Adriatic Sea, and thus to the Mediterranean. However, there are special properties which are related to the particular ecological conditions of this zone, to its geomorphology and geological history. Due to their geographical position life communities are under the influence of western and eastern Mediterranean. Increase in number of some thermophilic species like *Chaetaster longipes* and *Ophidiaster ophidianus* were noted when compared to northern localities. Also, a basic

similarity of benthic biocoenoses to those in the Western Mediterranean was registered. Nevertheless, relationship to Eastern Mediterranean was also noted through some thermophilic species, not so widely distributed in the Western Mediterranean, that characterise coraligenous biocoenosis (*Hacelia attenuata*, *Centrostephanus longispinus*) and biocoenosis of semi-dark caves (*Madracis pharensis*). Recently, due to global sea warming trend *Ophidiaster ophidianus* was noted much more to the north – along the north-western part of Dugi otok (BAKRAN-PETRICIOLI et al., 1995).

Risks. The major risks for biodiversity are:

- danger of uncontrolled / unsustainable development, combined with the present lack of / gaps in knowledge on spatial aspects of BD, in particular at operational / micro scale, impacts both in coastal and marine areas,
- mismanagement and improper behaviour by population and tourists due to absence or poor or inadequate information, partly as consequence of lack of data and of their user-friendly interpretation,
- planning and licence permitting based on unreliable and/or uncompleted data on BD, updated tools (CCA, SEA, zoning with integrated approach) not in planning practice,
- biodiversity in remote islands under risk, due to insufficient control and danger of fires,
- forest fires and, if occurred, absence of proper BD-concerned post fire rehabilitation planning and implementation process.

4. Key stakeholders. Among a large number of potential stakeholders, sensibilized during PDF B, the following might be mentioned:

- from county level: Croatian Waters, Croatian Forests, County Planning Institute, County Public Agency for Nature Protection,
- tourism: County Tourism Board (CTB), Local (municipal) TBs, Issa Hotel, Tamaris Hotel, Paula (small family hotel), a large number of private owners of accommodation facilities,
- agriculture: Smokova co-operative, Vis private agro-farmers association, a large number of farmers interested in eco- and certified agriculture,
- shell-fish culture: a number of private owners,
- others: Poynter (international private group), PAP/RAC, WWF, Lijepa naša (across all demo areas), Sunce, Otoce volim te, other NGOs, school-children associations.

5. Baseline initiatives might be summarised as:

- population further abandoning traditional economic activities,
- initiatives by population and private sector loosing development and profit making opportunities likely to be achieved through eco-and certified production, notably of famous traditional articles
- over-expansion of tourism above carrying capacity, with highly negative impacts on BD,
- planning and development based on uncompleted knowledge on BD protection and sustainable use,
- uncontrolled purchase of land, in many areas needing protection or carefully defined and imposed conditions for use,
- gradual increase of pollution.

6. Key characteristics common for or different comparing with other demo areas:

- biodiversity: environment and BD-well conserved due to restrictive regime during the socialist period (military restricted area); high BD values and richness: not yet identified at planning/development scale, gaps in knowledge, not interpreted,

- the entire area under heavy development pressure, urgent need for zoning based on improved knowledge and interpretation of BD-related values and concern,
- remote islands, with specific problems and conditions, extremely valuable biodiversity and insufficient visitors control,
- tourism: limited physical capacity for expansion but a high quality potential for tourists satisfaction, local and private owners plans far above carrying capacity, rich BD neither identified nor exploited as tourism development driver,
- fisheries and mariculture: opportunities for environment-friendly expansion, planning prerequisites not adequately met, fish farms - needs for BD-friendly management,
- agriculture: large abandoned areas suitable for eco- and certified agriculture, growing of famous sorts of grapes, olives, aromatic and autochthonous herbs, interest for BD-friendly expansion,
- Bisevo island, with 85% of the area recently burned, of high habitats and other BD relevant values, not rehabilitated, opportunity for designing a BD-based rehabilitation programme and implementing it as a pilot one.

7. Project's mainstreaming strategies. The key project strategies specific for this demo area are:

- collection, systematising and interpretation of BD values, at operational scale,
- surveying marine BD,
- BD-based critical analysis of relevant plans, based on improved BD knowledge and feedback into planning documents and practices,
- demonstration activities as opportunity for BD-friendly and profitable expansion of traditional activities, recultivation of abandoned lands, fish- and shell-fish farming,
- demonstration activities, training on and technical support for certified agriculture,
- development of BD-based and -friendly tourism management plan, diversified green itineraries, greening of accommodation capacities, green audits,
- pollution control and abatement: adapting monitoring practices, construction of BD-friendly waste water treatment facilities,
- pilot action on preparing a BD-based rehabilitation plan for (Bisevo) burnt areas, jointly with CroForests,
- need for strengthening capacities for regular inspection of remote islands,
- support, assistance and advice in establishment of Eco-visitors/training/educational Center, BD-based,
- participatory activities related to public awareness, understanding of BD as economic driver and values to be protected, organisation of participatory conceived educational and promotional campaigns and of a feasible participatory BD monitoring.

### **3. The wider area of Krka estuary (Šibenik-Knin county)**

1. Boundaries. The area encompasses the municipalities around river Krka from the Krka National Park to the estuary, including Prokljansko lake and Sv. Ante channel, with the adjacent marine area bordered by islands Prvić, Zlarin and Krapanj, see Map in Annex 5. The municipalities in the area are: Bilice (new municipality, statistical data included in Šibenik), Šibenik town, Skradin and Vodice. Concerning Šibenik, the major city of the county, only the area adjacent to Krka river is considered as part of the demonstration area. The basic data on population number and area of the municipalities are given in the table below.

**Table 16. Population number and area of the municipalities in the Šibenik-Knin county demonstration area**

<b>Municipalities:</b>	<b>Population</b>	<b>Area, km.sq</b>
Bilice (stat. data inc. in Šibenik)		
Šibenik	52,000	428
Skradin	4,000	187
Vodice	9,400	109
<b>Total, demonstration area:</b>	<b>65,000</b>	<b>724</b>

## 2. Socio-economic: Population, economic sectors, socio-economic challenges

The area is characterised by relatively small population, if the city of Šibenik be excluded.

Traditional economic activities are agriculture, fishing and shell-fish farming and tourism, the latter connected with the attractiveness of the adjacent Krka National Park. The area offers excellent opportunity to initiate, support and demonstrate sustainable and BD-friendly based development.

Tourism. From the tourism development point of view this area is very attractive not only for the building of new receptive capacities but also as the area appropriate for the implementation of many new forms of tourist offer such as rural tourism, eco- tourism, gastronomic tourism, etc. This area, together with the neighbouring Krka National Park, makes a unique tourist destination. The basic data on registered units, number of hotels and capacities are presented below.

**Table 17. Registered units, number of hotels and capacities in the municipalities in the Šibenik-Knin county demonstration area**

<b>Municipality</b>	<b>Registered units</b>	<b>Hotels</b>	<b>Rooms, in private accommodation</b>	<b>Rooms, total</b>
<b>Bilice (statistical data inc. in Šibenik)</b>				
Šibenik	12	8	2,100	4,700
Skradin	4	1	50	100
Vodice	23	9	4,000	5,600
<b>Total</b>	<b>39</b>	<b>18</b>	<b>6,150</b>	<b>10,400</b>

In addition, there is one marina with 186 moorings in Skradin. Accommodation in privately owned houses is flowering.

The new land-use plans envisage the following projects in the area:

- in Zaton - small hotel with some 60 beds and bungalows,
- in Raslina - tourist settlement with 200 beds and auto-camp for 900 persons, and
- in Bilice - tourist settlement with 500 beds and auto-camp for 900 persons.

Agriculture. The demo area is a wide one, rather different in its parts. Agriculture, in terms of olive groves in lower and cattle breeding in higher parts of the canyon, has been traditional economic activity. However, it decreased during the last half of the XXth century, but seems to have growing trend during the last few years. Indeed, the interest for various agricultural activities has risen, especially in terms of forming small co-operatives on one hand and their "networking". As far as the nature of the agricultural activities is concerned, it is mainly olive groves and cattle breeding

(sheep), linked with production of cheese and olive oil. On the other hand, some private, but not so small, companies show respectable interest in the area, planning intensive agricultural activities (olive groves, fruits).

Concerning the overall level of development of the county and assuming trends in near future, the area could be an ideal place to demonstrate management capacities and practices leading to sustainable agricultural development, as well as growth of small family farms linked with tourism. This is especially true concerning the immediate vicinity of Krka National Park.

Traditional agriculture has large opportunity for a green and eco-certification based development. Large areas of abandoned lands offer opportunity for a BD-based recultivation. SMS, the only large eco-company in Dalmatia is gradually expanding areas under multi-year plants (olives, figs, grape) and CroForests plan to start pilot farms of the same kind, both interested for partnership with COAST, aiming at BD-friendly expansion / recultivation of suitable areas. In addition, a large number of private operators are interested in the same way, notably to start certified agriculture.

Fisheries. Within the borders of the demo area, the Krka River estuary from Skradin to the exit from St. Ante's channel, there are very significant sites for shell-fish farms, mostly mussels. Due to possibility of the introduction of other shell-fish species also into farming and the possible extension of mussel production outside the borders of the demo-site (in the Šibenik channel), there is opportunity for further development of shell-fish mariculture. All categories of fishermen are present in the area, with sport fishermen being very numerous. The city of Šibenik is also an important port for large number of commercial bottom trawlers, that fish mostly in the area around Jabuka pit, but also on other fishing grounds. These commercial vessels face various problems such as the non-existent collection of waste (i.e. used oil and batteries) in the port, the low selectivity of fishing gear, etc.

Once, there was an important habitat for pilgrim's shell (*Pecten jacobaeus*) in the Prokljansko lake, but nowadays this shell population has almost completely disappeared - a clear example of biodiversity loss. Besides this, the Šibenik channel is a nursery ground for immature pilchard. Yet, despite the legal ban, this immature and legally undersized fish is frequently caught and offered for sale (on fish markets in Split, Šibenik, etc.). For this reason, there is a need for improved monitoring of recruitment of pilchard, with possible increase of the efficacy of inspection work, particularly with regard to the sale of undersized fish.

The present capacity of shell-fish farming could be tripled; in addition, there is the need for relocation of existing farms located in Prokljansko lake, due to frequent occurrence of pollution and oxygen depletion. Both relocation and future expansion should be located in the marine area of the estuary; but lack of data on and interpretation of BD, no zoning and no CCA are barriers to this expansion.

Pollution. From the pollution point of view the river Krka estuary is a scientifically very well investigated area. According to established trophic index this area represents a hot spot at the eastern Adriatic coast, caused by discharge of river waters carrying significant amounts of nitrogen and silica nutrients and sewage waters with increased phosphate content. Therefore, and having in mind the possible impacts on mariculture, shell-fish culture, notably the area is classified as of medium sensitivity. Construction of sewage system (under construction through Project Jadran-Coastal Cities Water Pollution Control Project) and other actions (including COAST activities) should improve the ecological state. Possible negative phenomena (bottom water anoxia/hypoxia, mass mortality occurrence) at Lake Prokljan should be taken into account.

### 3. Biodiversity: richness, values, risks

#### Biodiversity

The fact that a large part of the Krka River basin is included in the National Park reflects best the importance of natural values and richness of this area. Although not making part of the National Park, the area from Skradin to the channel of St. Ante presents also a very interesting and valuable region in terms of the biodiversity. This site is more important and more valuable due to water habitats of Krka estuary than terrestrial habitats.

The influence of the human on this site is very strong. It can be seen in the fact that about 40% of all habitat polygons belong to the habitats influenced by man. From natural terrestrial habitats more than 75% belong to the: *Intermittent streams, Illyrio-Adriatic deciduous thickets, Illyrian garrigues, East Mediterranean xeric grasslands, Dalmatian siliceous grasslands, Eastern sub-Mediterranean dry grasslands, Dalmatian white oak woods and Western Balkan black pine forests.*

- In this area, there are at least 16 species from the Red List of Threatened Plants and Animals of Croatia which according to the IUCN criteria are either Critically Endangered, Endangered or Vulnerable, and 21 species from the Red List which are strictly protected by the Convention for Conservation of Wildlife and Natural Habitats (Bern Convention).
- Of special value in this area are the birds of prey, such as peregrine (*Falco peregrinus*), lanner (*Falco biarmicus*), short-toed eagle (*Circaetus gallicus*) and Bonelli's eagle (*Hieraetus fasciatus*).
- Because of gradual disappearance of wetlands, the wading birds such as bittern (*Botaurus stellaris*), squacco heron (*Ardeola ralloides*), little egret (*Egretta garzetta*), great white egret (*Egretta alba*) and purple heron (*Ardea purpurea*) are especially valuable.
- This area represents a permanent habitat of wolf (*Canis lupus*), the threatened species at European level and strictly protected by the Convention for Conservation of Wildlife and Natural Habitats (Bern Convention).
- Especially valuable is the otter (*Lutra lutra*) living in the area around the Krka River.
- The group of bats (Chiroptera), represented in the Krka National Park with 18 species, also contributes to such high biodiversity.
- Three threatened species of reptiles are widespread in this area: European pond terrapin (*Emys orbicularis*) and Hermann's tortoise (*Testudo hermanni*) and leopard snake (*Elaphe situla*).
- Of additional value to this area is occasional presence of bottlenose dolphin (*Tursiops truncatus*) in the Krka River mouth.

This area is rich in species of vascular flora from the Red List (up to 23 per MTB/4) and with endemic plant species (up to 11 per MTB/4). Three critically endangered plant species is recorded for this area:

- *Bupleurum lancifolium* Hornem
- *Triglochin bulbosa* L. ssp. *barrelieri* (Loisel.) Rouy
- *Vaccaria hispanica* (Miller) Rauschert

Real number of endemic and endangered plant species are very likely to be much higher, given the extent to which this area is floristically investigated until now.

Risks. The major risks for biodiversity are:



- impacts from increased pollution in the marine area of the demo site (extremely fragile area), and in Prokljansko lake, would development and waste water treatment policies be unsustainable or not in accordance with BD-related priorities,
- danger of uncontrolled / unsustainable development, combined with the present lack of / gaps in knowledge on spatial aspects of BD, in particular at operational / micro scale,
- mismanagement and improper behaviour by population and tourists due to unreliable and or uncompleted information on BD aspects, partly as consequence of lack of data and of their user-friendly interpretation,
- planning and licence permitting based on unreliable data, not applying updated tools (CCA, SEA, zoning with integrated approach),
- forest fires, and if they occur, absence of proper BD-concerned post fire rehabilitation planning and implementation process.

4. Key stakeholders. Among a large number of potential stakeholders sensibilized during PDF B, the following might be mentioned:

- from county level: Croatian Waters, Croatian Forests, County Planning Institute,
- tourism: County Tourism Board (CTB), Local (municipal) TBs, Solaris Hotels, Vodice group, Jadran (Sbk), 10 small family owned hotels, a large number of private owners of accommodation facilities,
- agriculture: SMS, Eco-Krka, Eco-Dalmacija-Varivode, several agro- co-operatives, farmers interested in eco- and certified agriculture,
- shell-fish culture: Šibenik Mussel co-operative, number of private owners,
- others: Lijepa naša (across all demo areas), Civis Scardona, other NGOs, school-children associations, Falconry Center, Krka National Park, Kornati National Park.

5. Baseline initiatives might be summarised as:

- population further abandoning traditional economic activities,
- initiatives by population and private sector losing development and profit making opportunities likely to be achieved through eco-and certified production, notably of famous traditional articles,
- unsustainable expansion of tourism above carrying capacity, with highly negative impacts on fragile BD and habitats,
- planning and development based on uncompleted knowledge on BD protection and sustainable use,
- uncontrolled purchase of land, in many micro areas needing protection or carefully defined and imposed conditions for use,
- gradual increase of pollution.

6. Key characteristics common for or different comparing with other demo areas:

- biodiversity: environment and BD still well protected, high biodiversity values and richness not identified at planning/development scale, gaps in knowledge, not interpreted,
- the development pressure across the area to gradually increase, urgent need for zoning based on improved knowledge and interpretation of BD,
- tourism: good physical capacity for further expansion with a high quality potential for tourists satisfaction, local and private owners plans above carrying capacity, rich BD neither identified

nor exploited as tourism driver, opportunity and need to combine visitors plans of Krka National Park with the tourism potential of demo area,

- fisheries and mariculture: remarkable opportunities for an environment-friendly expansion, shell-fish farming in particular, need for relocation of shell-fish farms from Prokljansko lake, both to the marine area of estuary; planning prerequisites not adequately met, shell-fish farms - needing BD-friendly management,
- agriculture: large abandoned areas needing recultivation and suitable for: eco and certified agriculture, rehabilitation and expansion of traditional producing of famous sorts of vine, growing olives, aromatic and autochthonous herbs; interest for BD-friendly expansion and recultivation of abandoned areas,
- Krka National Park, opportunity for economic liaison with productive sectors, need for conflict resolution activities.

7. Project's mainstreaming strategies . The key project strategies specific for this demo area are:

- collection, systematising and interpretation of BD values, at planning / development operational scale,
- BD-based critical analysis of relevant plans, based on improved BD knowledge, and feedback into planning documents and practices,
- actions to demonstrate opportunities for BD-friendly and profitable expansion of traditional activities, recultivation of abandoned lands, fish- and shell-fish farming, provision of support to such activities
- demonstration activities, training on and technical support for certified agriculture,
- development of BD-based and friendly Destination Management Plan, green itineraries, greening of tourism accommodation facilities, green audits,
- demonstration activity on zoning and CCA of the outer area of estuary, notably shell-fish farms and tourism targeted,
- pollution control and abatement: adapting monitoring practices, construction of BD-friendly waste water treatment facilities,
- participatory activities related to public awareness, understanding of BD as economic driver and values to be protected; organisation of participatory conceived educational and promotional campaigns and feasible participatory BD monitoring,
- development and implementation of conflict resolution strategy to involve Krka National Park and the demo area.

#### 4. The NW Zadar area, Pag island, Novigradsko and Karinsko more (Zadar county)

1. Boundaries. The area includes the NW part of the Zadar county, the island Pag (connected with the mainland by a bridge), the marine areas of Novigrad and Karin seas and the adjacent sea around Pag and coastal areas, see Map in Annex 5. The municipalities within the area are: Pag, Poveljane, Privlaka, Nin, Ražanac and Posedarje. The basic data on population number and area in the municipalities are presented in the table below.

**Table 18. Population number and area of the municipalities in the demonstration area of the Zadar county**

<b>Municipalities:</b>	<b>Population</b>	<b>Area, km.sq</b>
Pag	4,400	162
Poveljane	700	39
Privlaka	2,200	11

Nin	4,600	90
Ražanac	3,100	69
Posedarje	3,500	77
<b>Total, demonstration area:</b>	<b>18,500</b>	<b>448</b>

## 2. Socio-economic: Population, economic sectors, socio-economic challenges

This part of the Zadar County has a long and rich history. It has been the cultural and religious centre of Croatian people, for a long time it was the centre for Croatian rulers and permanent bishop's residence. As such, it is abundant in historical and archaeological heritage. Apart from being surrounded by several national parks and parks of nature, the area is very rich with biodiversity, especially the south-eastern part of Pag island. Besides, there is also richness of cultural and historical monuments within the area (Nin, Pag) and in its surrounding (Zadar). Within the central part of this area there are the Ravni Kotari, traditional agricultural area, appropriate for the development of different forms of rural tourism activities including farm tourism. The whole area is rich with numerous gastronomic specialities, such as fish, shells (in Novigradsko Sea), famous sheep cheese of Pag, excellent vines and olive oil throughout the area.

Tourism. Related to tourism, the north-western area of the Zadar County seems appropriate to be presented as an integral tourist destination. At the moment tourist demand has been concentrated mostly on its borders, especially in Nin and Pag, and to less extent in Ražanac and Posedarje. Besides there is also an opportunity to develop health tourism in Nin, Pag, Karin based on the use of healing mud. Opposite to this, the inner area has not been used at all in the tourism development sense. Considering that this area consists of some localities that are already over-saturated by mass tourism, and other localities that have not been exploited at all, it seems very suitable for the implementation of the whole range of measures and programmes. The basic data on registered units, number of hotels and capacities are presented below.

**Table 19. Registered units, number of hotels and capacities in the municipalities of the demonstration area in the Zadar county**

Municipality	Registered units	Hotels	Rooms, in private accommodation	Rooms, total
Pag	15	3	2,150	3,450
Povljane	2	-	370	500
Privlaka	1	-	630	1,100
Nin	5	3	1,000	2,800
Ražanac	4	-	350	550
Posedarje	1	-	300	350
Total	28	6	4,800	8,750

Tourism is considered as the major development force in the area. Strong tourism growth is planned especially on the island of Pag. Larger capital inflow in this activity could be expected in near future (recreational, tourist apartments, etc.). Still, tourism growth has to be carefully planned and directed, tailored according to the carrying capacities of natural sites and resources, especially water and sea; of unique sand beaches on the island of Pag; waste and waste water management; extension of the tourism season, etc. Tourism has to be liased with growth of agriculture and crafts, based on small-scale tourism, especially household tourism. As for other productive sectors, the

present character and development planning of tourism in the demo area is far from being based on BD-related awareness and potential.

Agriculture. The area is of particular interest from the agricultural point of view. The reason is not to be found in intensive agricultural production, but the variety of the agricultural activities in the area, especially on the island itself.

On the Pag island, due to its outstanding Karst composition and conditions agriculture has been focused on the stock breeding, goats and sheep in particular. Food production is also important, especially production of famous Pag cheese and of salt, notably the Pag salt pans using traditional techniques. The southern slopes of the island are suitable for olive groves, and there is also a number of herbs on the island.

The mainland plane of Ravni Kotari has always been an important agricultural area, well known for its horticulture, vegetable production, fruits and wine.

As for other activities, the island is famous for its potentials in production of energy from wind (such installations have been approved in the demo site area).

This area could be a place to demonstrate how the growth of other activities can go along with agriculture, not intensive, but eco- and BD-friendly and rich in variety. Moreover, this is the site to demonstrate the possibilities for the conservation of agricultural land (especially pastures crucial for the production of cheese, which has the label of Croatian origin, Croatian quality, and is an eco product). Furthermore, it is of utmost importance to develop development mechanisms that would ensure clean sea and shoreline, necessary for the survival of the salt production in the area.

Development plans envisage stronger growth of agriculture in the area. However, typically small estates within Zadar County, on average 2 ha in size, dispersed into numerous tiny parcels, present huge obstacles to the development of modern agricultural production as well as establishment of economic and efficient family business. Parcels must be privatised and put together. Large areas of abandoned lands should be recultivated. Moreover, agricultural producers should be stimulated and encouraged to form associations and co-operatives in order to ease and improve production and marketing process. Fostering of modern agricultural techniques should be supported by and based on the results of upgraded knowledge on BD and environmental problems.

Fisheries. Generally speaking, there is no significant presence of commercial fishery in this area, and neither of mariculture on larger scale. There is a limited shell-fish production in Novigradsko more, but with large opportunity for expansion. Due to the proximity of coastline, bottom trawling is forbidden, and for this reason fishing is performed mostly with subsistence fishery gear, for personal needs. Besides «small» subsistence fishermen, the relatively smaller number of sport (recreation) fishermen also fish in this area.

The Velebit channel (here only the western side of the southern part) is an important habitat for Norway lobster. The law allows the use of small artisan fishing gears. The Novigradsko more is also known as one of the nursery grounds for small pelagic fish (mostly pilchard and anchovy), which is sometimes caught in this area, despite the fact that specimen are shorter than the legally prescribed minimal length. For this reason, the area offers opportunity for demo-actions such as monitoring of recruitment of pilchard and anchovy, and possible improvement of the efficacy of inspection work.

Transport is another economic activity that could become a threat to the biodiversity in the area. In fact, the new highway road and its connections, as well as planned increase of railway traffic (based on supposed significant growth of industry in Zadar), could gradually provoke some disturbances in the ecosystems and impacts on BD. The situation could be even worsened would the tourism growth result with increased pressures in passenger traffic (especially on the island of Pag).

Speaking about development plans, it should be noted that there is high unemployment in the area. In terms of structure, there are much more women and on the other hand, those with lower educational degree. Depopulation trends have also long history in the area. Taken together, accompanied with war consequences in the part of the area (mine fields, for example), they represent significant obstacles to development plans. In fact, existing labour supply could not support ambitious development plans (high quality tourism, for example). Due to lack of and gaps in knowledge on BD, plans are not based on operational knowledge of BD-related values, or the need for protection and development opportunities.

Pollution. The coastal zone of Zadar County has been monitored since more than 25 years. Due to low anthropogenic input of dissolved and particulate matter, as well as favourable currents, a good ecological and trophic situation were obtained. To conserve this situation, possible pollution increase (due to unfavourable economic development) should be prevented. At this moment, serious ecological threats to marine life are caused by pollution from intensive fish farming activities (emission of significant amounts of nitrogen and phosphorus) in the Kali-Fulije area, and potential discharge of toxic wastes from alkali deposits (closed Bauxite processing installation) to Novigradsko more. The knowledge on the ecological state of the Velebit channel and Island of Pag area is not so comprehensive in comparison with other areas of the County, but until now no negative pollution phenomena were observed. Karinsko and Novigradsko more are classified as areas of extreme sensitivity to pollution increase, and the Velebitski channel as area of high sensitivity.

### 3. Biodiversity: richness, values, risks

#### **Biodiversity**

This area includes two salt pans as well as small water bodies at the island of Pag (Kolansko Blato, Malo Blato & Velo Blato). It is a unique area on the Croatian coast, consisting of wide shallow bays, low sandy and muddy beaches, salt marshes, salt pans, coastal wetlands and wet grasslands. Croatian coast is characterised with Karst coastal area, and sand and muddy beaches and sand islands are very restricted. This area is hot-spot for wintering and migrating waders (only wintering site for Dunlin *Calidris alpina* in Croatia, with approx. 400 birds), Wigeon (*Anas penelope*) and sea ducks (*Melanitta* sp., *Bucephala clangula*, *Mergus* sp.). Important breeding species include the Kentish Plover (*Charadrius alexandrinus*) with 20-30 pairs breeding on Pag salt pans, Black-winged Stilt (*Himantopus himantopus*) whose only breeding site in Mediterranean Croatia is the Nin salt pans (CRNKOVIĆ et al. 2002), Little Tern (*Sterna albifrons*) that breeds on the island Mišnjak and Stone Curlew (*Burhinus oedipnemus*) and Calandra Lark (*Melanocorypha calandra*) that breed on grasslands and mosaic habitats on the island of Pag. Only Velo, Malo and Kolansko blato are protected (as Special Ornithological Reserves), while bays are not protected.

Main threats include tourism and recreational activities, uncontrolled construction, hunting, fishing, and collecting clams. Kolansko blato is threatened by the eutrophication. The project for restoration of the site, in the meaning of enlarging the area of open water, saltmarshes and wet meadows is

planned. The area is included among the most important sites in Croatian Bird Red Data Book, with one CR, seven EN, one VU and two DD species.

Almost nothing is known about the other animal species in this area – such habitats, although rare in Croatia, were not surveyed at all. According to Barcelona Convention, mediolitoral facies of saltworks is a marine habitat type that should be included in the national inventories of natural sites of conservation interest in Croatia.

The table below presents status of the threatened birds for which the north-western part of North Dalmatia is important site. Status in Croatia is given according to RADOVIĆ et al. (in prep.), and status in Europe according to TUCKER & HEATH (1994).

**Table 20. Status of the threatened bird species in Croatia and Europe**

Species	Status in Croatia	Status in Europe
Black-winged Stilt ( <i>Himantopus himantopus</i> )	CR	Secure
Oystercatcher ( <i>Haematopus ostralegus</i> )	EN	Secure
Grey Plover ( <i>Pluvialis squatarola</i> )	EN	Secure
Kentish Plover ( <i>Charadrius alexandrinus</i> )	EN	Declining, SPEC 3
Curlew ( <i>Numenius arquata</i> )	EN	Declining, SPEC 3
Dunlin ( <i>Calidris alpina</i> )	EN	Vulnerable, SPEC 3
Little Tern ( <i>Sterna albifrons</i> )	EN	Declining, SPEC 3
Calandra lark ( <i>Melanocorypha calandra</i> )	EN	Declining, SPEC 3
Red-necked Grebe ( <i>Podiceps grisegena</i> )	VU	Secure
Stone-curlew ( <i>Burhinus oedipnemos</i> )	DD	Vulnerable, SPEC 3
Jack Snipe ( <i>Lymnocryptes minima</i> )	DD	Vulnerable, SPEC 3

This area includes many small, but important localities:

Kolansko blato is small freshwater wetland on the island, near the coast. A total of 67 bird species are breeding in Kolansko blato or in its surrounding, and using it as feeding place during the breeding season. Breeding waterbirds include Little Grebe (*Tachybaptus ruficollis*), Little Bittern (*Ixobrychus minutus*), Mallard (*Anas platyrhynchos*), Water Rail (*Rallus aquaticus*), Moorhen (*Gallinula chloropus*), Coot (*Fulica atra*) and probably Pochard (*Aythya ferina*). Three heron species: Squacco Heron (*Ardeola ralloides*), Little Egret (*Egretta garzetta*) and Purple Heron (*Ardea purpurea*) are regularly present during breeding season, but not breeding. It is possible that they still breed on the neighbouring Velo Blato. In extensive reed belt that dominate in Kolansko blato, breeding of Cetti's Warbler (*Cettia cetti*), Reed Warbler (*Acrocephalus scirpaceus*) and Great Reed Warbler (*Acrocephalus arundinaceus*) is recorded. During migration period, Kolansko blato is important stopover site for many waders (up to 24 species). During spring migration, more than 200 Lapwings (*Vanellus vanellus*) and Ruffs (*Philomachus pugnax*) are feeding on flooded meadows surrounding reedbeds. During the autumn migration, numbers are much smaller: meadows are dry and disturbing from tourist on mud beaches are high. Apart from waders, migrating birds include diverse duck species, raptors and songbirds (mostly warblers). Wintering birds includes threatened Ferruginous Duck (*Aythya nyroca*), Marsh Harrier (*Circus aeruginosus*), Kingfisher (*Alcedo atthis*), etc. The reed is covering the majority of this site, which is the result of eutrofication. Coverage of the open water, saltmarshes and wet meadows is small. The project for restoration of the site, in the meaning of enlarging the area of open water, saltmarshes and wet meadows is planned. Species that would benefit from this project will be herons (possible start of

breeding), ducks (enlarging numbers during migration and wintering) and waders (more feeding areas independent of water level).

The lake Velo Blato is a shallow fresh-water wetland, 2 km long and 1 km wide, extensively overgrown with clusters of reedbeds. North and eastern banks are low, suitable for foraging of waders. They consist of 10 ha of open wet meadows with scattered clumps of rush and muddy banks used for sheep grazing (STIPČEVIĆ 1997). It is distinguished by the wealth and diversity of its ornithofauna. It is important breeding, and especially stopover site for many waterbirds. This is the only breeding site in Mediterranean Croatia of Gadwall (*Anas strepera*) with 3-4 pairs breeding. In surrounding, breeding of Stone Curlew (*Burhinus oedicnemus*) occurs. The most numerous migrating waders are Ruffs (*Philomachus pugnax*) with up to 1,000 birds recorded in April 1991 (STIPČEVIĆ 1997). Numerous are also Dunlin (*Calidris alpina*), Curlew Sandpiper (*Calidris ferruginea*), Grey Plover (*Pluvialis squatarola*) and Little Ringed Plover (*Charadrius dubius*). Other migrants include Collared Pratincole (*Glareola pratincola*), Little Stints (*Calidris minuta*), Ringed Plover (*Charadrius hiaticula*), Marsh Sandpiper (*Tringa stagnatilis*), Spotted Redshank (*Tringa erythropus*), etc.

Risks. The major risks for biodiversity are:

- risk of increased pollution in Karinsko and Novigradsko more (areas extremely fragile to pollution increase) and in Velebitski channel (highly sensible area); danger of impacts of pollution from the abandoned alumina factory, in upstream Obrovac,
- danger of uncontrolled / unsustainable development, combined with the present lack of / gaps in knowledge on values, risks and spatial aspects of BD, in particular at operational / micro scale,
- mismanagement and improper behaviour by population and tourists due to absence/poor/inadequate information, as consequence of lack of data and of their user-friendly interpretation,
- planning and permits issuing based on unreliable and or uncompleted data, without use of modern planning tools (e.g. CCA, SEA, zoning with integrated approach),
- uncontrolled purchase of land, in many areas needing protection or carefully defined and imposed conditions for use.

4. Key stakeholders. Among a large number of potential stakeholders, sensibilized during PDF B, the following might be considered as key ones:

- from county level: Croatian Waters, Croatian Forests, County Planning Institute,
- tourism: County Tourism Board (CTB), Local (municipal) TBs, Pag and Nin hotels, small family owned hotels, a large number of private owners of accommodation facilities,
- agriculture: Sirena Pag, Saltpans Pag, Nin, Paška sirana, Mala Rava co-operative and other agro co-operatives, farmers interested in eco- and certified agriculture,
- mariculture: a number of co-operatives and private owners,
- others: PAP/RAC, Lijepa naša (across all demo areas), school-children associations, other NGOs, Vransko lake and Telašćica Nature Park.

5. Baseline initiatives might be summarised as:

- population further abandoning traditional economic activities,
- BD-unfriendly initiatives by population and private sector, losing development and profit making opportunities likely to be achieved through eco- and certified production, notably of famous traditional products,

- unsustainable expansion of tourism, with possible negative impacts on fragile BD and habitats,
- slow development of mariculture, due to need for a detailed micro-planning of new suitable areas,
- planning and development based on uncompleted knowledge on BD protection and sustainable use,
- uncontrolled purchase of land, in many micro areas needing protection or carefully defined and imposed conditions for use,
- gradual increase of pollution.

6. Key characteristics common for or different comparing with other demo areas:

- biodiversity: high values and richness not identified at planning/development scale, large gaps in knowledge, need for interpretation,
- the entire area under development pressure, urgent need for zoning, in particular of the marine areas for fish and shell-fish farming based on improved knowledge and interpretation of BD,
- tourism: good physical capacity for expansion with a high quality potential for tourists satisfaction, rich BD neither identified nor exploited as tourism development driver,
- fisheries and mariculture: opportunities for BD- and environment-friendly expansion, with planning prerequisites not adequately met, fish farms - needing BD-friendly management, need for relocation of tuna farms if located at unsuitable (with regards to BD impact) locations across the county,
- agriculture: large abandoned areas suitable for eco and certified agriculture, need to rehabilitate production of famous sorts of cheese, sheep-breeding, production of aromatic and autochthonous herbs, interest for BD-friendly expansion,
- Vransko lake and Telašćica Nature Parks: opportunity for economic liaison with productive sectors, in demo area and across county, need for conflict resolution activities.

7. Project's mainstreaming strategies. The key project strategies specific for this demo area are:

- collection, systematising and interpretation of BD values, at operational scale,
- BD based critical analysis of relevant plans, based on improved BD knowledge and feedback into planning documents and practices,
- demonstration activity in sea-use zoning, applying integrated approaches, for the Novigradsko and Karinsko more, notably shell-fish farming and tourism targeted,
- demonstration activities on opportunity for BD-friendly and profitable expansion of traditional activities, recultivation of abandoned lands, fish- and shell-fish farming,
- demonstration activities, training on and support for traditional and certified agriculture
- development of a BD based and friendly Tourism Management Plan, green itineraries, greening of accommodation facilities, green audits,
- pollution control and abatement: adapting monitoring practices, construction of BD-friendly waste water treatment facilities,
- participatory activities related to public awareness, understanding of BD as economic driver and values to be protected; organisation of participatory conceived educational and promotional campaigns and feasible participatory BD monitoring.



## **Annex 9. Details on COAST Biodiversity Rapid Response Facility (CBRRF)**

The following is tentative. At the outset of the project, the following will be reviewed, revised, updated and elaborated by the PIU.

### **Introduction**

The project area contains a huge number of small habitats, each of which, if protected, could make a contribution to biodiversity conservation. These habitats also make a substantial contribution to the value of the coast as a tourist attraction. In addition, amongst the coastal population and business community, there is a large number of dynamic individuals and enterprises who have creative ideas for initiatives which could have three-fold impacts: conserving biodiversity, generating livelihoods, and maintaining social and cultural heritage.

During the COAST project preparatory stage, the Project Office received over 100 proposals for such initiatives. Clearly, it was not possible to assess the effectiveness and biodiversity impact of each of these during the preparatory stage.

In many cases, there are small barriers to starting up these initiatives. The banking system cannot support these initiatives because they are too small or too innovative. The government cannot support them as they are too small.

Accordingly, the Project Design Team identified the need for a small, local, flexible facility for supporting the incremental costs of the most attractive of these initiatives. Such a facility would also build momentum for biodiversity conservation, and strengthen networks in the project area for biodiversity conservation. The Project Design Team determined that there was a valid need for such a facility, and that it (to the extent possible) should:

- demonstrate how biodiversity can contribute directly to the local economy and how small modifications to practices can have positive biodiversity impacts whilst supporting economic development;
- build working partnerships amongst stakeholders from local governments, NGOs and small, medium and micro enterprises;
- ensure project activities are demand driven and fit into the existing business plans of local stakeholders;
- stimulate creativity, as opposed to having the project design team design all activities;
- increase competition and so ensure best use of limited GEF funds;
- broaden support for project objectives; and
- strengthen the participatory processes and mechanisms in the project area.

The project design team considered several models for the facility. The design team considered applying to include Croatia in the GEF/UNDP Global Small Grants Programme (SGP). However, this was not considered suitable, for the following reasons:

- The SGP addresses climate change, land degradation and biodiversity, whereas biodiversity is the only focus in project area;
- The SGP requires the establishment of a national level co-ordination and programming committee and cannot be pre-focused into regions;
- The SGP cannot provide the solid technical support required for the COAST project area;

- The thorough SGP grant approval process, at national level, is not sufficiently flexible, responsive and focussed to respond to the COAST project area local needs;
- The SGP is not able to guarantee the mobilisation of co-financing to individual grants;
- The SGP is not well equipped for accepting institutional co-financing from the Government of Croatia or other donors; and
- The SGP is not available in Croatia at present. Under no circumstances could it be operating within 2-3 years in Croatia, and it may never be approved for Croatia.

For these reasons, the project determined to design a specific facility for supporting flexible, micro-scale, pro-biodiversity incremental investments in the project area. This model of a project specific grant facility has been used in many GEF biodiversity projects across the world<sup>42</sup>. In order to avoid any confusion with the GEF/UNDP SGP, and to represent its main characteristics, this COAST grant facility is called the COAST Biodiversity Rapid Response Facility (CBRRF).

At the outset, the CBRRF is to be supported jointly by GEF and Government of Croatia (through the EcoFund). This COAST Biodiversity Rapid Response Facility, *whilst directly contributing* to the Project's Objective and Outcomes, will demonstrate how small, catalytic investments can lead to meaningful biodiversity conservation and socio-economic improvement along the Dalmatian coast, through the sustainable use of BD. If successful, the Government will sustain the CBRRF after GEF support has finished.

### **Objectives**

The COAST Biodiversity Rapid Response Facility aims to support local, small-scale activities that will have a positive impact on biodiversity. It will support such activities that would not be implemented without GEF support, and which would not qualify for a loan, even under concessional circumstances.

In addition, to the extent possible, the CBRRF should:

- demonstrate how biodiversity can contribute directly to the local economy and how small modifications to practices can have positive biodiversity impacts whilst supporting economic development;
- build working partnerships amongst stakeholders from local governments, NGOs and small, medium and micro enterprises;
- ensure project activities are demand driven and fit into the existing business plans of local stakeholders;
- stimulate creativity, rather than have the PIU design all activities;
- increase competition and so ensure best use of limited GEF funds;
- broaden support for project objectives; and
- strengthen the participatory processes and mechanisms in the project area.

### **Scope**

The CBRRF should notably support:

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<sup>42</sup> E.g. in Panama (Darién Project), in the Danube River (wetlands window), Nile Basin, Latvia (Vidzeme Project), Mexico (Sierra Gorda), Iran (Zagros Mountains).

- Micro-scale private sector investments, which will have a positive biodiversity impact, but which would not be implemented because of risk, small barriers, low economic returns, lack of know-how, lack of technology;
- Reduce specific conflicts between, on the one hand, Protected Areas managers and biodiversity conservation, and, on the other hand, the actions of private sector or consumers; and
- Increase awareness, understanding or knowledge of biodiversity and the role it plays in socio-economic development in the project area.

In no case shall a CBRRF grant give a competitive advantage to any individual operator. Although private sector is eligible for grants, *GEF contribution to the small grants will not be allocated to any activity that leads to profit or to an economic benefit for an individual business or enterprise.*

Initial investment in the CBRRF is \$1,000,000. \$400,000 is from Government EcoFund, and \$600,000 is from GEF. The CBRRF has been specifically designed to directly contribute to the following Outputs of the project:

- Outputs 1.1, 1.2, 1.3, 1.4, 3.2 and 3.3, i.e. the demonstration of biodiversity-friendly investments. Total estimated GEF contribution is \$240,000;
- Outputs 1.1, 1.2, 1.3, and 1.4, i.e., raising awareness and supporting education related to biodiversity in the four project demonstration landscapes. Total estimated GEF contribution is \$140,000;
- Output 2.2, supporting the development and application of the Tourism Eco-label scheme and supporting the implementation of the Organic Agriculture marketing plan. Total estimated GEF contribution is \$160,000;
- Output 2.3, raising awareness and consumer demand for biodiversity-friendly products, with focus on both tourists and the local population. Total estimated GEF contribution is \$100,000; and
- Output 3.7, resolving conflicts between private sector activities and Protected Area management near the four demonstration landscapes and across the project area in general. Total estimated GEF contribution is \$160,000.

The figures provided above are for illustrative purposes only, and will be reviewed after project start-up.

### **Costs**

Total costs to GEF are \$600,000. Total costs to Government are \$400,000. These include management and administrative costs, which are to be kept below 20%. In addition, all successful grant applicants shall contribute to the concerned initiative. The aggregate contribution from applicants will equal at least \$1,800,000<sup>43</sup>. Hence total value of the CBRRF is at least \$1.6 million.

If successful, it is expected that national and local government agencies will support continuation of the CBRRF and help mobilise additional resources.

### **Selection Criteria**

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<sup>43</sup> Proposals received during the PDF stage include, on average, at least \$2 contribution by applicant for each \$1 requested from GEF.

Detailed criteria to select successful applicants are to be developed during the project. These are to be based on the following:

- Clear demonstration value. Each Grant should indirectly lead to changes across the project area, and not just support an individual applicant;
- Clear Biodiversity focus. Although the CBRRF grant may be part of a package of activities with broad socio-economic objectives, all GEF contribution must be fully focussed on biodiversity sustainable use and conservation;
- Geographical focus. All CBRRF-funded activities must take place within the project area;
- Cost-effectiveness. All requests for CBRRF grants must demonstrate that the objectives are to be met in the most cost-effective manner;
- Partnerships. All applicants for a CBRRF grant must demonstrate that they are to contribute, in-kind or in-cash, to the project activities. The monetised value of this contribution is to be part of the request and is to be validated; and
- In addition, a significant proportion of the grants should have a Private Sector focus. These Grants should lead to a sustainable development of either individual SMME (small, medium and micro enterprises) or groups (associations, co-operatives) of enterprises, or to economic sectors.

### **Competitiveness**

The CBRRF will be subject to the following principles:

- Under no circumstances shall grants be given to private sector for investments that would have been made without the grant;
- Under no circumstances will grants be given in place of a loan; and
- In no circumstances will individual private sector operators benefit economically from the grants.

Both the Initial Application Form and the Detailed Application Form will address these principles. At the Project Outset, the PIU (Banking Expert) will develop criteria to assess each grant in line with the above principles. The Contractor and the Grant Board will assess that each successful applicant is fully in line with the above principles.

### **Procedures**

After project start-up:

- A Contractor will be identified and recruited to administer the CBRRF;
- The Contractor, with support from Project Implementation Unit, shall develop the Initial Application Form and the Detailed Application Form. These forms shall be both simple and short;
- The Contractor disseminates information on the CBRRF widely, and provides initial guidance to potential applicants;
- Interested applicants submit Initial Application Form to Contractor;
- The Contractor undertakes initial screening, determines a short list and submits it to the Project Implementation Unit;

- Members of the Project Core Team provide technical guidance to short-listed applicants. This is to ensure that all applications are technically sound;
- Each interested, short-listed applicant completes and submits the Detailed Application Form;
- The Grant Board reviews all Detailed Applications Forms and makes selection. The Grant Board shall meet a total of 4 times during years 2 and 3 of the project. The minutes of the Grant Board meetings shall be made publicly available;
- The Contractor manages the financial flows and monitors implementation of CBRRF supported initiatives;
- Each successful applicant shall prepare a final report before payment of final Grant instalment.

### **Workplan**

Year 1:

- Finalise selection criteria
- Finalise Grant Board membership and procedures
- Finalise selection procedures
- Prepare all documentation
- Disseminate information, through newspapers, web-sites, hearings, government offices, NGOs
- Respond to requests for additional information on queries from potential applicants

Years 2 - 4

- Award grants
- Monitor grants – both the impacts and financial monitoring
- Prepare reports addressing the overall impact of the CBRRF and the impact of individual grants
- Mobilise follow-up funding to the CBRRF

Year 5

- Monitor grants – both the impacts and financial monitoring
- Prepare publications on case studies and lessons learned

### **Management Arrangements**

The Core Team in the PIU will be responsible for all technical and substantive support. Notably, it will review all short listed applicants and ensure their technical feasibility and appropriateness.

The Contractor will:

- Prepare Application Forms
- Disseminate Application Forms
- Provide training and support on how to apply
- Undertake initial screening of Applications
- Recommend short-lists to the Grant Board
- Recommend to NPM to make payments to grantees
- Monitor:
  - Use of funds
  - Reports
  - Co-financing

- Impacts of grants
- Prepare overall reports and co-ordinate preparation of individual grant reports

The Grant Board, each six months, will:

- Review a short list of Applicants
- Select successful Applicants

Grant Board will consist of:

- NPD
- UNDP representative
- NPM
- Representative of the concerned ministry responsible for the sector of the proposed grant (eg Department of Fisheries should review fishing-related grants)
- 1 independent representative of civil society
- 1 independent biodiversity expert
- 'Contractor' representative (Secretary to the Grant Board)

### **Management and Administrative Costs**

The Contractor shall be reimbursed for all services. The Contractor is expected to provide the equivalent of:

- 1 person full time for years 1- 2, or \$72,000
- 1 person 3/4 time for years 3 – 4, or \$54,000
- 1 person ½ time for year 5, or \$18,000
- Communications or \$5,000
- Travel at \$18,000
- Leaflets, web-sites, newspapers advertisements, or \$10,000 for Year 1 promotional campaign and \$3,000 each for years 2 - 4
- Reporting, or \$12,000, for years 2 – 5

Total estimated cost of Contractor is: \$198,000

## **Annex 10. Use of Financial Instruments for Dalmatian Coast Project**

1. This Annex provides information to show that: (i) the Croatian banking system is sufficiently developed so that support provided by the project to banks to promote lending to biodiversity-friendly enterprises will be used effectively; (ii) HBOR, the Croatian national development bank, is a credible and strong financial institution which will be capable of developing and managing a partial risk guarantee facility to bank commercial loans of the partner retail banks; and (iii) provisional terms and conditions for the guarantee facility, in order to demonstrate that the project's allocation of funds for Partial Risk Guarantees, will be effectively used.

### **I. Soundness and credibility of financial sector**<sup>4445</sup>

2. In the period 1990-2000, the Croatian banking sector went through a tumultuous time and was the subject of strong reform packages. Many banks went out of business and others were restructured. New banking laws were introduced to strengthen the supervisory bodies. Between 2000 and 2002, the banking sector went through further consolidation and privatisation. This was followed up by new laws regulating the financial system (Banking Law, National Payment System Act, Securities Market Act, Savings and Loan Co-operatives Act, Take-Over of Public Limited Companies Act).

3. This has led to a healthier and more consolidated national banking sector. The Croatian banking system is presently composed of 39 banks, with 91% of all bank assets controlled by EU-based international banking groups with headquarters in Italy, Austria and Germany. These parent companies have been continually improving the capacities of the banks with regard to loan approval and reporting. The 18 private banks owned by domestic investors control less than 6% of assets and the two state-owned banks have a 3% market share. Croatia has thus become a leader amongst the transition economies with respect to having foreign participation in its banking sector.

4. By 2002, the International Monetary Fund Staff assessed: *«The financial system has strengthened and can now absorb moderate macroeconomic shocks.»* Further, they noted that *«The larger banks are now generally better capitalised and their risk management systems have been improved.»*

5. By the end of 2004, banks had good capital reserves, interest rates fell and improved effectiveness and efficiency retained earnings potential and motivated further inflows of capital to the banking system. Return on assets of 1.7% were associated with return on equity (after tax) of 16.6% in 2004, pointing out that banking system in Croatia will continue to attract capital in the years to come.

6. Total banks' assets represent 110% of GDP (much higher than in other transition economies) and total banks' loans to clients represent 55% of GDP (also much higher than in other transition economies). Relatively high financial debt has occurred due to: (a) higher level of private sector financial wealth inherited from the 80's; (b) strong demand for loans in the after-war period (after 1995); and (c) very favourable risk/return relationship in Croatian banking system, that attracted foreign investors.

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<sup>44</sup> Banking Sector in Croatia: History, Status and Trends, PDF B Document, 2005.

<sup>45</sup> Banking and Large Private Biodiversity Sector at the Local Level, PDF B Document, 2005.

7. Banks are also now finding new ways to generate earnings. This is primarily through investments in efficiency generating processes and new markets. SMEs represent one of the new markets because banks either ignored this segment or tried to penetrate it on the basis of the same credit analysis and processing techniques used with large corporate clients.

8. Overall, the short-term expectations (until 2008-2010) regarding the domestic banking sector are summarised below:

- *Continuing growth of banks assets.* Some analysts expect slower growth of the banking sector in 2005, approximately 8-9%, while other show more optimism assessing the growth rate at 12-15%. More optimistic views are based on assessment of further productivity growth in corporate sector and related increased investments.
- *Further consolidation of the domestic banking sector.* It is likely that the consolidation of the sector will continue throughout 2005.
- *Entry of major European banks in domestic banking sector.* Some 90% of the banking sector is owned by foreign financial institutions. However, these do not belong to the "major league" of European banks. Bearing in mind high profit margins in Croatian market, it is likely that one or more major European banks will soon enter the sector.
- *Easier securitization of credit.* Easier access to European capital market should enable financing of long-term credits by banks' long-term bonds.

9. A more detailed analysis of the capital structures and reserves, income statements, return indicators, credit activity and liquidity ratios of the banking sector is available in the PDF B Study, *Banking and Large Private Biodiversity Sector at the Local Level*. They indicate a sufficiently strong and improving sector which is ready for the introduction of improvements to the way the banks manage environmental risk and biodiversity concerns.

## **II. The Croatian Bank for Reconstruction and Development (HBOR) as a financial intermediary and project partner**

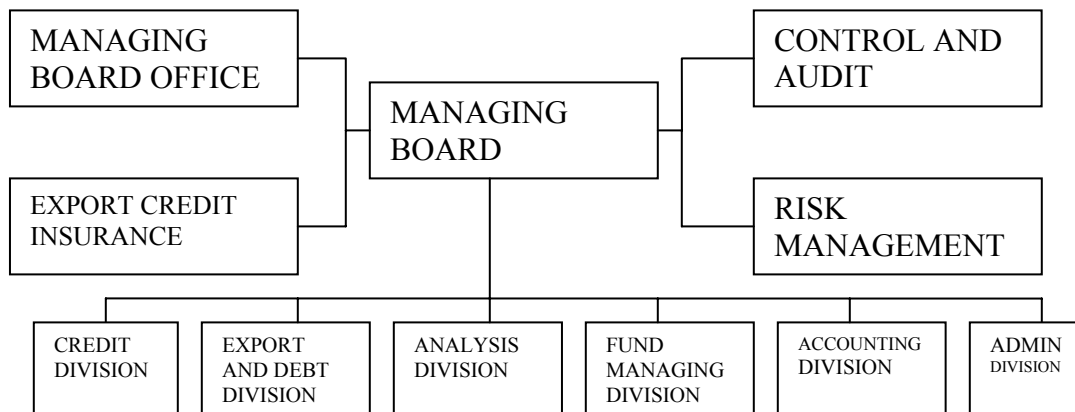
10. HBOR is considered a strong partner for the project. Whilst it was originally set up to finance post-war construction, the bank today combines the functions of a state development agency, an export-import bank and an export credit insurance agency. HBOR is entirely owned by the Republic of Croatia. It was established in 1992 as a development and export bank with the objective of financing the reconstruction and development of the Croatian economy. In 2004, leading rating agencies Moody's and Standard & Poor's confirmed HBOR's investment rating: Baa3 (Moody's) and BBB (Standard & Poor's) equaling the sovereign rating of the Republic of Croatia. The bank's net income in 2004 is estimated at 100 million Kn<sup>46</sup>.

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<sup>46</sup> Market rate, September 2005, US\$1=6.09Kn.



**HBOR's Organisation Chart (Figure 2)**



11. In 2005, HBOR will subsidise bank interest per credits extended to Croatian exporters in amount of 300 million Kn. Also, in 2005, a new HBOR loan programme will be operational, with repayment periods longer than 10 years and favourable interest rates, for olive production, fruit-growing and wine-growing. HBOR loans are grouped into 18 programmes, which finance infrastructure projects, support to small and medium-size enterprise development and environmental protection initiatives.

12. HBOR is particularly interesting because of its broader social and development role at the national level. HBOR promotes sustainable development policy as its underlying business philosophy and acts in favour of environmentally sound management practices and products. UNDP in Croatia is developing a project with HBOR to assist it to "integrate environment and sustainability considerations in all banking practices (*of HBOR*) and create environmental competence (*of HBOR*) as a competitive advantage as exemplified in the products and services it offers". Proposed activities of the project include: (i) development of the Bank's environmental policy and planning for environmental management; (ii) integration of environment and sustainability considerations into the general management system of HBOR; (iii) development and presentation of new and innovative financial products in respect of environmental protection, energy efficiency and renewable energy resources; (iv) creation of procedures for environmental risk assessment within the procedures for credit risk assessment; (v) establishment of the Bank's environmental desk/unit for environmental risk assessment; and (vi) presentation of the guidelines of Global Reporting Initiative and establishing of the Bank's reporting system on social and environmental performance.

13. The COAST project's provision of funds for partial risk guarantees will benefit substantially from this environmental strengthening and the combined assistance should make HBOR a critical

partner in promoting conservation through business development not only in the Dalmatian coast but across the country.

14. Indeed, HBOR's operations already have a strong catalytic effect, as many of its programmes are being executed through commercial banks. This means that adequately tailored co-operation with HBOR and the GEF project can help shift the domestic banking sector towards its "greening".

15. The project guarantee component will be situated within the Export and Debt Division, which has a Special Projects department.

### **III. Project design assessment and consultations with the banking sector**

16. During the PDF B phase, the following activities were undertaken in analysing and communicating with the project area's banks on their possible inclusion in the project:

- Creation of an initial list of key stakeholders consisting of 13 banks operating in the project area (12 commercial and one state bank - HBOR) and Croatian Association of Banks.
- Regular contact maintained with 10 commercial banks and HBOR (total assets of banks participating actively in the project represents some 83.5% of the total assets of the Croatian banking sector as at end 2003).
- Personal meetings with the banks' representatives to determine whether their current credit risk assessment practices include ecological risk assessment. Also, possible activities and commitment to the GEF project were discussed. Several meetings were also organised with the Croatian Association of Banks.
- Consultative Meeting / Workshop on Banking, Finance and Business Policy (4 November 2004) was attended by 26 participants out of which 10 were representatives of 7 banks. Four presentations were given during the Workshop: "Implementing ecological factors in capital/credit allocation decisions", "Systematic inclusion of environment protection and biodiversity concerns into business policy of Croatian banking sector", "Guarantee Program of the Energy Efficiency Project" by HBOR representative and "Small grants programme for conservation and revitalisation of rural areas". Round table and discussion brought up interesting thoughts on possible Full Project activities.
- Questionnaire for the banking sector was disseminated to investigate options and requirements for introducing environmental concerns into banks' lending practices. Four filled questionnaires were received. Four standard credit forms were also obtained in order to help analyse the current credit allocation procedures of domestic banks. HBOR also provided a Questionnaire on environment protection used in credit assessment procedure for one of its programmes.

17. On the basis of meetings with bank officials, workshops for the banking sector and other stakeholders, the questionnaires received and available relevant documents, the following conclusions may be drawn regarding banks' attitudes towards environment protection and, specifically, biodiversity:

- Banks vary significantly in their general attitude towards environment issues.
- Biodiversity is a new term to most of the stakeholders from the banking sector.
- Credit allocation procedures of banks deal with environmental risks in a formal way only.

- Environmental risks are not, at present, adequately assessed either in quantitative or qualitative manner.
- Market motivations for inclusion of ecological concerns into lending practices of domestic banks are still weak (detailed discussion of applicability of related market-driven and government-driven models is given in National Banking Experts' presentation for the Consultative Meeting/Workshop on Banking, Finance and Business Policy).
- Banks usually assign a high credit risk to environment-friendly projects, including biodiversity ones, with resulting reluctance to extend the credit.
- One of the major obstacles in obtaining bank financing for environment-friendly projects is investor's obligation to provide collateral - even if a third party offers relevant credit repayment guarantee, banks are reluctant to fund such projects.
- Croatian banking sector is almost exclusively foreign-owned. Foreign owners transfer their business practice, knowledge and technology into domestic subsidiaries. It is not clear to what extent environmental practices of foreign banks has been transferred to their Croatian subsidiaries. HVB is, for example, signatory of Equator Principles but representative of HVB Splitska banka, its Croatian subsidiary, was unaware of the fact.
- Staff in credit departments is not trained for environmental risk assessment and is already exposed to heavy workload.
- Cost of environmental risk assessment for large projects is paid by investors and banks do not carry out environmental audit of such projects proposed for financing.

#### **IV. Partial risk guarantee programme**

18. Partial risk guarantee programmes in the environment and energy sectors have been advocated by international financial institutions and development organisations for several years now with successful outcomes (for example, USAID's Clean Production Program, SIGMA Partial Guarantee facility in Central America; IFC's Hungary Energy Efficiency Program; IFC/GEF's Energy Utility Financing Program in China).

19. UNDP has extensive experience with the use of financial instruments, mainly in the climate change focal area. Over the past 10 years, UNDP has promoted a number of different financial instruments (revolving funds, risk mitigation measures) to address financial barriers to technology transfer in the ECIS region. For instance, in its district-heating portfolio alone, there are 20 projects dealing with financing mechanisms such as municipal financing; national environmental funds; federal housing funds; GEF-capitalised loan funds; GEF-capitalised audit funds; and parallel financing of risk guarantees from multilateral, bilateral, or national financial institutions.

20. In the case of Croatia specifically, GEF funds have already been approved for a UNDP Energy Efficiency Project (EEP) that makes use of a partial risk guarantee scheme. Partial risk guarantee programmes in environment-related projects are relatively new in the Croatian banking industry. The EEP is managed by the Croatian Bank for Reconstruction and Development (HBOR) which is well positioned for a role of a leading domestic banking partner in such projects, due to its role of national development promoter. The objectives of the scheme are: (i) support to EEP by managing related credit risk; (ii) capacity building of domestic financial institutions to finance EEP on a commercially sustainable basis; and (iii) support to end users to invest in energy efficiency. Negotiations to develop the legal framework and documentation for the scheme have already been completed. This is both based on and in line with best practice used elsewhere, such as the

USAID's Clean Production Program, SIGMA Partial Guarantee facility in Central America: IFC's Hungary Energy Efficiency Program; and IFC/GEF's Energy Utility Financing Program in China.

21. The EEP scheme and related terms and conditions have been negotiated and agreed between HBOR and UNDP. UNDP took the lead in negotiating with HBOR the legal framework and documentation related to the structures, processes and responsibilities of the partial risk guarantee fund. With regard to the financial terms, UNDP will couple the services of an independent financial expert and in-house legal expertise to inform and complete the negotiation process. Negotiations on terms and conditions with commercial banks will be led by HBOR.

22. Similarly, in the Dalmatian coast project, independent financial expertise has been employed by UNDP in the project design stage to complement its in-house legal expertise. The project implementation team will base a financial expert, in HBOR.

23. Based on the experience of UNDP with the use of financial instruments in the ECIS region more broadly, and in the Croatia EEP in particular, the main terms and conditions for the biodiversity partial risk guarantee scheme in the Dalmatian coast project are expected to be as follows. These reflect closely the Energy Efficiency guarantee scheme terms and conditions and more tailoring to the needs and risks involved with biodiversity-related businesses will occur as the project undertakes more market assessments and in-depth consultations with HBOR's investment officers.

#### 4.1 Main characteristics of the guarantee scheme:

- Guarantees issued to commercial banks;
- Framework contract on guarantees made between HBOR and eligible commercial banks;
- UNDP places funds into a special purpose HBOR Guarantee fund on the basis of signed framework contracts;
- Involved commercial banks propose projects that are included into framework contracts;
- HBOR issues, upon project approval, a guarantee to a maximum of 50% of the credit value.

#### 4.2 The indicative terms for the guarantee scheme will be as follows:

- Maximum guarantee duration of 10 years;
- Maximum single transaction guarantee value of \$300,000;
- Guarantee issued to a maximum of 50% of the credit value;
- Guarantee pricing: up to 1% of the liability per annum;
- Feasibility study of the proposed biodiversity-friendly SME business needed;
- Overall guarantee facility liability limit: to be defined in the Guarantee Facility Agreement (GFA) for each bank;
- Recovery process and distribution of recovered monies: Guarantor subordinate in recovery.

#### 4.3 Participating banks and Guarantee Facility Agreement:

- Guarantees will be provided to local banks to share in the credit risk of biodiversity loans which the partner banks would fund with their own resources;
- Participating banks will be selected on the basis of their interest and capabilities in financing biodiversity projects;
- Initial selection of participating banks is suggested to be limited from two to five banks;

- As Guarantor, HBOR would execute a framework "Guarantee Facility Agreement" (GFA) with participating banks pursuant to which the Guarantor would partially guarantee the bank's credit risk on qualified transactions;
- Participating banks would propose specific transactions to be included under the Guarantee Framework Agreement. Upon approval of the transactions by the Guarantor, loan guarantees would be issued and executed by the Guarantor for the specific transactions;
- For small transactions, a portfolio guarantee structure, which authorises the bank to automatically include qualified transactions under the guarantee, is contemplated.

#### 4.4 Ratio of maximum guarantee liabilities to GEF guarantee reserves:

- Initially, a 1:1 ratio would be applied;
- The ratio of maximum guarantee liabilities to GEF guarantee reserves is to be increased during the projects' lifetime (a 1:1 ratio is conservative, and can be increased, so as to have a higher leverage factor, as the project progresses and more experience is gained);
- Possible sources of funding to increase guarantee capacity include Government of Croatia authority to assume contingent liabilities, or appropriations from the Government of Croatia Energy Efficiency and Environmental Protection Fund being developed;
- GEF monies can be placed in a first loss position vis-à-vis other guarantee funding authority, meaning that all guarantee claims would be paid first from GEF funds. Therefore, the risk exposure position of any secondary funding agency offering to increase the guarantee capacity of the program can be designed to be very secure.

#### 4.5 Operating Costs

24. Guarantee fees and origination fees, as well as adjustments to the interest rate will be used for covering the operating costs of the guarantee facility. In addition, HBOR will contribute staff and office overhead to the program (in-kind) to supplement these income sources for meeting program operating costs. This would exclude technical assistance provided by the GEF technical assistance resources for the technical review and evaluation of biodiversity project applications as well as for the audits required by the donor agencies.

#### 4.6 Program term and "Exit Strategy" for GEF funds

25. Should the project be successful, the primary option of the project's exit strategy is to grant the funds to HBOR to continue the guarantee program. Decision on this possibility will be a function of continued market need, HBOR performance, guarantee portfolio performance, and, also, HBOR's ability to mobilise additional funding to increase the ratio of maximum guarantee program capacity to GEF funding. Given HBOR's broader social and developmental mandate, the success of the guarantee scheme in mobilising commercial lending in biodiversity-friendly enterprises will be the main motivation for it to recapitalize. In the case that the continuation of the guarantee program does not look feasible, the UNDP will return the unused funds to GEF.

26. The Dalmatian coast project will build on the terms and conditions developed for the EEP and will tailor these to suit any different risk and commercial dynamics related to biodiversity-friendly SME business proposals. Guarantees will only be considered for investments that comply with agreed criteria that demonstrate that the investments will have sufficient biodiversity benefit. The criteria and review process is elaborated in Section V below. The roadmap and basic principles of the partial risk guarantee agreement will be agreed between UNDP and HBOR prior to the

signature of the project document by UNDP. The detailed partial risk guarantee facility Operating Plan will be developed during the Project Inception Phase.

## **V. Criteria and procedures for ensuring project lending is channelled to investments with biodiversity benefits**

27. The environmental investment guidelines balance many competing interests when financing a business investment, which needs to be profitable and make a positive contribution to biodiversity. If the guidelines emphasise conservation impact too much then SMEs and FIs will not be able to provide or analyse the information and very few suitable investments will be financed. On the other hand, if the guidelines are too simple and superficial, they may result in the financing of investments which do not contribute to biodiversity conservation.

28. Therefore, the guidelines have been developed to increase eligible investment opportunities and ask the minimum level of information from SMMEs yet at the same time provide confidence to HBOR that the FIs are lending to suitable investments. In this regard the guidelines start out as more open and flexible but will become stricter in their expectation of biodiversity impact. This is for the following benefits:

- give FIs opportunity to become acquainted with the concept of BD investments,
- not be too restrictive in lending practices early on,
- allow room for innovative types of investment,
- have opportunity to learn from investments about potential BD impact to feed into stricter guidelines,
- provide time for markets to develop and more relevant investment opportunities to arise.

29. The guidelines, at this Project Document stage, set the framework and principles, which are to be further developed and refined during Project Inception Period including a workshop that brings together bankers and conservationists. Ultimately, the goal is to emerge with a firm conceptual framework and a set of operational procedures, which will guide HBOR and other partner banks through the process of determining eligibility of investments for preferential financing.

30. It is intended that in the long-term the guidelines will be used by the FIs and the SMMEs. The SMME borrowers will have the ability to collect and provide the necessary information and the FI will be able and willing to assess the data to determine its contribution to environmental and biodiversity objectives.

31. However, it is recognised that the information required to ensure an investment is biodiversity-friendly, is out of the scope of ability of an SMME to provide or an FI to assess. Therefore, a system is required to fulfil *lender verification* of the investments.

32. The *lender verification* system could have various arrangements. It could use local NGOs/research institutes as third party verifiers or it could be operated by HBOR's in-house staff. The project will help build HBOR's capacity to do this internally. The use of local NGOs/research institutes will most likely be required in the early years of lending until the system is evolved and there are sufficient loans for HBOR to employ its own staff for *lender verification*.

33. The lender verification process should rely where possible on existing sources of information which could indicate that a proposed business venture could have net biodiversity benefits. Sources of information which can complement the appraisal process include: Certification of a

product (from a recognised certification system); Completion of an Environmental Impact Assessment (EIA) and development of an Environmental Management System (EMS) to implement the EIA recommendations; Land-use plans and guidelines and Tourism plans.

### 5.1 Investment Outcomes

34. A business investment can contribute to biodiversity conservation through one or more of the following means<sup>47</sup>:

- (i) Increase in-situ biodiversity on farms and coastal properties operations through improved habitat quality and quantity.
- (ii) Reduce damage to marine ecosystems, fisheries and reefs through better harvesting techniques and limits (reduced by-catch, respect for no-take zones, sustainable harvesting).
- (iii) Increase ecological connectivity between Protected Areas through improved habitat quality and quantity of land in corridors between the Protected Areas and improved marine corridors.
- (iv) Promote sustainable harvesting of natural resources – fish, marine resources, Non-Timber Forest Products (NTFPs), etc.
- (v) Reduce negative impacts on biodiversity from: (i) avoiding intensification of agriculture and increased use of agro-chemicals; (ii) zoning and relocating tourist developments away from biodiversity hotspots; and (iii) reducing pollution to watercourses and reefs.
- (vi) Stimulate market development for biodiversity-friendly products and services through promoting biodiversity-friendly production systems, demonstration and replication, marketing, retail outlets, diversification of processed products, economies of scale, etc.

35. It is acknowledged that there are a variety of complex issues wrapped up in the above options and include the following:

- Defining what is ‘improved habitat quality’ and what is enough ‘increase in habitat quantity’ is complex and requires further consideration, and quite possibly local assessments so that the improvements feed into the local ecosystem and wildlife requirements.
- Any investment by itself may have a varying degree of impact on biodiversity as there are many other influencing factors. Such factors should be considered and addressed through co-ordinated actions by other programmes or groups. These investments should be viewed as aiding and strengthening conservation processes, not solving all the challenges themselves.

### 5.2 Loan approval and monitoring process

36. The loan appraisal and approval process will have several stages, which will then be followed up with monitoring as reporting, as follows:

Stage 1: FI initial investment screening

Stage 2: FI and HBOR loan appraisal against environmental criteria

Stage 3: Optional supplementary detailed site assessment and verification

Stage 4: FI and HBOR loan and partial risk guarantee approval and target setting for biodiversity reward scheme

Stage 5: SMME reporting to FIs on biodiversity impact

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<sup>47</sup> Some investments will satisfy more than one of these objectives.

## Stage 6:FI monitoring of loan impacts

37. The scale of the review will vary depending on the size of the investment in order to ensure the assessment and reporting procedures do not become overbearing particularly for micro businesses and loans and remove the incentive for businesses and banks to participate in the scheme.

### 5.3 Environmental Appraisal Criteria Checklist

38. Different investments will have different criteria relevant to them. Criteria checklists have been developed for investments which:

- Change production processes of existing business operations. This will be applicable to farms, forestry operations, fishery enterprises and aquaculture and mariculture businesses. This will also be applicable to tourism and manufacturing businesses looking to reduce their negative environmental impacts. Businesses along a supply chain of biodiversity-friendly products should be assessed by the biodiversity impact of the products sold and the scale of sales.
- Have an indirect impact on resource use and habitat maintenance. This will be applicable to a range of businesses, due to their nature or location.

39. A positive assessment may be the result of the investment achieving one or more of the criteria listed below. The reviewer should tick or cross each criterion as applicable and provide a brief explanation to demonstrate validity.

- (i) Will the production practices either: increase natural or semi-natural habitat cover, reduce natural or semi-natural habitat fragmentation or avoid conversion of natural or semi-natural habitat or increase connectivity of natural and semi-natural habitats?
- (ii) Will pollution of rivers, stream and coral reefs by agro-chemicals be reduced? To what extent will the use of (agro-) chemicals be reduced? Will chemicals be substituted in favour of integrated pest management?
- (iii) Are provisions in place to ensure employees protected important wildlife?
- (iv) Will there be a reduction in extraction of firewood, timber and other natural resources?
- (v) Will the investment make efforts to control the introduction and spread of invasive species?
- (vi) Will hunting be reduced?
- (vii) How will the production practices maintain water? Will water extraction be reduced?
- (viii) How will the production practices maintain water and soil resources? Will soil erosion be reduced?
- (ix) Will the use of GMOs be stopped?
- (x) Will fire regimes be affected?
- (xi) Will the investment finance any infrastructure which may bring unintended environmental impacts?

#### Additional benefits

- Does the investment have potential for replication within the project area? If so, can it have a demonstration effect to similar enterprises?
- Will it contribute to market development of biodiversity-friendly products?
- Will it undertake any biodiversity monitoring?





Hrvatska banka za obnovu i razvitak

## SEKTOR IZVOZA I ZADUŽENJA

No: RA/AT-5000-67/05

Zagreb, September 26, 2005

Mr. Kornelis Klein  
Resident representative  
UNDP Croatia

Kesterčankova 1  
10000 Zagreb

Re.: UNDP/GEF Project for Biodiversity Preservation and Sustainable Use on the  
Dalmatian Coast through Sustainable Development (COAST)  
Participation in the Main Project,  
Supplement to the **Letter of Intent dated 30<sup>th</sup> May 2005**

By being the sole development bank in the Republic of Croatia, HBOR's strategic business objectives are recognized as providing financial support for all progressive initiatives contributing to the successful development of the general welfare in the country, as well as promoting environmental awareness and sustainable development principles. In this respect, HBOR successfully carried out activities related to the implementation of several WB/GEF financial arrangements in the past, intended to provide funding for environmental protection and sustainable development initiatives in Croatia. Our team possesses sound expertise and experience with the World Bank procurement procedures and grant implementation requirements.

To highlight our collaboration with the World Bank/GEF and UNDP, we would like to emphasize that in 2003, the World Bank and UNDP engaged HBOR as a Guarantee Agency participating in the implementation of the Energy Efficiency Project ("Project") in Croatia funded by GEF. In accordance with the Project Agreement signed by HBOR and the World Bank, HBOR will be responsible for managing a total of USD 4 million funding facility, with USD 2 million provided directly by IBRD/GEF. Additional USD 2 million UNDP/GEF sources are to be used for issuing partial guarantees as a financing tool supporting the implementation of all eligible energy efficiency related initiatives. The other agreement between UNDP and HBOR is currently being prepared. Additional Project objectives include enabling technical support for further strengthening HBOR's institutional capacity and building expertise in the areas of financing, promoting, and fostering public awareness relating to environmental matters in Croatia.

Furthermore, UNDP has engaged the consulting agency Arhivanalitika from Zagreb to render services related to developing the capacity at HBOR in order to integrate environmental and sustainability considerations in all banking practices. The project activities provided by Arhivanalitika, including knowledge sharing and training of our staff members, are mainly focused around adopting industry accepted environmental financing and risk management principles in our day-to-day operations as a fundamental aspect of our business management, and are currently underway.

To reiterate our intent in relations to HBOR's participation in the COAST project and related activities, HBOR is ready to explore the possibility of drafting a partial guarantee scheme. We are also willing to actively join the expert working groups and attend seminars and workshops, as well as participating in drafting of a partial guarantee scheme and in the supervision of the overall COAST project.

Ružica Adamović

Member of the Managing Board



Aurelia Trgo, Ph.D.

Export and Debt Division  
Executive Director

## **Annex 11. Project Baseline and EU Accession Process**

### Introduction

1. This Annex responds to the request for additional information from the US Council Member on the actions that Croatia will take in the project baseline as part of its EU Accession requirements. This Annex: (i) clarifies that most of the activities in the project baseline are indeed part of the EU Accession process; (ii) revises the figure for the baseline funding by incorporating recent developments in Croatia's Accession process, and (iii) demonstrates the necessity and the incremental nature of all the activities to be supported by GEF.
2. As with other recently acceding countries, the focus of the EU Accession requirements is legislative reform and sustainable development (including environmental protection). The GEF funded activities will complement these by focussing on *compliance* with the biodiversity aspects of legislation and on mainstreaming the requirements for biodiversity conservation and sustainable use into sustainable development.
3. The EU Accession does set specific requirements related to biodiversity conservation and does directly support biodiversity conservation. However, this is done by focusing on biodiversity in Protected Areas. The GEF project focuses on conserving and sustainably using biodiversity in the wider productive landscapes and seascapes *outside* of Protected Areas.
4. During the preparation of this Annex, the project team consulted with the US Embassy in Croatia in order to confirm the approach being taken to responding to the US Council Member's concern.

### EU Accession and Baseline

5. The EU Accession process is underway in Croatia. EU Accession is a national priority. All government initiatives, programmes and legislative developments are consistent with and supportive of EU Accession and aimed at meeting EU Accession requirements. Hence, almost all activities in the baseline in the Incremental Cost Analysis (ICA) are in fact part of the EU Accession process. The Table at the end of this Annex lists the EU Accession requirements and sets out the project baseline activities with reference to the EU Accession. From this Table, it is clear that at least \$48 million of the baseline funding is directly to EU Accession activities.
6. Furthermore, it is important to note that the baseline could be expanded to include all activities in the agriculture, tourism, banking and environment sectors in the project area. This would be an immense figure. The baseline calculation has only included those activities directly related to the Project Objective and those activities that are to be directly influenced by the COAST Project.

### Revised Baseline in line with Developments Related to the EU Accession

7. Over the past two years, Croatia has established a substantial framework to prepare for EU Accession and to meet Accession requirements. Croatia has signed an EU Partnership Agreement and has prepared annual National Action Programmes. It has prepared Sectoral Action Plans and determined international funding requirements to support EU Accession. All government departments are taking steps to develop and implement legislation and regulations.

8. Prior to being a formal EU 'Candidate Country', Croatia benefited from EU funding largely through the CARDS programme. Many CARDS supported projects will continue to be implemented through 2006 (in addition to the one included in the previous ICA). The CARDS projects most relevant to the proposed COAST project are:

- Support to Further Legal Approximation to EU Aquis (in the Environmental Sector) (\$2,200,000) – Output 4.2;
- Capacity Building for Implementation of the Water Framework Directive (\$1,400,000) – Output 3.6;
- Registry Marine Goods<sup>48</sup> (\$2,400,000) – Output 3.4.

9. Approximately 50% of these activities are to be implemented in the timeframe of the Project (i.e. during 2006). Accordingly, a total of \$3,000,000 has been added to the baseline under Outcomes 3 and 4.

10. Croatia is now an EU Candidate country and therefore is eligible for EU pre-Accession funds (i.e. ISPA, SAPARD and PHARE). Croatia is concluding negotiations regarding the first tranche of three ISPA projects. None of these are directly relevant to the proposed Project Objective. Given the thorough requirements for releasing SAPARD funds, it is unlikely that any SAPARD funds will be released before 2008. Likewise, there are no proposed PHARE projects directly related to the COAST Project Objective.

11. ISPA, SAPARD and PHARE remain in operation until 2007. In 2008, they are to be replaced by the Instrument for Pre-accession Assistance (IPA). The details of how IPA is to be allocated in Croatia are not yet determined. The indicative funding for Croatia from the IPA is €155-205 million/year. This is to be allocated across 5 programmes, of which the two most relevant to the COAST Project Objective are 'Regional Development' and 'Rural Development'.

12. Regional Development and Rural Development are likely to be larger than the other three programmes. However, assuming IPA funds are divided equally across the five programmes, a minimum of €30 million will be allocated annually to Regional Development. Based on geographical scale, 20% of this may be allocated to the project area, say €6million/year. The Regional Development programme invests in infrastructure, for example, for transport or environmental improvement. It may be estimated that 20% of these investments will be directly relevant to the Project Objective (notably for environmental protection such as waste water treatment), i.e. a minimum of €1,200,000/year. IPA will be operational from 2008-2012, i.e. during five years of the project implementation. These baseline investments were not considered in the original ICA calculation. Hence, this increases the baseline by approximately US\$7.5 million over the duration of the project (2006 – 2012). The baseline for Outcome 3 has been increased accordingly. In the baseline, IPA investments will not focus on conserving globally significant biodiversity and will not focus on biodiversity hotspots.

13. Likewise, a minimum of €30 million may be allocated annually to Rural Development. Again, 20% may be allocated to the project area, i.e. €6 million/year. One of the many priorities for the Rural Development programme is ecologically sound agriculture. In the baseline, based on the experience in other EU and Accession countries, it is reasonable to forecast that:

- 10% (i.e. €600,000/year) will be allocated to eco-agricultural schemes;

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<sup>48</sup> This project will help delineate sea zones and marine resources.

- Given limited administrative and technical capacity and low priority for global important biodiversity, half of the eco-agricultural schemes (i.e. €300,000 year) will not yield positive benefits for globally significant biodiversity.

14. This €300,000 per year can be considered baseline funding. The proposed COAST project will complement this baseline funding with activities aiming to: (i) increase the overall percentage of the Rural Development programme allocated to eco-agriculture in the project area; and (ii) increase the quality of the eco-agriculture investments in order to have a more positive impact on globally significant biodiversity.

15. This figure was not included as baseline in the original ICA. During the project period (2008-2012), this corresponds to €1,500,000 or approximately US\$1,800,000. This has been added to the baseline for Outcome 3 in the revised ICA.

16. The above-figures for Outcomes 3 and 4 have been included into the revised Incremental Cost Analysis. However, despite this increase in the baseline, the gaps and barriers to mainstreaming biodiversity into tourism, agriculture and fisheries remain unchanged. As the barrier analysis in the Full Project Brief demonstrated, the EU Accession process does not focus on removing these barriers. Accordingly, the incremental cost remains unchanged, as does the required GEF contribution. It is worth noting that, without the EU Accession, the incremental cost would be far greater, as would the required GEF contribution.

#### Incrementality of GEF support

17. It is an assumption of the Project Design that Croatia will meet requirements under the EU Accession, as part of the baseline. This means the introduction of a significant legislative reforms, investments to improve air pollution and water management, and efforts to increase compliance with the legislative framework. However, in the baseline, compliance with legislation will increase slowly. Compliance with biodiversity aspects of legislation will not be a priority. It may be several decades before compliance with biodiversity aspects of legislation reaches the levels achieved in the many EU countries. Likewise, in the baseline, environment-related investments will not focus on biodiversity conservation.

18. With regards to biodiversity, there are two aspects to the EU Accession approach and requirements:

- Meeting environmental protection and biodiversity conservation requirements. This is actually a focus of EU funds (e.g. LIFE) and also regulations (Natura 2000);
- Meeting rural development, agricultural, fisheries, banking and tourism requirements in a manner that is environmentally friendly and respects biodiversity conservation and sustainable use.

19. The experience of EU and recently acceding countries strongly suggests that EU Accession will have a significant impact on the former of the above. However, experience shows that the latter is often neglected in the early years. For example, in agriculture, EU-related support initially focuses on intensification and large-scale schemes.

20. In the project area, given the distribution and fragmentation of biodiversity, and given the fact that biodiversity is being used by the agriculture, fisheries and tourism sectors, the Protected Area approach is very limited. The optimal way to conserve biodiversity is through mainstreaming into the agriculture, fisheries and tourism sectors. That is the approach of the proposed COAST project.

In the baseline, under the EU Accession process, many related opportunities will be missed. The COAST project will ensure that these opportunities are grabbed.

21. The distinction between the EU Accession process and the proposed GEF project activities is illustrated through the following examples.

22. With regards to wastewater treatment. In line with EU Accession, Croatia will be obliged to provide primary, secondary or tertiary treatment for all sites in the project area. The level of treatment is determined by considering (i) the number of habitants-equivalent; (ii) the assimilative capacity and; (iii) specific conditions of the recipient water. Specific guidance and implementation regulations are to be developed for the Dalmatian Coast. In the baseline, water treatment will be funded by the Government, the EU and other international funds, although it may take over a decade. The COAST project complements this by:

- ensuring that, when determining assimilative capacity at a site, global biodiversity is taken into consideration;
- ensuring that the presence of globally significant biodiversity is considered a ‘specific condition’ justifying a high level of treatment;
- ensuring that the sequencing of waste water treatment investments considers the need to urgently protect biodiversity hotspots, i.e. the first treatment plants should be built in areas with important biodiversity;
- developing biodiversity impact assessment procedures, to complement the existing procedures for Environmental Impact Assessment (EIA) and Strategic Environmental Assessment (SEA).

23. In the fisheries sector: EU Accession requirements will lead to an array of new Ordinances (see Table below). These focus on maintaining fish stocks and supporting fishing communities. In addition, the GEF Project will also ensure that the Ordinances are drafted in a way to optimise biodiversity impact. Moreover, enforcement and compliance of these Ordinances will remain challenging for many years, as in other recently acceding countries. The EU has been requested to strengthen enforcement capacity in general. In complement, the COAST project will develop capacity specifically to enforce compliance with the biodiversity aspects of the new Ordinances.

24. The third example is at the four demonstration sites. At this level, the IPA Rural Development Programme may make financial support available to individual investors in order to adopt ecologically friendly activities. Most investors will not have the capacity to access this, especially in a way that supports biodiversity. The COAST project will complement this and fill gaps by:

- Supporting biodiversity-friendly tourism;
- Preparing local biodiversity-friendly development plans, ensuring that all activities are coherent;
- Enabling micro and small-scale operators to participate in the Programme;
- Strengthening specific biodiversity-related capacity to market traditional and organic goods, and to inspect the goods;
- Resolving local conflicts related to biodiversity conservation.

25. The Table below gives examples of how the GEF project will complement the EU Accession Process and go beyond EU Accession requirements. Given the all-encompassing nature of the EU Accession process, this Table does not cover every EU Accession requirement and does not list every related activity; it only covers those most directly related to the proposed project.

## Conclusion

26. The following Table and the above examples demonstrate that the EU Accession process and related requirements contribute greatly to the project baseline. The above paragraphs have re-calculated the baseline, including recent EU opportunities, and raised it by \$12.3 million. Finally, the above demonstrate clearly that there is no overlap between proposed Project activities and EU Accession requirements, that the project in no way subsidises the Accession process, and that the project is carefully constructed to positively influence the Accession process.

**Table 21. Illustration of how the GEF project will complement the EU Accession process**

<b>EU Accession Requirement/Process</b>	<b>Steps Croatia is taking to meet the EU requirements</b>	<b>Examples of related, additional activities supported by the GEF Project</b>
<b>Nature protection and biodiversity conservation</b>		
Habitat Directive Birds Directive	<p>Harmonising Legislation by preparing:</p> <ul style="list-style-type: none"> <li>• Law on Nature Protection</li> <li>• Ordinance on Public Hearing in the Process of Establishing Protected Areas</li> <li>• Regulation of Measures for Conservation of Habitat Types</li> <li>• Regulation on Habitat Types, Habitat Maps, Endangered and Rare Habitat Types</li> </ul> <p>Preparing Action Plans and Reporting</p> <ul style="list-style-type: none"> <li>• Revision of the Biodiversity Strategy and Action Plan</li> </ul> <p>Implementation</p> <ul style="list-style-type: none"> <li>• NATURE 2000 Project (30% in project area, i.e. \$870,000)</li> </ul> <p>Biodiversity monitoring of the marine environment;</p>	<p>Output 3.7</p> <ul style="list-style-type: none"> <li>• Preparation of strategies for conflict resolution</li> <li>• Implementation of strategies (to ensure Protected Areas are supportive of and supported by tourism, agriculture and fishery sectors in areas near to Protected Areas).</li> </ul> <p>GEF 76,000\$</p>
	<p>Baseline: Figure not calculated</p> <p>Increment, \$870,000</p>	GEF Increment \$76,000
<b>Environmental protection</b>		
6 <sup>th</sup> Environmental Action Plan	<p>Harmonising Legislation by preparing:</p> <ul style="list-style-type: none"> <li>• Ordinance on Types, Categories and Classification of Hazardous Wastes</li> <li>• Preparation of a Strategy for EU Legislation Accession in the Field of Environmental Protection</li> </ul> <p>Preparing Action Plans and Reporting</p> <ul style="list-style-type: none"> <li>• Preparation of a Waste Disposal Management Plan</li> <li>• Preparation of the Yearly Adriatic Monitoring Report</li> <li>• Preparation of the Annual State of the Environment Report</li> <li>• Preparation of a Yearly Report on the Sanitary Quality of the Sea</li> </ul> <p>Implementation (to be determined under IPA)</p>	
	Baseline: CARDS , IPA, estimated at \$8,5 million	GEF: \$0
Water Framework Directive	<p>Harmonising Legislation by preparing:</p> <ul style="list-style-type: none"> <li>• Law on Amendments and Changes of the Law on Water Management</li> </ul>	Output 1.1 – 1.4, Output 3.6



EU Accession Requirement/Process	Steps Croatia is taking to meet the EU requirements	<i>Examples of related, additional activities supported by the GEF Project</i>
Waste Waters Directive Directive on Potable Waters Directive on Public Sewer System	<ul style="list-style-type: none"> <li>• Law on Amendments and Changes of the Law on Financing Water Management</li> </ul> Preparing Action Plans, Strategies and Reporting <ul style="list-style-type: none"> <li>• Preparation of a Strategy Proposal for the Implementation of the Water Framework Directive</li> <li>• Preparation of a Framework Plan Proposal to Implement the Directive on Potable Waters and the Directive on Public Sewer System</li> <li>• Preparation of the Analysis of the Law on Financing Water Management and Relevant Regulations in order to Prepare the Basis for Changing the Existing or Enacting a new Law</li> </ul> Implementation <ul style="list-style-type: none"> <li>• CARDS Capacity Building (\$700,000);</li> <li>• Installing waste water treatment in coastal areas and regular monitoring (\$34,850,000);</li> <li>• Water monitoring in the Vir-Konavle area (\$1,000,000);</li> </ul>	<ul style="list-style-type: none"> <li>• ensuring that the sequencing of waste water treatment investments considers the need to urgently protect biodiversity hotspots;</li> <li>• developing biodiversity impact assessment procedures;</li> <li>• ensuring that global biodiversity is considered when determining the level of waste water treatment at sites across the project area;</li> <li>• strengthening capacity to monitor biodiversity impacts.</li> </ul>
	Baseline: estimated at \$36,500,000	Total incremental cost \$1,514,000 GEF contribution \$86,000
<b>Economic and social sector development</b>		
Rural Development	Harmonising Legislation by preparing: <ul style="list-style-type: none"> <li>• the Law on Amendments and Changes of the Law on Incentives in Agriculture, Fisheries and Forestry;</li> </ul> Implementation <ul style="list-style-type: none"> <li>• Establishment of the Directorate for Rural Development;</li> <li>• Further details to be prepared under IPA/SAPARD;</li> </ul>	
Fisheries – Common Fisheries Policy	Harmonising Legislation by preparing: <ul style="list-style-type: none"> <li>• Amendments to the Marine Fisheries Act;</li> <li>• Ordinance on Specially Protected Areas;</li> <li>• Ordinances on protection of fish and other marine organisms (minimum landing sizes);</li> <li>• Ordinance on commercial fisheries (technical measures);</li> <li>• Ordinance on commercial fishing license;</li> <li>• Ordinance on manner and terms of placing the fish on the market and</li> </ul>	Output 4.2 Review and make recommendations with regards to biodiversity conservation 8,000 \$  Outputs 1.1-1.4, 2.2, 3.4 and 3.5 <ul style="list-style-type: none"> <li>• Strengthening biodiversity-related aspects of inspections at markets and of fishing equipment;</li> <li>• Running awareness raising campaigns and</li> </ul>

EU Accession Requirement/Process	Steps Croatia is taking to meet the EU requirements	<i>Examples of related, additional activities supported by the GEF Project</i>
	<p>Ordinance on fishing gears allowed in commercial fisheries; Implementation</p> <ul style="list-style-type: none"> <li>• Restructuring the Fishery Fleet</li> <li>• Introduce Smart Gear</li> <li>• Develop inspection capacity</li> <li>• CARDS Registry of Marine goods</li> <li>• Monitor commercial fishing</li> </ul> <p>Mariculture</p> <ul style="list-style-type: none"> <li>• Expansion in line with existing information and regulations</li> <li>• Pilot environmental auditing of fish-farms</li> <li>• Monitoring areas under shell-fish culture;</li> </ul>	<p>training for fishermen on biodiversity aspects (e.g. protect endangered species)</p> <ul style="list-style-type: none"> <li>• Developing no-fish zones and seasons</li> <li>• Monitoring pollution in biodiversity hotspots</li> <li>• Assist preparation of guidelines to promote wide-use of Smart Gears</li> <li>• Support introduction of Smart Gear Output 2.2</li> </ul> <p>Mariculture - Output 1.1 - 1.4, 3.5</p> <ul style="list-style-type: none"> <li>• Identification of suitable areas for fish farms compatible with biodiversity conservation</li> <li>• Supporting traditional methods for oyster cultivation</li> <li>• Support piloting of biodiversity sensitive environmental auditing of fish-farms</li> </ul>
	Baseline: At least \$1,500,000	<p>Total incremental cost: \$700,000 GEF Contribution: \$336,000</p>
Agriculture and Forestry – Common Agriculture Policy	<p>Harmonising Legislation by preparing:</p> <ul style="list-style-type: none"> <li>• Regulation on Attesting Specific Food Quality and Label on “reputed, traditional”;</li> </ul> <p>Implementation</p> <ul style="list-style-type: none"> <li>• Strengthening inspection capacity;</li> <li>• Promoting organic agriculture and eco-certificates</li> <li>• Additional details to be determined under IPA/SAPARD.</li> </ul>	<p>Outputs 1.1 – 1.4, 3.3</p> <ul style="list-style-type: none"> <li>• Supporting development of profitable pro-biodiversity small and micro enterprises, and demonstration of biodiversity-friendly organic agriculture, eco-certificates, biodiversity-friendly recultivation of abandoned areas.</li> </ul> <p>Output 1: 112,000 \$ Output 3.3</p> <ul style="list-style-type: none"> <li>• Developing micro-enterprise capacity to obtain eco-certificate;</li> <li>• Promoting marketing of biodiversity-friendly agriculture</li> </ul> <p>Output 3: 52,000 \$</p>
Tourism – No Directives specific to Tourism to be complied with	Law on Incentives for Production of Goods to be used in Tourism	All Project supported activities are beyond EU Accession requirements and process
	Baseline: IPA, at least S \$1,8 million	GEF Contribution to increment: \$164,000

## Annex 12. Indicative Monitoring and Evaluation Plan and Budget

The Table below presents an indicative M&E Workplan and corresponding budget.

**Table 22. Indicative Monitoring and Evaluation Workplan and corresponding budget**

Type of M&E activity	Responsible Parties	Budget US\$ <i>Excluding Project Team Staff time</i>	Time frame
Inception Workshop	<ul style="list-style-type: none"> <li>Project Co-ordinator</li> <li>UNDP CO</li> <li>UNDP GEF</li> </ul>	10,000	Within first two months of project start up
Inception Report	<ul style="list-style-type: none"> <li>Project Team</li> <li>UNDP CO</li> </ul>	None	Immediately following IW
Measurement of Means of Verification for Project Purpose Indicators	<ul style="list-style-type: none"> <li>Project Manager will oversee the hiring of specific studies and institutions, and delegate responsibilities to relevant team members</li> </ul>	5,000 To be finalised in Inception Phase and Workshop. Indicative cost	Start, mid and end of project
Measurement of Means of Verification for Project Progress and Performance (measured on an annual basis) + workshop for dissemination	<ul style="list-style-type: none"> <li>Oversight by Project GEF Technical Advisor and Project Co-ordinator</li> </ul>	5,000 To be determined as part of the Annual Work Plan's preparation.	Annually prior to PIR and to the definition of annual work plans
APR and PIR	<ul style="list-style-type: none"> <li>Project Team</li> <li>UNDP CO</li> <li>UNDP-GEF</li> </ul>	None	Annually
TPR and TPR report	<ul style="list-style-type: none"> <li>Government Counterparts</li> <li>UNDP CO</li> <li>Project team</li> <li>UNDP-GEF Regional Co-ordinating Unit</li> </ul>	None	Every year, upon receipt of APR
Steering Committee Meetings	<ul style="list-style-type: none"> <li>Project Co-ordinator</li> <li>UNDP CO</li> </ul>	None	Following Project IW and subsequently at least once a year
Periodic status reports	<ul style="list-style-type: none"> <li>Project team</li> </ul>	None	To be determined by Project team and UNDP CO
Technical reports	<ul style="list-style-type: none"> <li>Project team</li> <li>Hired consultants as needed</li> </ul>	14,000	To be determined by Project Team and UNDP CO
Mid-term External Evaluation	<ul style="list-style-type: none"> <li>Project team</li> <li>UNDP- CO</li> </ul>	60,000	At the mid-point of project

	<ul style="list-style-type: none"> <li>▪ UNDP-GEF Regional Co-ordinating Unit</li> <li>▪ External Consultants (i.e. Evaluation Team)</li> </ul>		implementation.
Final External Evaluation	<ul style="list-style-type: none"> <li>▪ Project Team,</li> <li>▪ UNDP CO</li> <li>▪ UNDP-GEF Regional Co-ordinating Unit</li> <li>▪ External Consultants (i.e. Evaluation Team)</li> </ul>	60,000	At the end of project implementation
Terminal Report	<ul style="list-style-type: none"> <li>▪ Project team</li> <li>▪ UNDP CO</li> <li>▪ External Consultant</li> </ul>	None	At least one month before the end of the project
Lessons learned	<ul style="list-style-type: none"> <li>▪ Project Team</li> <li>▪ UNDP-GEF Regional Co-ordinating Unit</li> </ul>	15,000	Yearly
Audit	<ul style="list-style-type: none"> <li>▪ UNDP CO</li> <li>▪ Project Team</li> </ul>	21,000 (average \$3,000 per year)	Yearly
Visits to field sites (UNDP staff travel costs to be charged to IA fees)	<ul style="list-style-type: none"> <li>▪ UNDP CO</li> <li>▪ UNDP-GEF Regional Co-ordinating Unit (as appropriate)</li> <li>▪ Government representatives</li> </ul>	10,000 (average one visit per year)	Yearly
<b>TOTAL INDICATIVE COST</b> <i>Excluding project team staff time and UNDP staff and travel expenses</i>		US\$ 200,000	

**Annex 13. Guarantee Facility Agreement (Draft)**

**GUARANTEE FACILITY AGREEMENT**

**for financing of  
BIODIVERSITY-RELATED INVESTMENTS  
within the scope of UNDP-GEF Project:**

*Conservation and Sustainable Use of Biodiversity  
in the Dalmatian Coast through Greening Coastal Development (COAST)*

**between**

**(Commercial Bank)**

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**And**

**HRVATSKA BANKA ZA OBNOVU I RAZVITAK**

**May 18, 2006**

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## GUARANTEE FACILITY AGREEMENT

**for financing of BIODIVERSITY-RELATED INVESTMENTS within the scope of UNDP-  
GEF Project: *Conservation and Sustainable Use of Biodiversity  
in the Dalmatian Coast through Greening Coastal Development (COAST)***

On \_\_\_\_\_ in Zagreb between:

**HRVATSKA BANKA ZA OBNOVU I RAZVITAK**, hereinafter referred to as "HBOR",  
represented by:

- 1) Mr Anton Kovačev, President of the Management Board
- 2) Mr(s) \_\_\_\_\_, Member of the Management Board,

and

\_\_\_\_\_, hereinafter  
referred to as the "Participating Bank", represented by:

- 1) \_\_\_\_\_
- 2) \_\_\_\_\_

collectively hereinafter referred to as "the Parties"

the following Guarantee Facility Agreement (hereinafter referred to as "Agreement" or "GFA") on  
collaboration for financing of biodiversity-related investment projects (hereinafter referred to as  
"biodiversity projects") within the scope UNDP-GEF Project of conservation and sustainable use of  
biodiversity in the Dalmatian coast through greening coastal development (hereinafter referred to as  
"COAST project") was concluded;

WHEREAS the Global Environment Facility (hereinafter referred to as "GEF") has approved  
funding to the Republic of Croatia to be disbursed by UNDP (hereinafter referred to as "UNDP"),  
for the Conservation and Sustainable Use of Biodiversity in the Dalmatian Coast through Greening  
Coastal Development Project in order to support financing of biodiversity and landscape diversity  
conservation activities, jointly with the qualified Croatian financial intermediaries principally by  
providing partial credit Transaction Guarantees;

WHEREAS UNDP/GEF and Ministry of Environment Protection, Physical Planning and  
Construction of the Republic of Croatia (hereinafter referred to as "the Ministry"), have jointly  
prepared the draft of COAST project, whereby the Project Document has been signed on  
\_\_\_\_\_ by UNDP and the Ministry on the behalf of the Republic of Croatia;

WHEREAS the United Nations Development Program, acting as an Implementing Agency of the  
GEF, also concluded on \_\_\_\_\_ an Agreement with HBOR in respect of GEF grant  
funds provided for the COAST Project;

WHEREAS UNDP and HBOR have agreed procedures for GEF funding and HBOR's implementation of the Program; and

WHEREAS the Parties have agreed on the terms and conditions contained herein to establish a Partial Credit Guarantee Facility pursuant to which HBOR shall partially guarantee the Participating Bank's credit exposure in its lending practices related to loans to eligible parties undertaking biodiversity projects.

## **§ 1. Definitions**

For the purpose of determining the meaning and scope of the used terms, the Parties ascribed the following meaning to the terms mentioned below:

<b>Acceleration</b>	means the acceleration of all the Borrower's payment obligations arising from the BD Loan to the Participating Bank following a default of the Borrower that is not cured or remedied after any applicable cure or grace period; as evidenced by the Participating Bank giving formal Acceleration Notice to the Eligible Borrower pursuant to the relevant Loan Agreement;
<b>Acceleration Notice</b>	means, with respect to and under any Loan Agreement, that formal written notice which the Participating Bank shall give to Borrower to affect Loan Acceleration;
<b>Annual Biodiversity Impact Review</b>	means the annual report of the Participating Bank from Section 9.3 hereof, to be made on the basis of monitoring of Loans' impacts to be performed by the Participating Banks and Eligible Borrowers' annual report describing the biodiversity impact in relation to Approved Loans in accordance with the specific obligations to be assumed by the Eligible Borrowers under each Loan Agreement, in the minimum format of Project Implementation Report (PIR). Project team may subsequently develop a more detailed form.
<b>Annual Operations Review</b>	means the annual report of the Participating Bank summarizing the activities and results of Loans guaranteed pursuant to this Agreement, as defined in Section 9.4;
<b>Application</b>	means the signed application documents submitted by an Eligible Borrower to the Participating Bank to apply for a Transaction Guarantee and subsequently transmitted by the Participating Bank to HBOR, accompanied by an Appraisal Report;
<b>Appraisal Assistance Funds</b>	means funding made available to the Participating Bank by UNDP from the GEF Program for certain eligible activities pursuant to Section 11 and Appendix 6;
<b>Appraisal Report</b>	means a report submitted by the Participating Bank in the form outlined in Appendix 3 attached hereto describing a project, borrower and security and providing supporting analyses for a



	proposed loan which the Participating Bank is proposing to make conditional on a Transaction Guarantee from HBOR;
<b>Approved Loan</b>	means each Eligible Loan for which an Application and Appraisal Report is submitted and which is duly approved by HBOR in accordance with Section 6.5 herein;
<b>Availability Period</b>	means ____ ( ) years from the date of this Agreement;
<b>Biodiversity Project</b>	means an investment or improvement project aimed at generating direct or indirect biodiversity benefits, primarily biodiversity conservation and socio-economic improvement along the Dalmatian Coast, through the sustainable use of biodiversity, which meets the eligibility criteria described in Appendix 1;
<b>Eligible Borrower</b>	means a reputable private person, company, partnership, joint venture, association, government entity or other legal entity (each hereinafter referred to as an "Entity") organized and existing under the laws of the Republic of Croatia, which have been recognized as eligible under the lender verification system for SMMEs and by the Bank;
<b>Eligible Loan</b>	means a loan to be granted by the Participating Bank for the purpose of financing an Eligible Borrower's business investment that contributes to biodiversity conservation or that is intended to implement a Biodiversity Project;
<b>Eligible Project</b>	means a Biodiversity project or any other project meeting the eligibility criteria from Appendix 1 hereof of the Eligible Borrower, approved for financing by the Participating Bank,
<b>Environmental Review</b>	means the review to be undertaken by the Participating Bank with respect to each Eligible Project, in accordance with Appendices 1 and 9, to assess or confirm the assessment of a Biodiversity Project's and/or Eligible Borrower's compliance, with the environmental, health and safety requirements of all governmental authorities in the Republic of Croatia and with applicable UNDP and HBOR Guidelines and Policies, as well as IFC Policy and Performance Standards on Social and Environmental Sustainability. In addition the review will include the biodiversity investment criteria which the project will develop.
<b>Event of Loss</b>	means the default on a Loan which is not cured or remedied after any applicable cure or grace period and which, in accordance with the terms of the applicable Loan Agreement, results in an Event of Default and Acceleration there under;

<b>Facility</b>	means the Partial Credit Guarantee Facility to be made available by HBOR to the Participating Bank, in accordance with the terms and conditions of Section 3 herein;
<b>Guarantee Facility Liability Limit</b>	means the maximum liability for payments that HBOR will assume under all Transaction Guarantees issued pursuant to this Agreement, such maximum liability amount being expressed in Kuna as provided in Section 3 herein;
<b>Guarantee Facility Account</b>	means the account which HBOR has opened with monies from the GEF for the purpose of making Loss Payments pursuant to Transaction Guarantee Agreements;
<b>Guarantee Percentage</b>	means that percentage of outstanding Loan principal guaranteed by HBOR pursuant to Transaction Guarantee Agreements, which percentage is indicated in Article 3 of each Transaction Guarantee Agreement and which percentage shall not exceed 50%;
<b>Kuna Equivalent</b>	the equivalent in HRK (Kuna) of the relevant foreign currency amount calculated on the basis of the average rate of exchange announced by the Hrvatska narodna banka (Croatian National Bank) on the date prescribed for calculation;
<b>Loan</b>	means funds that the Participating Bank, as creditor, makes available to an Eligible Borrower pursuant to a Loan Agreement for its use or benefit in the implementation of an Approved Loan;
<b>Loan Agreement</b>	means an agreement entered into between the Participating Bank and an Eligible Borrower providing for a Loan to the Eligible Borrower on the terms and conditions provided for therein; for the purposes of this Agreement, "Loan Agreement" and the related terms "Loan", "Eligible Loan" and Approved Loan" may also reference leasing, factoring or other transactions which conform to a debt structure and for which principal, interest, payment schedule and remaining principal balance are defined;
<b>Loan Documents</b>	means the Loan Agreement and any other agreement or agreements made between the Participating Bank and an Eligible Borrower, providing security for a Loan, and any other contracts, agreements or instruments required by Participating Bank to fund an Approved Loan;
<b>Loss Amount</b>	means the amount due to the Participating Bank under a Transaction Guarantee Agreement in an Event of Loss; Loss Amount shall be calculated for HBOR's share of Loan principal only, and not for accrued interest or any other fees due to Participating Bank from Eligible Borrower; the Loss Amount shall equal the remaining principal balance outstanding on the defaulted

	Loan multiplied times the applicable Guarantee Percentage as indicated in the applicable Transaction Guarantee Agreement, Article 2 and further as provided in the Guarantee Liability Schedule provided as Annex 2 to the Transaction Guarantee Agreement;
<b>Loss Notice</b>	means the notice given by Participating Bank to HBOR indicating that an Event of Loss has occurred for a particular Loan and requesting payment under the procedures defined in the Transaction Guarantee Agreement, Article 5;
<b>Loss Payment</b>	means the payment made by HBOR of the Loss Amount pursuant to a Transaction Guarantee Agreement, Article 5
<b>Monitoring and Verification Plan</b>	means the plan set forth under Section 9 hereof for monitoring the performance and impact of a Biodiversity Project;
<b>Monitoring and Verification Report</b>	means the report the Participating Bank shall make as an outcome of Monitoring and Verification Plan in respect of each individual Loan;
<b>Project Implementation Unit (PIU)</b>	is responsible for day-to-day project coordination and management; will be established in the project area and will provide ongoing technical support and guidance to the project implementation.
<b>Standard Procedure</b>	means the procedure for granting Transaction Guarantees set forth in Section 5 and 6 herein;
<b>Transaction Guarantee</b>	means a non-transferable guarantee issued by HBOR in favour of the Participating Bank in the form of the Transaction Guarantee Agreement attached as Appendix 4 which guarantee is issued in accordance with Section 7 herein;
<b>Transaction Guarantee Agreement</b>	means the agreement entered into between HBOR and the Participating Bank for each individual Transaction Guarantee granted by HBOR to the Participating Bank for an Eligible Loan in the form provided in Appendix 4;
<b>Transaction Guarantee Approval Notice</b>	means the notice of approval of a Transaction Guarantee provided by HBOR pursuant to Section 6.5 herein, which guarantee shall be issued by HBOR subject to submission of satisfactory executed Loan Documents and Verification Audit;
<b>Verification Audit</b>	means a biodiversity audit prepared for a proposed loan to make determination that it meets criteria for a Biodiversity Project;

executed by qualified auditors trained and subcontracted by UNDP and/or project PIU and technical experts under the lender verification system;

**UNDP** means the United Nations Development Program acting for itself and in its capacity as an implementing agency of the Global Environment Facility;

**UNDP-COAST Biodiversity  
Review Requirements**

shall mean the IFC Policy and Performance Standards on Social and Environmental Sustainability and other requirements and procedures for reviewing the Biodiversity Projects supported by Transaction Guarantees to confirm their compliance with UNDP and Croatian Government norms and regulations concerning environment, safety and health protection pursuant to Section 10 herein and Appendix 7 attached hereto,

**§ 2. Partial Credit Guarantee Facility**

1. HBOR and the Participating Bank agree to collaborate in HBOR's granting of Transaction Guarantees obtained from the funds of GEF via UNDP for the repayment of Loans made by the Participating Bank to Eligible Borrowers for the implementation of Approved Loans.
2. The Transaction Guarantees may be applied for by the Participating Bank to guarantee Loans to be made by the Participating Bank solely for financing and implementing of Biodiversity Projects aimed at generating or improving direct or indirect biodiversity benefits, primarily biodiversity conservation as defined in Appendix 1.
3. The Transaction Guarantees may not be used for implementing Biodiversity Projects that have been either already launched or abandoned.

**§ 3. Guarantee Facility Liability Limit**

1. Subject to the terms and conditions of the Agreement, HBOR agrees to establish the Partial Credit Guarantee Facility, pursuant to which HBOR may during the Availability Period issue Transaction Guarantees in favour of the Participating Bank; according to the terms and procedures defined herein. The maximum liability (the "Guarantee Facility Liability Limit") that HBOR will assume under all Transaction Guarantees issued pursuant to this Agreement that are outstanding from time to time shall be not greater than 200.000,00 USD, in counter value of HRK on the day of payment.
2. The Participating Bank shall not request, and HBOR shall not make or approve, a Transaction Guarantee that would cause the aggregate sum of (i) the guarantee liabilities then outstanding on all Transaction Guarantees made under this Agreement, plus (ii) the maximum guarantee liability proposed in the relevant Application for a new Transaction Guarantee, plus (iii) the sum of all Loss Payments made by HBOR to the date of such Application under any Transaction Guarantees issued in accordance with the Agreement, to exceed the Guarantee Facility Liability Limit.

3. The Guarantee Facility Liability Limit shall be subject to periodic review and may be increased by mutual agreement between the Parties if the Participating Bank demonstrates additional demand for the guarantee, or it may be reduced, in the sole discretion of HBOR, if:
  - a) the Participating Bank has not submitted to HBOR at least one Appraisal Report requesting a Transaction Guarantee for an Eligible Loan within six months from the effective date of this Agreement;
  - b) within one year from the date of this Agreement, Participating Bank has not submitted Appraisal Reports for Eligible Loans for which the Transaction Guarantee liability limits in the aggregate reach a level of fifteen percent (15%) of the Guarantee Facility Liability Limit, or
  - c) within the second year from the date of this Agreement, Participating Bank has not submitted Appraisals for Eligible Loans for which the Transaction Guarantee liability limits in the aggregate reach a level of thirty percent (30%) of the Guarantee Facility Liability Limit.
4. The Partial Credit Guarantee Facility shall be open for the issuing by HBOR of new Transaction Guarantees to be provided for \_\_\_\_\_ years following the effective date of the Agreement (the “Availability Period”).
5. The Participating Bank shall inform HBOR about the current and expected demand for Transaction Guarantees. Such information shall be submitted in writing once per quarter.

#### **§ 4. Rules Concerning the Transaction Guarantees**

1. Transaction Guarantees may cover Loans for financing the implementation of Biodiversity Projects that meet the criteria set forth in Appendix 1. Loans may be made from a bank registered in Croatia and may be made in Croatian Kuna (Kuna) or foreign currency.
2. Transaction Guarantees may cover Loans which are granted by the Participating Bank to Eligible Borrowers as defined above and in Appendix 1 hereof, and which include all types of legal entities existing and established according to the applicable laws.
3. The HBOR liability for the guarantee covers Loan principal only and does not extend to the commission, late- or delayed-payment interest or other payments owed by the Eligible Borrower to the Participating Bank, costs of legal or enforcement proceedings, or any other costs of satisfying the Participating Bank with collateral accepted thereby.
4. Each Transaction Guarantee shall be effective from the date of its issue, and may not be sold, assigned or otherwise transferred without the prior written consent of HBOR. Transaction Guarantees shall be given for a specified period no longer than the term of the Loan, extended by one month. The maximum term of a Transaction Guarantee shall be ten (10) years.

5. HBOR's liability under the Transaction Guarantee will be partial, expressed as a percentage (the "Guarantee Percentage") of the outstanding principal balance of the Loan at any point in time, as further stated under 5.2 below.
6. For the purpose of calculating the Loss Amount under a Transaction Guarantee in an Event of Loss on a Loan granted in a foreign currency, and for the purpose of calculating the guarantee liabilities of HBOR under all outstanding and proposed loans pursuant to Section 3.2 hereunder, foreign currency values will be expressed in the Kuna equivalent of the Transaction Guarantee amount expressed in a foreign currency, calculated on the basis of the average rate of exchange announced by the Hrvatska Narodna Banka (Croatian National Bank) on the date of calculation.
7. HBOR in cooperation with UNDP may issue guidelines for the Biodiversity Transaction Guarantee Program (hereinafter referred to as the "Guidelines"), which may be amended from time to time, to provide guidance to the Participating Bank and Eligible Borrowers on the requirements and procedures for use of Transaction Guarantees. In the case of any discrepancy between the Guidelines and this Agreement, the Agreement shall govern.

**§ 5. Transaction Guarantee Procedure**

1. Transaction Guarantees may be granted using the approval procedure, based on the standard formal, legal, economic and financial analysis of the Application for granting the Transaction Guarantee and statement on creditworthiness of the Eligible Borrower, issued by the Participating bank, carried out by HBOR ,
2. The maximum Guarantee Percentage for Transaction Guarantees shall be up to 50% and may not at any time exceed the maximum of 50% of the Loan principle value.
3. Cumulative outstanding Transaction Guarantees for any single Eligible Borrower may not exceed the Kuna equivalent of \$ 200,000 USD determined as of the date of execution of the Transaction Guarantee Agreement;

**§ 6. Application and Approval for Transaction Guarantees**

1. From time to time during the Availability Period, the Participating Bank shall be entitled to propose in writing the issuance of Transaction Guarantees for Loans for Biodiversity Projects that the Participating Bank intends to finance. Each such proposal shall be made with (i) an Application from the Eligible Borrower to Participating Bank; and (ii) an Appraisal Report from Participating Bank, the forms and outlines for which are provided for Standard Procedures in Appendix 4.
2. For proposals for Transaction Guarantees under Standard Procedures, the Participating Bank shall submit to HBOR the following information and documents:
  - a) the Application for granting the Loan prepared according to the form applied by the Participating Bank and the Appraisal Report, prepared by Participating Bank, providing the information indicated in Appendix 3;

- b) the Loan Agreement making the extension of the Loan conditional upon obtaining the Guarantee from HBOR, and all other Loan Documents relevant for the Loan including those concerning the legal security for repayment of the Loan;
- c) the Participating Bank's summary financial and credit analysis of the Eligible Borrower and the Loan constituting the basis for the decision on granting the Loan and indicating its intent and approval to grant the Loan subject to the granting of the Transaction Guarantee by HBOR;
- d) feasibility study of the proposed biodiversity friendly business, the details to be determined at the project inception phase)
- e) executed by Eligible Borrower, first quality legal security instruments with the appropriate market and fair value in proportion to be negotiated to the value of the Loan.
- f) First quality legal security instruments means:
  - statement on voluntary execution on the Eligible Borrower's bank accounts and on other assets, and/or
  - mortgage on real-estate property, and/or
  - pledge of movable property and/or fiduciary ownership, and/or
  - bills of exchange and/or promissory notes, and/or
  - third party guarantees, and
  - any other legal security instrument which is appropriate in relation to the creditability of the Eligible Borrower which gives a reason to believe that collection of any non-payment amounts would be efficient.

Concrete legal security instrument for every Loan and/or Transaction Guarantee Agreement will be defined in the specific lending and/or guarantee approval procedures between the Participating Bank and HBOR.

- g) in addition, to permit analyses to be made by HBOR, any other documents submitted by the Eligible Borrower to Participating Bank, in particular:
    - Business registration documents,
    - financial documents (income statements, balance sheets and cash-flow reports) for the last 2 years if available, at the moment of taking out the Loan, and projections for the period covered by the Loan Agreement,
    - business plan or investment study, depending on the amount of the loan, and
    - permits and other information relating to equipment installation or construction.
3. The authenticity of signatures affixed by the Eligible Borrower on all the documents mentioned in this Section 6.2 and 6.3, as applicable, should be appropriately confirmed by the notary public.
  4. Within thirty (30) days of receipt of a complete proposal from the Participating Bank for a Transaction Guarantee, HBOR shall either issue a written notice to Participating Bank indicating that the request for Transaction Guarantee is (i) approved (Transaction Guarantee Approval Notice), or (ii) rejected, or (iii) suspended because HBOR requires the Participating Bank to provide additional information. If the proposal is suspended

because HBOR requires the Participating Bank to provide additional information, HBOR will indicate the information required, and the deadlines of this Section 6.5 will commence again following submittal of all necessary information. HBOR is entitled to use the right from clause (iii) hereof only twice, upon which it shall be bound to render a decision regarding the request.

5. The Transaction Guarantee Approval Notice shall be valid for sixty (60) days; if the Participating Bank has not submitted the required documentation to close the Transaction Guarantee within this timeframe then, HBOR, at its option, may either (i) extend the Transaction Guarantee Approval Notice for an additional period of --- days, or (ii) require the Participating Bank to resubmit the Appraisal Report for approval.
6. Participating Bank may, at its option, commission and provide the Verification Audit at the same time the Appraisal Report is submitted according to the provisions of Appendix 6 on Appraisal Assistance.

**§ 7. Conclusion of Transaction Guarantee Agreements**

1. Following approval by HBOR as evidenced by the Transaction Guarantee Approval Notice, issuance of the Transaction Guarantee Agreement will be subject to receipt by HBOR from Participating Bank of (i) the executed Loan Documents, (ii) the Verification Audit, and (iii) any other documents required by HBOR as cited in the Transaction Guarantee Approval Notice. The Transaction Guarantee Agreement shall in particular contain:
  - a) the summary of financial terms of the Loan, including the information about the Eligible Borrower, the Loan principal amount, interest rate, term of the Loan, and repayment schedule;
  - b) The Transaction Guarantee liability schedule depicting the liability amounts until maturity of the Loan;
  - c) the statement, as required by Section 3.2, that the aggregate sum of (i) the guarantee liabilities then outstanding on all Transaction Guarantees made under this Agreement, plus (ii) the maximum guarantee liability for the subject particular new Transaction Guarantee, plus (iii) the sum of all Loss Payments made by HBOR to the date of such new Transaction Guarantee, does not exceed the Guarantee Facility Liability Limit;
  - d) a closing document list indicating all documents used by the Participating Bank to close the Loan; a complete set of executed closing documents will be provided separately to HBOR by Participating Bank.
2. The Transaction Guarantee Agreements shall be prepared by HBOR for execution in counterpart by HBOR and Participating Bank using the form attached hereto as Appendix 4.
3. HBOR shall execute the Transaction Guarantee Agreement with the Participating Bank in relation to the Approved Loan within fifteen (15) business days of the fulfilment by the Participating Bank of all the contractual provisions in this Agreement and the following conditions in a manner satisfactory to HBOR:



- a) the relevant Loan Documents, including the Loan Agreement and the agreements on the establishment of security concluded with the Eligible Borrower shall have been duly executed, stamped and, if required, registered, and shall have become fully effective, and duplicate originals or certified copies thereof shall have been furnished to HBOR;
- b) all relevant corporate and governmental, both on the national and local level, consents, licenses and approvals required for, or in relation to, the execution or performance of the Loan Agreement, the Participating Bank financing documents (if any), shall have been obtained and satisfactory evidence thereof shall have been provided to HBOR;
- c) the secured assets shall have been insured with financially sound and reputable insurers acceptable to HBOR against loss or damage, in such manner and to the same extent as shall be generally accepted as customary in regard to assets and businesses of like character and shall have the name of the Participating Bank and/or HBOR endorsed as a loss payee on all such insurance policies;
- d) the Verification Audit confirming that the project meets the Biodiversity Criteria defined in Appendix 1.

**§ 8. Performance of Obligations under the Transaction Guarantees**

- 1. In the Event of Loss Payment, the Participating Bank should take measures to recover the losses from legal security instruments provided by the Eligible Borrower under Loan Agreement, whereas the payment of HBOR by guarantee is to be considered subordinate in recovery.
- 2. HBOR shall act on the guarantee liability by paying to the Participating Bank the sum equal to the Loss Amount (outstanding principal multiplied with the guarantee percentage) after HBOR has received and verified the required documentary evidence from the Participating Bank that, in accordance with the terms of the applicable Loan Agreement, the Loan has been announced as defaulted, that there are no monies in Borrower's account(s) to pay for the claims and that the provided first class legal security instruments were not sufficient for recovery. Any such amount to be paid by HBOR to the Participating Bank is considered to be a due claim of HBOR from Eligible Borrower.
- 3. Immediately upon payment by HBOR of the Loss Amount, HBOR shall be discharged and released from all its obligations to the Participating Bank under the applicable Transaction Guarantee and shall be entitled to subrogation to the extent of such payment; and the Participating Bank shall, upon HBOR's demand, execute a written assignment in favour of HBOR of the Participating Bank's rights to payments, damages and security under the Loan Agreement and any Loan Documents, to the extent of the Loss Amount paid, (i.e., in the proportion that the Loss Amount bears to the total outstanding principal loss under the subject defaulted Loan).
- 4. After HBOR's payment of the Loss Amount, the Participating Bank, at its cost, shall take prudent and reasonable recovery actions, including exercising legal remedies under the Loan Agreement, and foreclosing and liquidating applicable Loan security, to recover all losses on the subject Loan. The Participating Bank acknowledges its continuing obligation to take all reasonable and necessary action in an expeditious manner to recover such losses.

5. If, either before or after HBOR's payment of the Loss Amount, the Participating Bank recovers any monies through its recovery actions on the subject Loan, all such monies so recovered shall be applied and distributed in the following manner:
  - a) first, to reimburse the Participating Bank for all reasonable legal and other out-of-pocket expenses actually incurred in recovering the Loss, whether such expenses are incurred prior or subsequent to HBOR paying the Guaranteed Loss Amount;
  - b) second, to the Participating Bank to the extent of its un-recovered loss of principal on the Loan;
  - c) third, to HBOR to the extent of Loss Amounts actually paid by HBOR; and
  - d) fourth, the balance, if any, shall be paid to the Participating Bank.

## **§ 9. Reporting Obligations**

1. The Participating Bank is obliged to provide any and all information at every request of HBOR concerning the Eligible Borrower and the financial condition as well as legal status of the Eligible Borrower.
2. The Participating Bank shall conduct monitoring on a regular basis with respect to the performance status of the Loan Agreements and inform HBOR, once per quarter, about the performance of Loan Agreements by sending relevant information according to the form specified in Appendix 5 hereto. It shall in particular contain:
  - a) payment performance of Loans which are subject of Transaction Guarantees; and
  - b) status of collections for Loans in default.

The reporting will be summarized separately for each of the groups of Loans categorized by original approval procedure.

3. HBOR and the Participating Bank agree to collaborate in connection with the exchange of information for the purpose of verifying the impacts and eligibility of Biodiversity Projects. For each Biodiversity Project for which a Transaction Guarantee has been issued, the Participating Bank shall be required to prepare a Monitoring and Verification Report once a year as set forth in the Verification Audit and ensure that the Eligible Borrower cooperates in providing all information necessary to carry out the Monitoring and Verification Report. Implementation of the Monitoring and Verification Report may be carried out with assistance provided by UNDP, pursuant to Section 11 herein. The results of the Monitoring and Verification Reports for each Biodiversity Project funded by a Loan for which a Transaction Guarantee has been issued shall be submitted to HBOR using a PIR template modified to suit the needs of the investment projects reporting and the capacity of the borrower. The first such review shall be submitted on \_\_\_\_\_ (date). The Participating Bank is obliged to include in the Monitoring and Verification Reports any other information and data which HBOR may reasonably request to confirm the biodiversity benefits achieved by the Biodiversity Projects funded by a Loan for which a Transaction Guarantee has been issued.

4. Participating Bank will summarize the activities and results of its activities and Loans pursuant to this Agreement in an Annual Operations Review which shall assemble information regarding (i) the performance status of Loan Agreements, (ii) the Annual Biodiversity Impact Review prepared for the prior twelve month period, (iii) the financial status of Participating Bank, as reflected in its most recent financial statements, and (iv) other comments and suggestions of the Participating Bank to improve the operation and effectiveness of its activities under this Agreement to better achieve the mutual objectives of the Parties. HBOR and the Participating Bank agree to review the performance of this Agreement and the Transaction Guarantee Agreements within up to 30 days from the end of each 12-month period during which this Agreement remains effective. The Annual Operations Review report will provide the basis for these performance review meetings. The first Annual Operations Review will be prepared by \_\_\_\_\_ (date, same date as in 9.3, above) and the first annual review meeting shall occur by \_\_\_\_\_ (date).
5. HBOR may freely determine the scope of information and data to be provided for the purpose of their review, and the scope of the Annual Operations Review. In particular, the Review shall consider compliance of the Participating Bank with the provisions of Sections 9.1, 9.2, 9.3 and 10 hereof. In the event of a negative result of such review, which shall be understood as the announcement of any reservations by HBOR, HBOR shall provide the Participating Bank with a notice of non-compliance after which the Participating Bank shall have a period of 30 days to cure the identified deficiencies in its performance. If the deficiencies have not been remedied to the satisfaction of HBOR at the expiration of the 30-day period, then HBOR may suspend the performance of this Agreement and, in particular, suspend granting new Transaction Guarantees; such suspension will in no way effect the validity of all Transaction Guarantee Agreements executed prior to the date of such suspension.
6. A negative result of the Annual Operations Review referred to herein above shall mean the mode of performance by the Participating Bank, justified by HBOR, which is different from the one contemplated under this Agreement, in particular concerning the insufficient number of granted Loans and Transaction Guarantees, the high level of Loans whose repayment is doubtful and/or the inadequate results of Biodiversity Projects financed with Transaction Guarantees being worse than estimated, and compliance of the Participating Bank with the provisions of Sections 9.1, 9.2, 9.3 and 10 herein.
7. The Participating Bank is obliged to participate in the meetings convened by HBOR in order to carry out the review of performance referred to in Section 9.4, so the Participating Bank should be notified of the date of any such meetings seven days in advance.
8. In order to facilitate the exchange of information within the scope described in this Section 9, the Participating Bank shall appoint \_\_\_\_\_ (name, contact information) as the lead person responsible for providing all relevant information.

#### **§ 10. Biodiversity Review Requirements**

1. As promptly as possible after the date of this Agreement, the Participating Bank shall notify HBOR of the department or person responsible for reviewing the biodiversity aspects of the investment projects under the Partial Credit Guarantee Facility, and from time to time;

- a) send at least (two) of its employees with environmental responsibilities to attend and participate in biodiversity review training workshop or other suitable training as sponsored or approved by UNDP, and financed under the training program within the COAST project;
  - b) review and adopt the Environmental Management Framework for the purposes of meeting the environmental review requirements of this Agreement;
  - c) ensure that the Environmental Management Framework remains in full force and effect during the term of this Agreement;
2. To meet the Biodiversity Review Requirements, as specified in Appendix 7, Participating Bank shall, with respect to each Biodiversity Project for which an Appraisal Report is submitted pursuant to this Agreement: (i) obtain, review and distribute to the other primary parties to the relevant Loan the requirements in the Environmental Management Framework for the relevant projects, facilities and/or industries, and (ii) conduct an environmental review concerning environmental factors of the specific Biodiversity Project and provide, or cause the project sponsors to provide, a letter to HBOR confirming compliance of such Biodiversity Project with Croatian Government norms and regulations concerning environment, safety and health protection.
3. In addition, for projects implemented with Transaction Guarantees approved under Standard Procedures and only if requested additionally by HBOR or the Bank, the environmental review may also address environmental conditions of the relevant biodiversity end-user's general operations.
4. These commitments shall be confirmed as per the Environmental Review Management Letter, a form for which is attached as part of Appendix 7.

#### **§ 11. Assessment Assistance**

1. By applying the eligibility criteria from Appendix 1 hereof, the Participating Bank may independently assess the eligibility of a Biodiversity Project, i.e. the degree to which an investment would contribute to the biodiversity benefits, for approving of loan. The Participating Bank may seek assistance directly from UNDP and the experts engaged by UNDP during the appraisal process, the costs of which assistance shall be borne by the COAST Project where determined to be appropriate.
2. For investments over \$ 100,000 USD or in the event that the proposed Biodiversity project includes elements that may generate risks for biodiversity and environmental appraisal process proves inconclusive, an additional investigation by UNDP may be conducted.
3. Bearing in mind that UNDP has concluded a special Agreement with HBOR, pursuant to which UNDP agreed to assist to both HBOR and Participating Banks during the appraisal process, UNDP shall make available professional assistance for the following activities undertaken by the Participating Banks in accordance with the details provided in Appendix 6;
  - a) preparation of feasibility study of the proposed Biodiversity project;

- b) assistance by qualified auditors for preparation of Verification Audit;
- c) financial and business advisory services to further assist Participating Bank in the development and implementation of a plan for marketing biodiversity financial services within the scope of this program;
- d) financial and business advisory services to further assist Participating Bank in development and implementation of its biodiversity finance program including (i) training in biodiversity finance both at Participating Bank headquarters and branch levels, (ii) assistance in structuring financing for particular Biodiversity Projects, and (iii) assistance in developing new niche for biodiversity finance products targeting priority sectors of tourism, fisheries, mariculture and agriculture.

**§ 12. Consideration for Granting the Guarantees**

- 1. The Eligible Borrower shall pay to HBOR a Transaction Guarantee Application fee of 0.25% and a Guarantee fee for the issued guarantee in the amount of 1% (one percent) p.a. on the Transaction Guarantee amount being available and repaid.
- 2. The Guarantee fee and the Application fee shall be calculated and collected by the Participating Bank and forwarded by the Participating Bank to HBOR together with other payments required under the Loan Agreement.
- 3. The Application fee is calculated on the balance of the guarantee and collected at the time of issuing the guarantee.
- 4. The Guarantee fee is calculated and collected quarterly in advance on the average outstanding guarantee liability for the upcoming quarter for all outstanding Transaction Guarantees; the first Guarantee fee is calculated and collected at the time of issuing the guarantee.
- 5. The Participating Bank shall remit the Guarantee and Application fees collected to the HBOR's account no. \_\_\_\_\_.

**§ 13. Term and Termination**

- 1. The term of this Agreement shall extend from the date of execution of this Agreement through the conclusion of all Transaction Guarantees duly executed pursuant hereto. This Agreement may be terminated at the request of either Party upon three-month written notice with respect to the issuance of new Transaction Guarantees; provided, however, that such voluntary termination by one Party will in no way effect the validity of and obligations related to all Transaction Guarantees executed prior to the date of such termination, including but not limited to obligations of Section 9.

**§ 14. Dispute resolution**

- 1. The Parties shall use their best efforts to settle amicably any dispute, controversy or claim arising out of, or relating to this Agreement or the breach, termination or invalidity thereof. Where the Parties wish to seek such an amicable settlement through conciliation, the conciliation shall take place in accordance with the Conciliation Rules of the Croatian

Chamber of commerce then obtaining, or according to such other procedure as may be agreed between the parties.

2. Unless, any such dispute, controversy or claim between the parties arising out of or relating to this Agreement or the breach, termination or invalidity thereof is settled amicably under the preceding paragraph of this Article within sixty (60) days after receipt by one party of the other party's request for such amicable settlement, such dispute, controversy or claim shall be referred to the competent court. The Parties agree that in the event of dispute, the subject competent court shall be the court in Zagreb. The applicable law is Croatian.

**§ 15. Amendments, Assignment and Transfer**

1. All amendments hereto require written form in order to be valid.
2. No Party may assign or transfer this Agreement or its rights or obligations related to or arising from this Agreement to any third party without the previous written consent of the other Party.

**§ 16. Counterparts**

1. This Agreement was drawn up in two identical counterparts; each Party shall receive one counterpart.

**§ 17. Effective Date**

1. This Agreement shall become effective as of the day of its execution.

**For \_\_\_\_\_ (Participating Bank)**

\_\_\_\_\_  
Seals & signatures of persons acting for the Participating Bank

**For HRVATSKA BANKA ZA OBNOVU I RAZVITAK**

\_\_\_\_\_  
Seals & signatures of persons acting for HBOR

**Hrvatska banka za obnovu i razvitak (HBOR)**  
**Biodiversity Guarantee Program**  
**Guarantee Facility Agreement (GFA)**

**Appendix 1:**  
**Biodiversity Criteria & Process to Confirm Eligibility**

For a loan to be eligible for a guarantee, the project which the loan funds must meet the criteria detailed below.

1. The project must be a business investment that can contribute to biodiversity conservation through one or more of the following means<sup>49</sup>: (from financial Annex 11, 34)
  - a. Increase in-situ biodiversity <sup>50</sup>on farms and coastal properties operations through improved habitat quality and quantity.
  - b. Reduce damage to marine ecosystems, fisheries and reefs through better harvesting techniques and limits (reduced by-catch, respect for no-take zones, sustainable harvesting).
  - c. Increase ecological connectivity between Protected Areas through improved habitat quality and quantity of land in corridors between the Protected Areas and improved marine corridors.

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<sup>49</sup> Some investments will satisfy more than one of these objectives.

<sup>50</sup> **Definitions:**

**Biodiversity**

The totality of genes, species, and ecosystems in a region or the world

**Conservation of biodiversity**

The management of human interactions with genes, species, and ecosystems so as to provide the maximum benefit to the present generation while maintaining their potential to meet the needs and aspirations of future generations; encompasses elements of saving, studying, and using biodiversity.

**Ecosystem**

The organisms of a particular habitat, such as a pond or forest, together with the physical environment in which they live; a dynamic complex of plant, animal, fungal, and microorganism communities and their associated non-living environment interacting as an ecological unit. Ecosystems have no fixed boundaries; instead, their parameters are set according to the scientific, management, or policy question being examined. Depending upon the purpose of analysis, a single lake, a watershed, or an entire region could be an ecosystem.

**Habitat**

The environment in which an organism lives. Habitat can also refer to the organisms and physical environment in a particular place.

***In situ* conservation**

A conservation method that attempts to preserve the genetic integrity of gene resources by conserving them within the evolutionary dynamic ecosystems of the original habitat or natural environment.

**Protected area**

A legally established land or water area under either public or private ownership that is regulated and managed to achieve specific conservation objectives.

(source: 1992. *Global Biodiversity Strategy: Guidelines for action to save, study and use Earth's biotic wealth sustainably and equitably*. World Resources Institute, IUCN-The World Conservation Union, United Nations Environment Programme (UNEP) in consultation with the Food and Agriculture Organization (FAO) and the United Nations Education, Scientific and Cultural Organization (UNESCO).

- d. Promote sustainable harvesting of natural resources – fish, marine resources, Non-Timber Forest Products (NTFPs), etc.
  - e. Reduce negative impacts on biodiversity from: (i) avoiding intensification of agriculture and increased use of agro-chemicals; (ii) zoning and relocating tourist developments away from biodiversity hotspots; and (iii) reducing pollution to watercourses and reefs.
  - f. Stimulate market development for biodiversity-friendly products and services through promoting biodiversity-friendly production systems, demonstration and replication, marketing, retail outlets, diversification of processed products, economies of scale, etc.
2. Any investment by itself may have a varying degree of impact on biodiversity as there are many other influencing factors. Such factors should be considered and addressed through co-ordinated actions by other programmes or groups. These investments should be viewed as aiding and strengthening conservation processes, not solving all the challenges themselves.
  3. The scale of the review will vary depending on the size of the investment in order to ensure the assessment and reporting procedures do not become overbearing particularly for micro businesses and loans and remove the incentive for businesses and banks to participate in the scheme.
  4. Different investments will have different criteria relevant to them. Criteria checklists have been developed for a range of investments identified during PDF B (Project Development Facility – B) Phase, which if well managed, could yield both economic and biodiversity benefits. These include:
    - a. Developing sustainable tourism facilities, such as: biodiversity trails, tourism visitor and educational centres, biodiversity branded ‘hotels’, visits to tuna and fish farms, visits to Protected Areas and to micro biodiversity sites;
    - b. Restoring abandoned lands with traditional organic agriculture and indigenous species;
    - c. Restoring terraces, hedges and rubble walls and combining with eco-tourism;
    - d. Developing organic farming and indigenous branding;
    - e. Relocating and expanding fish farms;
    - f. Investing in smart fishing gear.
    - g. Change production processes of existing business operations. This will be applicable to farms, forestry operations, fishery enterprises and aquaculture and mariculture businesses. This will also be applicable to tourism and manufacturing businesses looking to reduce their negative environmental impacts. Businesses along a supply chain of biodiversity-friendly products should be assessed by the biodiversity impact of the products sold and the scale of sales.
    - h. Have an indirect impact on resource use and habitat maintenance. This will be applicable to a range of businesses, due to their nature or location.
  5. A positive assessment may be the result of the investment achieving one or more of the criteria listed below. The reviewer should tick or cross each criterion as applicable and provide a brief explanation to demonstrate validity.
    - a. Will the production practices either: increase natural or semi-natural habitat cover, reduce natural or semi-natural habitat fragmentation or avoid conversion of natural or semi-natural habitat or increase connectivity of natural and semi-natural habitats?



- b. Will pollution of rivers, stream and coral reefs by agro-chemicals be reduced? To what extent will the use of (agro-) chemicals be reduced? Will chemicals be substituted in favour of integrated pest management?
  - c. Are provisions in place to ensure employees protect important wildlife?
  - d. Will the extraction of firewood, timber and other natural resources be done in sustainable way?
  - e. Will the investment make efforts to control the introduction and spread of invasive species?
  - f. Will hunting be reduced?
  - g. How will the production practices maintain water? Will water extraction be reduced?
  - h. How will the production practices maintain water and soil resources? Will soil erosion be reduced?
  - i. Will fire regimes be affected?
  - j. Will the investment finance any infrastructure which may bring unintended environmental impacts?
6. Additional benefits
- a. Does the investment have potential for replication within the project area? If so, can it have a demonstration effect to similar enterprises?
  - b. Will it contribute to market development of biodiversity-friendly products?
  - c. Will it undertake any biodiversity monitoring?
7. Biodiversity Projects for improvements not specifically cited in paragraphs above may be submitted to HBOR for special consideration. The mechanism of reviewing these projects will be developed during the inception stage by the UNDP, COAST team and HBOR .

**Hrvatska banka za obnovu i razvitak (HBOR)**  
**Biodiversity Guarantee Program**  
**Guarantee Facility Agreement (GFA)**

**Appendix 2:**  
**Application Form for Transaction Guarantees**

\_\_\_\_\_  
\_\_\_\_\_  
(Applicant)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
(Address of the Applicant)

**1. Type of activity conducted by Applicant:**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**2. End-user (if different than Applicant) and Address of End-user:**

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\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
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**3. Type of activity conducted by End-user:**

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\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**4. Project Location:**

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**5. Brief summary of the Biodiversity Project:**

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Include description of project, the biodiversity end-user applications, types of equipment to be used, justification for this Project as an Eligible Biodiversity Project as per Appendix 1 of the Guarantee Facility Agreement, attached hereto for reference.

**6. Primary Equipment and Biodiversity Measures for the Project (list):**

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**7. Total Project Capital Cost:**

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Provide breakdown of total project capital cost for equipment, installation, engineering, development, construction period interest and other costs.

**8. Planned Sources of Financing for Project:**

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Provide breakdown of sources of financing including Applicant own funds, End-user own funds (if different than Applicant), other grant funding, and the requested loan.

**9. Construction Financing Plan:**

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Describe construction phases for the project, issues concerning implementation, estimates dates of commencement and completion of construction.

**10. Estimated biodiversity benefits:**

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Provide copy of feasibility study conducted (if any) and any additional project engineering and economic feasibility studies prepared for this project. Indicate whether the persons performing the feasibility study was a qualified auditor as defined in the Guarantee Facility Agreement Appendix 1, attached hereto.

**11. Summary Project Economics:**

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Provide summary cash flow projection for the project from point of view of Applicant and/or End-user, as applicable.

## 12. Project Development and Contract Structure:

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Indicate the current status of project development, steps taken to develop the project and intent of Applicant and End-user (as applicable) to undertake the project, subject to financing. Describe the agreements required to implement this project, i.e., to provide for construction, operations, and financing. Indicate the parties to each agreement, and provide sample agreements if available. Describe status of development, negotiation and execution of principal project contracts.

## 14. Requested Loan Principal

In connection with the application for a loan/credit in the amount of \_\_\_\_\_ Kuna (in words: \_\_\_\_\_) for the period from \_\_\_\_\_ to \_\_\_\_\_, I hereby apply for granting a guarantee for that loan up to the amount of \_\_\_\_\_ Kuna (in words: \_\_\_\_\_)

## 15. Requested Loan: Schedule of Disbursements

Term of utilization of the credit, dates, and amounts of particular advances:

from \_\_\_\_\_ the amount of the credit \_\_\_\_\_  
from \_\_\_\_\_ the amount of the credit \_\_\_\_\_  
from \_\_\_\_\_ the amount of the credit \_\_\_\_\_  
from \_\_\_\_\_ the amount of the credit \_\_\_\_\_  
from \_\_\_\_\_ the amount of the credit \_\_\_\_\_

## 16. Requested Loan: Term and Repayment Schedule

Term of repayment from \_\_\_\_\_ to \_\_\_\_\_  
by \_\_\_\_\_ up to the amount of \_\_\_\_\_  
by \_\_\_\_\_ up to the amount of \_\_\_\_\_  
by \_\_\_\_\_ up to the amount of \_\_\_\_\_  
by \_\_\_\_\_ up to the amount of \_\_\_\_\_  
by \_\_\_\_\_ up to the amount of \_\_\_\_\_  
by \_\_\_\_\_ up to the amount of \_\_\_\_\_

## 17. Loan Security

I propose the following legal security instruments in respect of the credit:

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**18. Declaration of Applicant Own Funds**

I declare my own share in the financing of the project for which the requested loan would be granted, in the amount of \_\_\_\_\_Kuna, which will be intended for the financing of:

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Provide similar declaration for End-user, if Applicant is different from End-user and End-user own funds are part of project financing package.

**19. Applicant Bank Accounts**

I declare that:

- A. I own (do not own) a bank account maintained by another bank:

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- B. I have obtained (have not obtained) a credit, loan, guarantee or an open letter of credit from another bank or a financial institution:

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- C. I have applied (have not applied) or I apply (do not apply) within the last year for a credit, loan, guarantee or an open letter of credit from another bank or a financial institution:

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**I confirm the reliability of the data submitted with my own signature.**

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Borrower Name, Place and date

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Signatures of persons

**Hrvatska banka za obnovu i razvitak (HBOR)**  
**Biodiversity Finance Guarantee Program**  
**Guarantee Facility Agreement (GFA)**

**Appendix 3:**  
**APPRAISAL REPORT OUTLINE of INFORMATION**  
**Standard Loan Application Procedure**

Each proposal submitted by Participating Bank to HBOR under Standard Procedures in accordance with Section 6.2 of this Agreement shall include without limitation the following information.

**1. Borrower and End-User (if different):** background information on the Borrower and End-user (if different), including:

- credit information on the Eligible Borrower and other Loan payer(s) as applicable,
- the financial condition and prospects of the Eligible Borrower,
- the Borrower's legal status, principal place(s) of doing business, principal business(es), and affiliated companies and entities;
- the business risks and critical factors which might affect the Eligible Borrower's profitability,
- summary analysis of credit worthiness and ability to repay the financial obligations of Applicant (and End-user, as applicable) associated with this project.

**2. Eligible Project:** background information on the Eligible Project, including:

- the parties to the project, as applicable, including project managers, project construction and/or operations/maintenance contractor(s), and equipment suppliers
- project description
- project capital costs, plan of finance
- operating and maintenance costs,
- project implementing contracts,
- project financing structure,
- the Bank's summary analysis of financial and credit structure of the project.

**3. Biodiversity:** summary of the biodiversity ("BD") purposes of the Eligible Project, including:

- biodiversity benefits and feasibility of the project,
- confirmation that project meets eligibility criteria for Biodiversity Project
- environmental aspects of the project.

**4. Financing Terms:** the Bank's proposed project financing terms, including:

- the proposed principal amount, interest rate, term, repayment schedule,
- the proposed structure of financing (including disbursement and repayment),
- identification of any other grants or concessional financing support for the project
- the proposed security for the Loan,
- the proposed Guarantee Percentage for the Transaction Guarantee
- a Loan Documents closing checklist.

As well as any additional project or sector specific information HBOR may require the Participating Bank to provide from time to time.



**Hrvatska banka za obnovu i razvitak (HBOR)  
Biodiversity Finance Guarantee Program  
Guarantee Facility Agreement (GFA)**

**Appendix 4:  
Transaction Guarantee Agreement**

**HRVATSKA BANKA ZA OBNOVU I RAZVITAK**, Zagreb, Strossmayerov trg 9, represented by President of the Management Board, Anton Kovačev, (hereinafter referred to as "HBOR/Guarantor"), for the account of the Partial Credit Guarantee Facility established at HBOR

and

\_\_\_\_\_ hereinafter referred to as "Participating Bank/Guarantee Beneficiary")

and

\_\_\_\_\_ (hereinafter referred to as the "Borrower/Guarantee Applicant")

collectively hereinafter called "the Parties"

conclude

**TRANSACTION GUARANTEE AGREEMENT  
NO. \_\_\_\_\_**

**Introductory provisions**

United Nations Development Program ("UNDP"), acting as an Implementing Agency of the GEF, and Ministry of Environment Protection, Physical Planning and Construction of the Republic of Croatia, concluded on \_\_\_\_\_ a Project Agreement in respect of grant funds provided for the Project of conservation and sustainable use of biodiversity in the Dalmatian coast through greening coastal development (COAST) for the Republic of Croatia.

Hrvatska banka za obnovu i razvitak ("HBOR") and the United Nations Development Program ("UNDP"), acting as an Implementing Agency of the GEF, also concluded on \_\_\_\_\_ an Agreement in respect of grant funds provided for a COAST Project.

The Partial Credit Guarantee Facility was established by these two Agreements within HBOR to issue guarantees as security for commercial loans made for certain types of Biodiversity Projects.

HBOR/Guarantor and the Participating Bank/Guarantee Beneficiary have concluded and executed a Guarantee Facility Agreement dated \_\_\_\_ 200\_ whereby HBOR/Guarantor has established a Partial Credit Guarantee Facility to provide partial guarantees of the Participating Bank's credit exposure for loans it may provide to Eligible Borrowers for the funding and implementation of eligible Biodiversity Projects.

Terms used in this Transaction Guarantee Agreement, unless otherwise defined herein, shall have the meaning ascribed to such terms in the Guarantee Facility Agreement referred to above, which is deemed to be incorporated in this Transaction Guarantee Agreement.

Therefore, the parties hereto regulate their relations concerning the issued guarantee and agree as follows:

#### Article 1

The Parties agree that the Borrower/Guarantee Applicant and the Participating Bank/Guarantee Beneficiary entered on \_\_\_\_\_ into a Loan Agreement the summary terms for which are set forth in Annex 1 hereto, for the purpose of funding a Biodiversity Project in the amount of \_\_\_\_\_ (the "Loan") which Loan Agreement and related Loan documents are deemed to be incorporated in this Transaction Guarantee Agreement by reference and that the said Loan Agreement was entered into on condition that HBOR/Guarantor issue from the Guarantee Facility Account a guarantee for the due repayment of the part of the Loan.

The Loan is to be used for the following purpose:

\_\_\_\_\_

\_\_\_\_\_

(type of Biodiversity Project financed by Loan and location of Project)

#### Article 2

The parties agree that under the Loan Agreement no. \_\_\_\_\_ the Participating Bank/guarantee beneficiary as security for claims against the Borrower/guarantee applicant takes from the Borrower/guarantee applicant debenture bonds and/or bills of exchange and /or mortgage on real property whose total assessed value is \_\_\_\_\_, and/or pledge of machines and equipment whose total assessed value is \_\_\_\_\_.

Because the security provided by the Borrower/guarantee applicant to the Participating Bank/guarantee beneficiary is not sufficient to satisfy the requirements of the Participating Bank/guarantee beneficiary for the ratio of the loan amount to the value of security instrument, Borrower/guarantee applicant undertakes to furnish to the Participating Bank/guarantee beneficiary a guarantee from HBOR/guarantor's Guarantee Facility Account in the amount of \_\_\_\_\_ or \_\_\_\_\_ % (up to 50%) of the loan amount.

Accordingly, in the Loan Agreement no. \_\_\_\_\_ the said guarantee from HBOR/guarantor's Guarantee Facility Account is specified as a security instrument.

#### Article 3

The Parties acknowledge that the Participating Bank/guarantee beneficiary has filed a request for the issuance of a guarantee of HBOR/guarantor guarantee the repayment of the loan up to the

amount of \_\_\_\_\_, which represents \_\_\_\_\_ % of the loan amount, in favor of the Participating Bank/guarantee beneficiary, all under the concluded Loan Agreement no \_\_\_\_\_.

#### Article 4

By this Agreement HBOR/guarantor undertakes to guarantee the due repayment of the Loan, in favor of the Participating Bank/guarantee beneficiary in the amount of up to

(in words: \_\_\_\_\_)

and with a validity period of 15 (fifteen) days from the due date of the obligation of the Borrower/guarantee applicant under the Loan Agreement or no later than \_\_\_\_\_.

Every partial repayment effected by the Borrower/guarantee applicant reduces the amount of the HBOR/guarantor guarantee liability. The guarantee total shall be reduced in proportion to the partial repayments of principal.

Should the Loan repayment period be extended in accordance with Article 8, HBOR/guarantor shall appropriately extend the guarantee validity period by way of an annex to this Transaction Guarantee Agreement.

Annex 2 hereto provides a schedule of HBOR/guarantor's liability under this Transaction Guarantee Agreement based on the original terms of the Loan; in the event of any rescheduling of Loan payments made pursuant to Article 8, a revised guarantee liability schedule will be prepared and annexed to this Transaction Guarantee Agreement.

HBOR/guarantor's liability for the guarantee covers the Loan principal only and does not extend to any commission, late-or delayed-payment of interest, or other payments owed by the Borrower/guarantee applicant to the Participating Bank/guarantee beneficiary, costs of legal or enforcement proceedings, or any other costs of satisfying the Participating Bank/guarantee beneficiary with the collateral accepted hereby.

The aggregate sum of (i) the guarantee liabilities now outstanding on all Transaction Guarantees made under the Guarantee Facility Agreement, plus (ii) the maximum guarantee liability for this new Transaction Guarantee which is the subject of this Transaction Guarantee Agreement, plus (iii) the sum of all Loss Payments made by HBOR/Guarantor to the date of this new Transaction Guarantee Agreement equals \_\_\_\_\_ Kuna and does not exceed the Guarantee Facility Liability Limit as defined in Section 3 of the Guarantee Facility Agreement.

#### Article 5

HBOR/guarantor guarantees to the Participating Bank/guarantee beneficiary the fulfillment of obligations under this Transaction Guarantee Agreement after HBOR/Guarantor has received and verified the required documentary evidence from the Participating Bank/Guarantee Beneficiary that in accordance with the terms of the applicable Loan Agreement, the Loan has been announced as defaulted and that there are no monies in Borrower/guarantee applicant's account(s) to pay for the claims.

## Article 6

The Borrower/guarantee applicant undertakes to pay to HBOR/guarantor a Transaction Guarantee Application fee of 0.25% and a Guarantee fee for the issued guarantee in the amount of 1% (one percent) p.a. on the Transaction Guarantee amount being available and repaid.

The Application fee is calculated on the balance of the guarantee and collected at the time of issuing the guarantee.

The Guarantee fee is calculated and collected quarterly in advance on the balance of the issued guarantee provided that the first fee is calculated and collected at the time of issuing the guarantee.

The Participating Bank/guarantee beneficiary remits the fee collected to HBOR/guarantor into the HBOR's account no. \_\_\_\_\_

## Article 7

The Participating Bank/guarantee beneficiary undertakes to incorporate into the Loan Agreement no. \_\_\_\_\_ which it concludes with the Borrower/Guarantee Applicant, the obligation of the Borrower/guarantee applicant to conclude insurance contracts with insurance companies acceptable to HBOR/guarantor for all secured assets, including real property and chattels used as security. The Borrower/guarantee applicant shall inform HBOR on the chosen insurance company, of which HBOR shall not unreasonably withhold its approval, which is to be provided to the Borrower/guarantee applicant within 15 days from the date of delivery of the notice on chosen company to HBOR for approval. Should HBOR fail to provide such approval within 15 days of delivery, it shall be deemed that the approval has been issued.

The Borrower/guarantee applicant undertakes to maintain the insurance for the whole term of the Loan Agreement and to vinctuate the insurance policy in favor of the Participating Bank/guarantee beneficiary. The Borrower shall, upon request, provide Participating Bank and HBOR with satisfactory evidence of the insurance required under this Article.

The insurance policies under this Article shall:

- include a waiver of subrogation of the Borrower's rights to the insurance carrier against
- Provide that Participating Bank shall receive thirty (30) days written notice from the insurers prior to any cancellation or change of coverage.

## Article 8

The Participating Bank/guarantee beneficiary is obligated to notify HBOR/guarantor of the following facts:

- the correct application of the Loan proceeds already released prior to releasing the successive portions when financing a Biodiversity Project investment program in phases;

- the performance of the Loan Agreement. Participating Bank/guarantee beneficiary shall monitor the performance of the Loan Agreement and submit quarterly status reports to HBOR/Guarantor on the same;
- failure by the Borrower/guarantee applicant to repay the Loan or pay the Guarantee fee as they fall due;
- violation of contractual provisions;
- if it is subsequently found that the Borrower/guarantee applicant's data on his economic circumstances are incorrect or incomplete;
- termination of the Loan Agreement with justification, at least ten days prior to issuing the notice of termination;
- if execution is initiated upon the Borrower/guarantee applicant's property, within seven days thereof;
- if the Participating Bank/guarantee beneficiary has learned of circumstances that jeopardize the repayment of the Loan.

Should there occur a temporary setback in the timely repayment of the Loan, Participating Bank/guarantee beneficiary shall take measures, in consultation with HBOR/guarantor, to change the terms of the Loan Agreement, particularly by setting new repayment timeframes and methods, or restructuring the Loan. Each time the Borrower/guarantee applicant applies for a change in the Loan terms and repayment timeframes, the application must be submitted to HBOR/guarantor for evaluation and approval, such approval not to be reasonably withheld. Should the application for change in Loan terms and repayment timeframes be approved by HBOR/guarantor and rejected by the Participating Bank/guarantee beneficiary, HBOR/guarantor shall pay the Loss Amount as specified in Article 5, in the amount equal to up to 100% of the Loss Amount; the provisions of this section are applicable only to the Borrower/guarantee applicant's first application for changing the terms and repayment timeframes of a specified Loan.

#### Article 9

If the Participating Bank/guarantee beneficiary fails to meet its obligations referred to in the preceding Article or other obligations contained in the Guarantee Facility Agreement between HBOR/Guarantor and the Participating Bank/guarantee beneficiary, HBOR/guarantor may withdraw the guarantee and cancel this Transaction Guarantee Agreement.

#### Article 10

If HBOR/guarantor, under the issued guarantee, pays any amount to the Participating Bank/guarantee beneficiary, such amount is considered to be a due claim of HBOR/guarantor and a due obligation of the Borrower/guarantee applicant which the latter undertakes to pay to HBOR/guarantor and on which legal default interest accrues and is collectable together with all related costs from the date HBOR/guarantor makes payment to the Participating Bank/guarantee beneficiary until the date of final repayment by the Borrower/guarantee applicant.

#### Article 11

HBOR/guarantor may in case of payment under the guarantee as described in the preceding Article agree with the Borrower/guarantee applicant any of the following methods of payment of claims of HBOR/guarantor:

- payment by installments where HBOR/guarantor contracts with Borrower/guarantee applicant payment by installments appropriate to the ability of the Borrower/guarantee applicant;
- grace period where HBOR/guarantor's claim is not collected for a certain period, interest accrues, and after the end of the agreed period either further payments or write-off is agreed on;
- write-off where the claim is waived by HBOR/Guarantor and charged to the Guarantee Facility Account.

#### Article 12

The Parties agree that HBOR/guarantor will not issue a separate guarantee document to the Participating Bank/guarantee beneficiary which will exercise all its rights under the issued guarantee through this Transaction Guarantee Agreement.

#### Article 13

Any matters not regulated by this Transaction Guarantee Agreement shall be governed by the provisions of the Guarantee Facility Agreement which the Participating Bank/Guarantee Beneficiary and the Borrower/Guarantee Applicant hereby acknowledge as being known to them and accept.

#### Article 14

HBOR/guarantor or persons authorized by HBOR have the right to supervise the use of the monies of the Guarantee Facility Account with respect to the Participating Bank/guarantee beneficiary and Borrower/guarantee applicant. For this purpose Participating Bank/guarantee beneficiary and Borrower/guarantee applicant are obligated to furnish to HBOR/guarantor data on economic circumstances of the financed project and any other necessary information and to provide access to the premises of Borrower/guarantee applicant.

#### Article 15

In case of any dispute arising from the interpretation or performance of this Transaction Guarantee Agreement, the Parties agree the exclusive jurisdiction of the Arbitration Court at the Croatian Chamber of Commerce in Zagreb by three arbitrators in accordance with the Rules of the said Court.

The Parties shall recognize the award of the Arbitration as final and waive any legal remedies against such Arbitration.

#### Article 16

This Agreement is made in 6 (six) identical copies of which each Party receives 2 (two) copies.

Zagreb, \_\_\_\_\_

**For HBOR / Guarantor**

**For Participating Bank / Guarantee Beneficiary:**

**For Borrower / Guarantee Applicant:**

**Annexes:**

1. Summary of Loan Terms
2. Guarantee Liability Schedule
3. Closing Checklist of all Loan Documents

**Annex 1**  
**Loan Summary**

Summary Loan data is as follows:

Participating Bank: \_\_\_\_\_

Borrower: \_\_\_\_\_

End-User: \_\_\_\_\_  
(if different from Borrower)

Total Loan Principal: \_\_\_\_\_

Guarantee Percentage: \_\_\_\_\_ %

Guarantee Liability Limit: \_\_\_\_\_ (Kuna)

Loan Maturity: \_\_\_\_\_

Loan Payment Schedule: \_\_\_\_\_

Loan Interest Rate: \_\_\_\_\_ % per annum

Loan Payments: \_\_\_\_\_, per period (KUNA or other currency)

Guarantee Fee percentage: \_\_\_\_\_ % (% of Guarantee Facility Liability Limit)

Guarantee Fee \_\_\_\_\_ % per annum



**Annex 2**  
**Transaction Guarantee Liability Schedule**

**SAMPLE!**

All figures in Kuna, unless otherwise noted.

**LOAN PREVIEW**

Original Principal (US\$)	-----
Original Principal (Kuna)	-----
Loan Interest Rate	-----
Loan Term, Quarters	-----
Loan Payment Schedule	-----
Loan Payment, per period	-----
Loan Closing Date	-----
Guarantee Percentage	-----
Guarantee Fee	-----

**PAYMENT OVERVIEW**

Payment Number	Payment Date	Payment Amount	Interest Payment	Principal Payment	Remaining Balance of Principal	Transaction Guarantee Liability	Transaction Guarantee Fee
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### **Annex 3**

#### **Closing Checklist of all Loan Documents**

NOTE: Copies of all executed Loan Documents to be provided separately by Participating Bank to HBOR.

1.

2.

3.

(etc)

**Hrvatska banka za obnovu i razvitak (HBOR)**  
**Biodiversity Finance Guarantee Program**  
**Guarantee Facility Agreement (GFA)**

**Appendix 5:**  
**Report Form on**  
**Performance Status of Loan Agreements**

Information on the status of Loan Agreements under the Guarantee Facility Agreement

Re.: the Loan Agreement dated \_\_\_\_\_ number \_\_\_\_\_

1. Borrower
2. Amount of the Loan
3. Amount made available by \_\_\_\_\_ (date of review)
4. Designation of funds
5. Degree of utilization of funds as of the date of preparing the information
6. Degree of completion of the Biodiversity Project
7. Delay in the implementation of the Biodiversity Project
8. Material obstacles to the progress of the Biodiversity Project
9. Security for the repayment of the Loan
10. Amount of the Transaction Guarantee then outstanding
11. Performance of the obligations by the Borrower
12. Delays in the performance of the Loan Agreement
13. Delays in the repayment of principal instalments
14. Delays in the payment of interest
15. Information about the use of security instruments other than the Transaction Guarantee
16. Information about the use of the Transaction Guarantee
17. Information about the financial condition of the Borrower during the term of the Loan
18. Other substantial information that may affect the performance of the Loan Agreement or its repayment

Dated \_\_\_\_\_

\_\_\_\_\_  
Person preparing the information

**Hrvatska banka za obnovu i razvitak (HBOR)**  
**Biodiversity Finance Guarantee Program**  
**Guarantee Facility Agreement (GFA)**

**Appendix 6:**  
**Appraisal Assistance**

Participating Bank shall be eligible to receive the following assistance from HBOR and COAST-PIU, funded by the Program. Assistance shall be provided in the form of consulting and professional expert assistance contracted by COAST-PIU and HBOR, as appropriate, and other forms as agreed by HBOR and COAST-PIU and the Participating Bank. (Note: the following are possible activities that can be supported with the available assistance funds and this section will be subject to negotiations with Participating Banks during the project inception period.)

This assistance will be based on what was agreed during the project preparation stage. Below, is a relevant excerpt from the project document – related to Outcome 2. “An improved investment climate across the four counties for biodiversity-friendly enterprises is created” aims to make the private sector more willing to invest in these and other biodiversity-friendly production across the four counties, with a special focus on the MSME<sup>51</sup>. This will be achieved through the following:

- (i) increasing the availability of affordable capital;
- (ii) developing market premiums for BD products using market-based incentives;
- (iii) increasing consumer demand for BD-friendly services and products;
- (iv) improving the approval processes for BD-friendly investment; and
- (v) increasing the demand for capital and providing technical support for new activities.

This Outcome will cover all four counties. Under this Outcome, the stakeholder group in each county will develop a common vision for a biodiversity-centred, economic development of their county.

(i) The project will work primarily with the banking sector to increase the *supply* of BD-friendly loans. This includes working with HBOR to develop guidelines, and to develop a programme of loans focussing on BD-friendly investments. It also involves training HBOR staff. The project will also work with a limited number of private banks, incorporating biodiversity considerations into their day-to-day lending practices. The potential for banks to develop a ‘green niche’ will be explored. Notably, the project will develop, and support, a system of partial guarantees to reduce the risks banks face when lending to biodiversity-friendly investments.

(ii) The project will also develop a series of incentives for BD-friendly investments, including a label for BD-friendly tourism operators, a strengthened certificate for organic agriculture, a ‘Croatian organic’ brand, and possibly a certificate for ‘smart’ fish catches. The project will also work to remove existing negative incentives, such as subsidies for pesticides and chemical fertilisers. The project will support the integration of Protected Areas and tourism. Capacity will be developed to obtain more revenue from tourism in Protected Areas. Capacity will also be developed to improve the overall tourism product offered, by integrating Protected Areas into the tourism packages in a biodiversity-friendly way.

(iii) The measures implemented under (ii) above will stimulate consumer demand for biodiversity-friendly products. Consumer demand will also be increased through targeted campaigns to raise

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<sup>51</sup> MSMEs Micro-, Small- and Medium-sized Enterprises

awareness of biodiversity, so that consumers may be willing to pay small premiums for such products, as in western European countries.

(iv) The project will remove barriers to approving biodiversity-friendly investments. Often, these investments are considered innovative, such as expanding shell-fish farms into Protected Areas, and consequently the approval process is very slow. The project will develop the required capacity in the concerned county government departments. The first step will be to strengthen the available information to support the planning department to integrate biodiversity concerns into its operations. Other steps include training and preparing guidelines and best practices manuals on how to integrate biodiversity concerns into planning practices and environmental protection, notably SEA/EIA/CCA<sup>52</sup> procedures. The EIA system for investment appraisal will be improved, thereby facilitating the approval of biodiversity-friendly investments. As part of a general strategy to develop county level management capacity, the project may also support integrated planning at the county level to feed into the EU Accession programmes. The project will also develop the capacity of the county technical departments/associations to provide business-oriented, technical support to the tourism, fisheries and agriculture enterprises.

(v) Finally, the project will work through existing enterprise development agencies to increase the *demand* for BD-friendly loans (those made available through (i) above). The project will help identify MSMEs that could benefit from BD-friendly loans. The project will help these MSMEs to apply for loans, through training and through direct assistance to project development. Technical support may be given to new MSMEs activities, for example related to eco-tours, organic agriculture and shell-fish culture. MSMEs will also be supported in applying to EU and government-funded credit schemes.

Initially, many activities under this Outcome will be directly linked to private sector operators in the demonstration production landscapes in Outcome 1. Catalytic grants under the COAST Biodiversity Rapid Response Facility will support some of the activities in this Outcome. Clearly, activities in this sector are going to lead to economic benefits. Hence, GEF funds will be focussed on the incremental costs required to *modify* investments in order for them to be biodiversity-friendly. Each GEF input will be carefully designed to complement ongoing private sector initiatives, and provide the minimum support necessary for the initiative to be biodiversity-friendly. There will be significant co-financing to this Outcome, from the banks, from HBOR, from government agencies and from the private sector investors. The indicator of success will be the level of investments in BD-friendly investments in MSME.

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<sup>52</sup> EIA: Environmental Impact Assessment  
CCA: Carrying Capacity Assessment  
SEA: Strategic Environmental Assessment

**Hrvatska banka za obnovu i razvitak (HBOR)**  
**Biodiversity Finance Guarantee Program**  
**Guarantee Facility Agreement (GFA)**

**Appendix 7:**  
**UNDP-COAST Biodiversity Review Requirements**

As a condition for entering into this Agreement, Participating Bank shall comply with the following environmental review requirements.

1. Environmental Review Management System

The Participating Bank shall provide a letter in the form attached hereto and undertake the environmental review management commitments described therein. This letter shall be provided by the Bank within thirty (30) days of execution of the Agreement, and in any event prior to issuance of any Transaction Guarantee.

2. Project Biodiversity Review

With respect to each Biodiversity Project for which an Appraisal Report is submitted pursuant to the Agreement, the Bank shall: (i) obtain, review and distribute to the other primary parties to the relevant transaction the Environmental Management Framework for the relevant projects, facilities and/or industries; and (ii) prepare an environmental review concerning environmental factors of the specific project proposed for a Transaction Guarantee and, where warranted, environmental conditions of the relevant end-user's general operations. The environmental review shall address the following matters for the specific project proposed for a Transaction Guarantee:

(i) the project's compliance with applicable Croatian environmental laws and regulations;

(ii) the project's compliance with Croatian guidelines and policies directly relevant to the project; if any;

(iii) the project's compliance with applicable Croatian health and safety guidelines including worker health and safety of the project contractor(s), if any;

(iv) the environmental issues associated with any waste materials being removed during project construction, e.g., disposal of old equipment and hazardous waste,

(v) when deemed necessary by HBOR, the Eligible Borrower's and/or end-user's compliance with applicable Croatian laws and regulations.

3. Environmental Risk Mitigation and Management

The Bank shall undertake, and/or cause the parties to each Loan to undertake, as required by applicable regulations and guidelines, those prudent environmental risk mitigation and management measures resulting from the environmental review analysis, including those contained in the Environmental Management Framework.

**FORM OF BIODIVERSITY REVIEW MANAGEMENT LETTER<sup>53</sup>**

\_\_\_\_\_, 200\_\_\_\_  
[date]

\_\_\_\_\_  
HBOR  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**RE: Environmental Review Management Commitments**

Dear Sir/Madam,

We hereby notify you of the following environmental review management commitments as required pursuant to the Guarantee Facility Agreement ("GFA") dated \_\_\_\_\_, \_\_\_\_\_ between \_\_\_\_\_ (the "Participating Bank") and Hrvatska banka za obnovu i razvitak (HBOR). Terms used in this letter, unless otherwise defined herein, shall have the meaning ascribed to such terms in the GFA.

1. We will establish an Environmental Management System, based on the environmental considerations for contract, asset and procurement management of UNDP for the COAST Project, that will (i) assess the environmental, health, safety and social issues associated with Biodiversity Projects, (ii) require the Borrower to carry out its Biodiversity Projects in accordance with the UNDP considerations, and (iii) monitor, evaluate and report on the performance of each Borrower with respect to the UNDP considerations; and (iv) require that investments which are the subject of Transaction Guarantees to be consistent with UNDP considerations.

2. We will appoint a senior officer of the Bank with overall responsibility for environmental issues, including oversight or supervision of the Environmental Management System, as the Environmental Manager to perform these functions. The nominated individual is [title, name, position].

3. If required, we will send at least (two) of our employees with environmental responsibilities (one of whom will be the Environmental Manager) to attend and participate in an Environmental Training Workshop, at no cost to us. We understand that UNDP will advise on the availability of these workshops.

\_\_\_\_\_  
<sup>53</sup> This is the standard template used by HBOR which is going to be modified by the COAST project in the inception stage to fit the project needs.

4. We will formalize and submit an Environmental Management System to HBOR for their review and approval. We will ensure that an Environmental Management System satisfactory to HBOR remains in full force and effect during the term of the GFA.

5. As part of the Annual Operations Review, we will submit to HBOR an report which will provide a brief summary of the environmental and biodiversity performance of each Biodiversity Project which is the subject of a Transaction Guarantee.

Sincerely,

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PARTICIPATING BANK

By: \_\_\_\_\_

Title: \_\_\_\_\_



## Annex 14. Response to Comments

This Annex responds to technical comments provided on the Project Brief by GEF Council members during the Council Meeting of November 2005 (Table 21).

It should be noted that, prior to that, GEF Council members made comments in August 2005. These comments were addressed in the Project Brief submitted to the November 2005 meeting, and so approved at that meeting.

**Table 23. Response to comments provided on the FP Brief by GEF Council members, 8 December 2005**

COMMENT	RESPONSE	DOCUMENT REFERENCE
<b>Comments from Germany</b>		
The project is a multi-sectoral and multidisciplinary effort, and we still regard it an enormous challenge to equally cover such diverse aspects as tourism, mariculture, agriculture, and the banking system. The risks of achieving tangible results of a comprehensive approach must not be underestimated.	The design team appreciates these comments.  A very thorough participatory planning and ownership building process led to the project proposal. The belief is that, despite the challenges, there are also considerable opportunities to be grasped. These opportunities are similar in scale to the challenges. If these opportunities can be leveraged, the project should reach its objective	There is no specific reference to address this general comment.
The recultivation of abandoned land plays an important role at all four demonstration sites. The proposal does not clearly state that <b>abandoned land usually already has a very rich biodiversity</b> (at least a higher biodiversity than cultivated land) and that it is (normally) not necessary to recultivate abandoned land for biodiversity reasons. If the project wants to promote traditional/endemic sorts of plants and herbs, this does not necessarily have to be done on abandoned land. Furthermore, it should be thoroughly examined <b>whether enough land owners can be found that are interested in carrying out the proposed measures</b> for recultivating land and in making their living from alternative products such as traditional sorts and herbs.	First, it should be noted that agricultural land in the project area has been cultivated since pre-Christian times by traditional, extensive and low-pressure agricultural practices. The agricultural land became very much a part of the ecosystem. Over the centuries, a very rich biodiversity and landscape diversity system developed, of high local, Mediterranean and global value (e.g. varieties of fruit, olives, and aromatic herbs, pyrethrum, broom, specific flora under olive plants, orchids, etc.). In addition, typical management practices such as rubble walls, hedges and stone heaps contributed to the flora and fauna diversity. In-between this agricultural land lie some pristine micro areas with relict forest species. Whereas these landscapes were once common across the northern Mediterranean, they are now very rare.  It is also noted that these traditional agricultural landscapes are very much part of the tourism destination.  There are three types of abandoned agricultural land concerned in the project: (i) uncultivated state-owned land – e.g. belonging to Croatian Forests and possibly to be licensed out; (ii) abandoned lands owned by local communities; and (iii) abandoned agricultural lands owned by	Section I. Elaboration of Narrative. Part I. Situation Analysis. 1.3. Institutional, sectoral and policy context. <a href="#">Agricultural sector</a>  Para 34 and 35  Section I. Elaboration of Narrative. Part II. Strategy. 2.2. Project goal, outcomes, outputs and activities. <a href="#">Sectoral transformation</a> ; the section on agriculture.

COMMENT	RESPONSE	DOCUMENT REFERENCE
	<p>households, local co-operatives, SMEs, entrepreneurs.</p> <p>With respect to biodiversity conservation, there are two problems with this abandoned land</p> <ul style="list-style-type: none"> <li>• First, according to local biologists, if left abandoned, the habitat degrades, and the diversity decreases. This is because the traditional management practices actually increased the biodiversity. For example, with no management, rubble walls collapse and hedges degrade, and traditional floral species are ousted by aggressive thorn-bushes. In addition, abandoned lands became highly fire prone;</li> <li>• Second, in many cases, abandoned land is being brought back into cultivation using biodiversity unfriendly techniques, including the burning of hedges and other vegetation, the destruction of rubble/stone walls and traditional stone heaps with bulldozers and/or dynamite, and the fencing the <i>tabula rasa</i>. Typically, this use of abandoned land has been supported by local governments, unaware of the biodiversity impacts, and unable to support other approaches;</li> </ul> <p>Therefore, the project would support the bringing back of the land into biodiversity-friendly agriculture, respecting where appropriate and where possible the traditional management practices. The measures to achieve this may include:</p> <ul style="list-style-type: none"> <li>• information and awareness raising;</li> <li>• preparation of guidelines for biodiversity-friendly restoration practices, including protection of sanctuaries and promoting the profitable cultivation of traditional/endemic plants and varieties;</li> <li>• joint action with Croatian Forests and local authorities to ensure the licensing out process promotes biodiversity conservation (e.g. securing commitments by partners);</li> <li>• support for specific biodiversity-friendly practices through the projects grant and credit activities (HBOR and local banks have committed to this in principle), and</li> <li>• marketing and other business development support for goods produced by applying biodiversity-friendly practices.</li> </ul>	

COMMENT	RESPONSE	DOCUMENT REFERENCE
	Concerning the expected number of land owners being interested in carrying out the proposed measures, it should be noted that during the PDF B phase a large number of potential partners and stakeholders expressed in writing an interest to participate.	
Moreover, as regards the <b>usage of the term “aqua-park”</b> , what we understand by it has nothing to do with biodiversity conservation. Thus, It is not understandable why these are promoted by the project as “biodiversity tourist attractions” (para 10). Equally, the <b>kind and function of bird parks remains unclear</b> .	Bird Parks/Aqua-Parks are tourist attractions. The intention is to turn these attractions into biodiversity awareness centres and biodiversity instruction points. Through these parks, GEF Incremental funds will ensure that biodiversity-related information is made available at these parks, and that the parks promote the values and conservation of biodiversity. Pro-biodiversity actions may be organised for local people and for international tourists. This is in line with the aim to develop an overall pro-biodiversity tourism sector, and to develop pro-biodiversity tourism destinations. The owners/managers have already stated their interest to participate.	Section I. Elaboration of Narrative. Part II. Strategy. 2.2. Project goal, outcomes, outputs and activities. <a href="#">Sectoral transformation</a> ; the section on tourism and footnote 25
Finally, from a formal point of view, it would be desirable that <b>UNDP uses the GEF standard format for project proposals</b> , and not the internal UNDP format.	We apologize for this. The Proposal format has been revised to respect the agreed UNDP/GEF format.	Revised format of project document.
Taking into account the above comments, Germany supports the proposal. Changes should be made during further planning steps and project implementation.		
<b>Comments from Switzerland</b>		
<p>This project is re-submitted to the Council after having been previously rejected.</p> <p>There was no review by Switzerland for its first submission, and the main comments on the project were brought at that time by the USA and Germany.</p> <p>A specific document (Annex C.d.) summarises the response to the comments made by these two countries at the GEF council. Having not been present at the origin of the comments, it is difficult to assess precisely if they are thoroughly and sufficiently responded to in the new Project document. The impression from reading this new annex is that this has been the case.</p> <p>For each comment, a long and elaborated response is provided with clear reference to the parts of the project document where the issue concerned is addressed. These references include additionally a number of new annexes that respond to particular areas of concern.</p> <p>In particular, a fear was expressed by the USA that GEF funds may be used for the fulfilment of requirements for the accession of Croatia to the European Union. This question is quite important and it was requested that the EU accession requirements relevant to the project be described and show how the baseline would include actions taken by Croatia as part of its EU accession requirements.</p> <p>A new baseline has been calculated that incorporates a number of projects and anticipated programmes that are related to the Project outputs. A further annex (Annex D) has been provided; it lists EU access requirements and sets the project baseline in reference to these requirements. A table is included to show that activities to be funded by GEF (incremental cost) do not contribute to meeting accession requirements but focus additionally on mainstreaming biodiversity into the main sectors of coastal economy, which</p>		

COMMENT	RESPONSE	DOCUMENT REFERENCE
<p>would not be ensured by the sole fulfilment of these requirements. While some of the arguments may be questionable, in general, the demonstration is credible. In addition, the GEF participation to activities that are not contested per se is fully relevant.</p> <p>Other main comments addressed the issue of proposed bank reforms and the calculation system of co-funding. They are equally responded to by the provision of well-elaborated documents put in annex.</p>		
<b>COMMENTS FROM US (NOT IN WRITING AND NOT PART OF THE COMPILATION OF THE TECHNICAL COMMENTS)</b>		
It would be useful if the project proponents will prepare a draft Guarantee Facility Agreement	A new Annex was added: Draft Guarantee Facility Agreement	<a href="#">Annex 13.</a> Guarantee Facility Agreement

## SIGNATURE PAGE

**Country:** REPUBLIC OF CROATIA

**UNDAF Outcome:** The national legislation will ensure the incorporation of measures for conservation and improvement of the overall biological diversity into all economic activities using biological resources. *(No-UNDAF country, but the source is NBSAP – National Biodiversity Strategy Action Plan)*

**Expected Outcome/Indicator(s):** In four Dalmatian Counties, investment decisions among operators in tourism, agriculture and fisheries sectors are made on the basis of biodiversity and environmental criteria. (MYFF Goal 3, SL 3.5.) / **Indicator:** The volume of investments into biodiversity-friendly activities increased by the end of the project (year 7) by 60% across the entire project area.  
*(CP outcomes linked to the MYFF goal and service line)*

**Expected Output(s)/Indicator(s):**

**CP Outcome 1:** Biodiversity friendly development is demonstrated in four small, globally important, productive landscapes / **Indicator:** The revenue from biodiversity (BD)-friendly investments in the four demonstration landscapes (target \$500.000 in year 5, \$1,000.000 in year 7)

**CP Outcome 2:** An improved investment climate for BD friendly enterprises across the four counties / **Indicator:** No. or volume of loans to BD-friendly businesses and BD-friendly investments in the project area (target: \$3 million in year 4, \$6 million in year 7)

**CP Outcome 3:** Compliance with biodiversity related regulations has increased significantly across all sectors across the four counties / **Indicator:** Percentage of operators complying with an “indicator” regulation (eg. regulation of fish catch size) (target: annual increase 10% or more)

**CP Outcome 4:** A national-level enabling environment that appreciates, supports, institutionalizes and disseminates biodiversity friendly development in coastal areas / **Indicator:** The number of Parlam. / Governm. actions, regulations, measures and initiatives supporting Biodiversity. (target. At least two new measures respectively in agriculture, fisheries, tourism, banks)

*(CP outcomes linked to the MYFF goal and service line)*

**Implementing partner:** UNDP Croatia

**Other Partners:** Ministry of Environmental Protection, Physical Planning and Construction  
Croatian Bank for Reconstruction and Development (HBOR)  
Other national and county-level institutions (more than 10)

Programme Period: 2006 - 2012 Programme Component: Environmental Governance Project Title: Conservation and Sustainable Use of Biodiversity in the Dalmatian Coast through Greening Coastal Development (COAST) Project ID: PIMS 2439 Atlas Award: 00043199 Atlas project No.: 00050301 Atlas Business Unit: HRV10 Project Duration: 7 years Management Arrangement: NEX with UNDP support services	<table> <tr> <td><b>Total budget (US\$):</b></td><td><b>31,322,000</b></td></tr> <tr> <td>Allocated resources:</td><td></td></tr> <tr> <td><b>GEF</b></td><td><b>6,988,000</b></td></tr> <tr> <td>GEF IA Agency (UNDP)</td><td>300,000</td></tr> <tr> <td>National govern.</td><td>6,521,000</td></tr> <tr> <td>State owned institutions</td><td>6,719,000</td></tr> <tr> <td>Local government</td><td>3,833,000</td></tr> <tr> <td>Private sector/NGOs</td><td>2,761,000</td></tr> <tr> <td>Private sector/NGOs (to be secured after the project start up</td><td>4,200,000</td></tr> <tr> <td><b>Subtotal co-fin.</b></td><td><b>24,334,000</b></td></tr> </table>	<b>Total budget (US\$):</b>	<b>31,322,000</b>	Allocated resources:		<b>GEF</b>	<b>6,988,000</b>	GEF IA Agency (UNDP)	300,000	National govern.	6,521,000	State owned institutions	6,719,000	Local government	3,833,000	Private sector/NGOs	2,761,000	Private sector/NGOs (to be secured after the project start up	4,200,000	<b>Subtotal co-fin.</b>	<b>24,334,000</b>
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NAME

DATE

**Agreed by (Government):** \_\_\_\_\_

**Agreed by (UNDP):** \_\_\_\_\_  
(Implementing partner)