



Global Environment Facility

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April 12, 2002

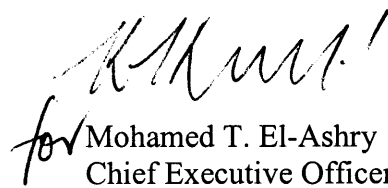
Dear Council Member,

The World Bank, as the Implementing Agency for the project, ***Croatia: Karst Ecosystem Conservation Project***, has submitted the attached proposed project document for CEO endorsement prior to final approval of the project document in accordance with the World Bank procedures.

The Secretariat has reviewed the project document. It is consistent with the proposal approved by the Council in December 2001 and the proposed project remains consistent with the Instrument and GEF policies and procedures. The attached explanation prepared by the World Bank satisfactorily details how Council's comments and those of the STAP have been addressed. I am, therefore, endorsing the project document.

We have today posted the proposed project document on the GEF website at www.gefweb.org. If you do not have access to the Web, you may request the local field office of the World Bank or UNDP to download the document for you. Alternatively, you may request a copy of the document from the Secretariat. If you make such a request, please confirm for us your current mailing address.

Sincerely,


for Mohamed T. El-Ashry
Chief Executive Officer and Chairman

cc: Alternate, Implementing Agencies, STAP

OFFICE MEMORANDUM

DATE: March 5, 2002

TO: Mohamed El-Ashry, CEO/Chairman, GEF

FROM: Lars Vidaeus, GEF Executive Coordinator



EXTENSION: 34188

SUBJECT: Croatia: Karst Ecosystem Conservation Project
Submission for Final CEO Endorsement

1. Please find attached the electronic file of the Project Appraisal Document (PAD) for the above-mentioned project for your final review and endorsement. This project was approved for Work Program entry at the December 2001 Council Meeting, under streamlined CEO endorsement procedures. We would appreciate receiving your response, so that we may finalize the Bank Board submission, by March 20, 2002.
2. The PAD is fully consistent with the objectives, scope and overall cost of the proposal approved at the December 5-6, 2001, Council Meeting. One minor adjustment was made during final preparation concerning project financing. All GEFSEC and STAP comments were addressed prior to work program submission. Modification of the PAD, Council comments and Bank's response are summarized below.
3. **Project financing:** The USAID funding of US\$0.15 million has been removed from the project co-financing plan and added to the Donor Support section of the project description (Section C page 15). This revision does not change the total project cost due to the small amount and rounding. The USAID funding – originally planned as a contribution for project implementation – materialized during project preparation. USAID/Croatia provided US\$130,000 to the Ministry of Environmental Protection and Physical Planning (MEPP) to conduct the “Practical Training in National Parks” program in Croatia from June 2001 – January 2002¹. Based on the success of the training program, US National Park Service is currently considering a sequel to be conducted in FY03 at approximately the same funding level. Besides USAID, other donors have supported the KEC project. The Dutch Partners for Water program will finance a US\$100,000 Croatian technical assistance project for FY03. It will provide Dutch expertise in groundwater, pollution and biodiversity conservation in preparing karst conservation guidelines. If successful, it is expected that an additional US\$100,000 will be available for FY04.

¹ This program was designed to improve visitor interpretation services in two KEC project national parks, and to provide park interpreter job-training to local youths, thus assisting in the reintegration of war-affected populations in the KEC project.

4. Council Comments: The German Council member provided written comments. A summary of both comments and Bank response is given below. The full comments and detailed responses are provided in attachment.

- The small grants program for NGOs (US\$25,000) duplicated other NGO programs in the region. *The project team agreed and therefore this activity was dropped from the project. The funds were added to the broader Conservation and Rural Revitalization Grants program – for which NGOs are eligible.*
- Assure that the KEC project is harmonized with the Regional Environmental Reconstruction Program (REReP) for Southeast Europe. *The REReP focal point in Croatia is also the program manager for the KEC project. REReP projects were designed by the MEPP to support the KEC project.*
- The financing strategy for protected areas prepared under the KEC project should take into account the Environment Fund. *The same MEPP team which worked on the KEC project also worked on the new draft environmental legislation, which includes the Fund. The team is aware of the potential for the Fund, and designed it with protected areas in mind. However, the fund is not yet established. When it is in place, it will be managed by the same department managing the KEC project thus ensuring synergies between the two operations.*
- More information is required to determine whether tourism is a promising strategy. *An eco-tourism specialist was part of the KEC project preparation team and did a rapid assessment of tourism potential in the project region. Based on her findings, the KEC project includes a tourism strategy for the KEC region which includes a survey of tour operators; training of the tourist sector and local businesses/communities in tourism planning and services; and a tourism marketing program. The KEC team agreed that more information on a community level regarding interest in/and potential of tourism would be useful. Since appraisal, three county-level community meetings were held with local citizens, business leaders and tourism staff to discuss, amongst other topics, tourist development in the project region. Fifteen focus groups discussions are being held from March-May 2002 in the project region communities to discuss the same issues. Results will guide the development of the tourism strategy.*

5. Please let me know if you require any additional information to complete your review of the project document. We look forward to receiving your endorsement of the project for Bank Board approval. Many Thanks.

Attachments

Cc: Messrs./Mmes. King, GEF PROGRAM COORDINATION (GEFSEC); Klees (ECSSD); Battaglini (RC); Castro, Mackinnon, Khanna, Wedderburn, Aryal (ENV) ; ENVGC ISC, Regional files

CROATIA
CROATIA KARST ECOSYSTEM CONSERVATION PROJECT

Project Appraisal Document

Europe and Central Asia Region
ECSSD

Date: March 1, 2002		Team Leader: Rita Klees						
Country Director: Andrew N. Vorkink		Sector Director: Kevin Cleaver						
Project ID: P042014		Sector(s): VM - Natural Resources Management						
Focal Area: B - Biodiversity		Theme(s): Environment						
		Poverty Targeted Intervention: N						
Program Financing Data								
<input type="checkbox"/> Loan <input type="checkbox"/> Credit <input checked="" type="checkbox"/> Grant <input type="checkbox"/> Guarantee <input type="checkbox"/> Other:								
For Loans/Credits/Others:								
Amount (US\$m): \$5.07 million								
Financing Plan (US\$m):								
Source	Local	Foreign	Total					
BORROWER/RECIPIENT	3.30	0.00	3.30					
GLOBAL ENVIRONMENT FACILITY	3.84	1.24	5.07					
Total:	7.13	1.24	8.37					
Borrower/Recipient: GOVERNMENT OF CROATIA								
Responsible agency: MINISTRY OF ENVIRONMENTAL PROTECTION AND PHYSICAL PLANNING Hvrote Glavac								
Estimated disbursements (Bank FY/US\$m):								
FY	2003	2004	2005	2006	2007			
Annual	0.96	1.75	1.26	0.71	0.39			
Cumulative	0.96	2.71	3.97	4.68	5.07			
Project implementation period: June 2002-2007								

A. Project Development Objective

1. Project development objective: (see Annex 1)

The project development objective is that local residents, tourists and other visitors to participating national parks and other protected areas in the karst region refrain from practices identified as detrimental to biodiversity conservation and adopt recommended behaviors that preserve and protect the unique features of the karst environment. In support of this objective, the project will assist the Government of Croatia to strengthen institutional and technical capacity for biodiversity conservation, integrate biodiversity conservation into physical planning and sectoral strategies, strengthen management of protected areas, and promote entrepreneurial and tourism activities which support sustainable natural resource use and conservation of the karst ecosystem within the Dinarid Mountain Range.

2. Key performance indicators: (see Annex 1)

The key indicators of project success are:

- Stable or increasing number of 2-3 indicator species in KEC
- Increased public knowledge of Croatian karst ecosystems, species, and habitats and impacts of behavior on biodiversity
- Decreased number of human behaviors destructive to biodiversity in protected areas
- Users of protected areas in the KEC region increasingly satisfied with park management services
- Increased number of, and income of, entrepreneurs in the KEC project region

B. Strategic Context

1. Sector-related Country Assistance Strategy (CAS) goal supported by the project: (see Annex 1)

Document number: 19280HR **Date of latest CAS discussion:** 05/11/99

The CAS indicates that to encourage private sector development, Croatia needs to develop and maintain its infrastructure and protect its environment. The CAS also indicates that since a key sector of Croatia's economic growth is tourism, most of which is nature based, Croatia's natural resource base needs to be carefully preserved. In support of these objectives the CAS recommends that the Bank help the government obtain a GEF grant for environmental protection in one of the country's major tourist destinations, Plitvice Lakes National Park (NP).

High unemployment (19%) is identified in the CAS as one of Croatia's major economic problems. Containing poverty is one of the CAS' four key policy objectives. Unemployment in the project region is among the highest in the country at about 40%. By supporting local level, rural initiatives related to sustainable natural resource use and tourism, the project aims to increase economic development in the project region while also supporting biodiversity.

1a. Global Operational strategy/Program objective addressed by the project:

The project's global objective is to conserve biological diversity and ecological integrity of the karst ecosystems in Croatia particularly in the Dinarid mountain range which contains an estimated 8000 caves - among the deepest and most extensive in the world. Both the Croatian National Biodiversity Strategic Action Plan (BSAP) and the National Environmental Action Plan (NEAP) identify karst ecosystems as the top priority for biodiversity conservation.

Croatia ratified the convention on Biological Diversity on October 7, 1996. The Parliament of Croatia

endorsed the BSAP on June 8, 1998. The project will implement selected priority actions outlined in the BSAP including: (i) preservation of the biological and landscape diversity of the karst region as an area of global value; (ii) improved inventory and monitoring of biodiversity; (iii) raising of public awareness; and (iv) participation in regional efforts to manage biodiversity.

The project supports the objectives of the GEF Biodiversity operational programs for coastal, marine and freshwater ecosystems (OP2), mountain ecosystems (OP4) and forest ecosystems (OP3). Activities will concentrate on the conservation and sustainable use of natural resources of international import in the karst region of Croatia. The project responds to Council of the Parties III guidance by: (i) promoting in-situ conservation of biodiversity in protected areas of biological and ecological interest; (ii) building capacity, especially for NGOs; and (iii) increasing public awareness of nature protection.

2. Main sector issues and Government strategy:

Croatia is endowed with internationally recognized karst ecosystem assets which are in need of conservation. The main issue facing Croatia is the challenge of balancing economic development of an impoverished region with conservation of globally significant natural resources. Accelerated economic development, including that of the tourism industry, in the absence of a strong national and local level capacity to protect natural resources could damage Croatia's ability to safeguard its biodiversity. The government must cope with scarce resources and competing interests in dealing with the following obstacles: (i) insufficient capacity within the Ministry of Environmental Protection and Physical Planning (MEPP) to conserve biodiversity in the karst region; (ii) lack of collaboration between sectors to sufficiently incorporate biodiversity conservation into physical planning and sectoral strategies, and (iii) a general lack of environmental awareness regarding karst ecosystems; and (iv) a tradition of limited public participation in the decision making process.

Global Significance of the Croatian Karst Ecosystem Croatia enjoys an unusually rich biodiversity of global significance due to its geography, between the Mediterranean and Central-European continental climatic regions, and its geology, which is predominantly karst. The term “karst” originated in Croatia and is applied to a specific landscape and morphology characterized by the presence of limestone or other soluble rocks, where drainage has been largely diverted into subterranean routes. Croatian karst ecosystems host 3,500 species of flora (283 endemic), 12 species of amphibians, 36 species of reptiles, 200 species of resident birds, 79 species of mammals, and 64 species of freshwater fish (11 endemic). Much of Croatia is karstic. The project selected for its focus the karst region located within the Dinarid Mountain range, which runs through Croatia from Slovenia to Bosnia. The project region was selected because its biodiversity is the most globally significant. The Dinarids include hundreds of sinkholes, chasms, underground streams, and caves. Its estimated 8,000 caves are among the deepest and most extensive in the world and render the region a global hotspot of subterranean biodiversity. These subterranean karst habitats support an ever increasing list of newly discovered endemic trogloditic (eyeless and adapted for an entirely subterranean existence) species and families. These include one new species, genus and family of leech *Croatobranthus mestrovi*, which was found in a 1300 meter deep cave in the Velebit mountain in 1994. Additional unique species found in Croatian karst ecosystems are the only known cave sponge, cave clam, and cave polychaete worm.

Croatia is famous for its karst freshwater ecosystems which include travertine/tuffa-building communities of micro-organisms. The travertine barriers, some estimated to be over 40,000 years old, created by these communities have led to the spectacular lakes and waterfalls now protected within two national parks, one of which is included in the KEC project, Plitvice Lakes National Park.

Large areas of the Dinarids, particularly in the Velebit Mountains, are densely covered by forest communities of beech, fir, spruce and black pine, a relict alpine sub-species found only in the Velebit area. The Karst region contains the largest part of unfragmented forest in Croatia (almost 50% of forests), the integrity of which is evidenced by the presence of viable populations of large carnivores (wolf, brown bear, and lynx). The global significance of Croatia's karst ecosystem is evidenced by the international recognition it has received. Plitvice Lakes National Park is on the UNESCO's World List of Natural and Cultural Heritage. The Velebit Mountain Range is part of the UNESCO's Man and the Biosphere Program, and has been identified by the WWF's Forest Hotspot Initiative as one of the ten most important forest areas in the Mediterranean region.

Threats to Karst Biodiversity. The impacts of threats to the karst ecosystem's biodiversity, with the exception of eutrophication in the surface waters of Plitvice Lakes National Park, have not been scientifically documented to date, but are believed to be significant. The Biodiversity Strategic Action Plan (BSAP) and Nation Environmental Action Plan (NEAP) note that the lack of systematic inventory and monitoring of the ecosystem and species status has resulted in an insufficient basis for determining the exact nature and magnitude of threats to biodiversity. However, in light of observed habitat changes and fragmentation; water and air pollution; extensive exploitation of natural resources; and introduction of foreign species experienced in the project region, all threats to biodiversity, the BSAP assumes that the karst ecosystem biodiversity is declining. Both the subterranean and terrestrial karst ecosystems are fragile, interconnected, and dependent upon the maintenance of a delicate balance between relief, hydrology, climate and vegetation. The surface ecosystems of predominantly natural forest and traditional pastoral land generally serve to buffer the subterranean ecosystems but the effectiveness of this function can be significantly reduced by subtle changes in land-use and vegetation cover. For instance, land-use changes can lead to the rapid influx of water in all parts of a karst cave system, resulting in significant changes in the subterranean ecosystems. In recent years, these threats have been partially averted by reduced economic activity, particularly in tourism and agriculture, during and after the war (1991-95). Today, post-war Croatia is on a fast track of economic development, spurred, in part, by a new government (February 2000) and the opening of EU accession discussions. Tourism, once a mainstay of Croatian economy, has traditionally been characterized as "mass tourism" as opposed to "nature-based tourism". As the tourism industry rebounds it could have serious implications for biodiversity conservation. Other sector development projects which traditionally hurt biodiversity, e.g. roads, hydropower, are also proposed for the project region.

Obstacles to Biodiversity Conservation

Limited capacity for conservation management. The primary form of biodiversity conservation in Croatia is its protected area system. About 8.2 % of Croatia's area is under some form of protection. There are eight types of protected areas in the country with national parks (8) and nature parks (10) being the highest level of protection. National and nature parks are managed by the state; other protected areas are the responsibility of the counties within which they lie. Biodiversity conservation is governed by the Law on Nature Protection, noted by the BSAP to be inadequate for purposes of biodiversity conservation and now under revision. Parks are financed by a combination of self-generated revenues, generally from visitor fees, and a minimal allocation from the MEPP budget. The designation of newly protected areas has outpaced the capacity for their management both in terms of human and financial resources. Overall, staffing is inadequate particularly on the local level. MEPP faces serious challenges managing the growing number of protected areas while also dealing with growing economic pressures. MEPP nature protection division currently has fourteen staff. The nature protection inspection department has four staff. MEPP has no staff on the county level in the project region and only four in the entire country. Some counties have taken the initiative to hire environmental specialists (Primorsko-Goranka), and it is in these counties where one can

see best practice of incorporating biodiversity conservation concerns into physical and protected area plans. Capacity for biodiversity conservation is also limited by inadequate quality and quantity of data, as previously mentioned. The lack of a systematic inventory and monitoring of the ecosystem and species status has resulted in an inability to accurately identify trends and patterns in biodiversity and their impacts. This also limits MEPP's ability to ensure appropriate conservation measures. For the scientific information that does exist, no one institution is responsible for collation, analysis, processing or dissemination of the karst biodiversity studies that have been conducted by museums, university faculties, NGOs, and others. Thus decision making and analysis are often based on fragmented and unrelated results of specific scientific research.

Inadequate integration of biodiversity conservation into physical plans and sectoral strategies

Physical planning. Land use plans in Croatia are referred to as "physical plans." Physical plans are governed by the "Law of Physical Planning"(1994, amended in 1998). Physical plans define: natural, cultural or other characteristics meriting special consideration; the basic organization of the space; measures of use; development and protection of the area, with all activities that have priority; measures for improvements and protection of environment; and if needed, the contents of more detailed, physical development plans for narrower areas. Croatia has a national Physical Planning Strategy; county level physical plans; physical plans for areas with particular features (e.g. Velebit Mountain), and protected area physical plans. Responsibility for all types of physical planning falls under the MEPP. On the county level, the county physical planning offices prepare and implement the county physical plans as well as those for the protected areas, reporting to the MEPP. Implementation of physical plans is reviewed every two years with recommendations for improvements adopted as needed. The management of national parks and nature parks is based on physical plans and in some cases specific park, protected area management plans such as in Paklenica NP. Land-use of the areas surrounding the national parks is managed via county level physical plans.

Lack of coordination between physical management plans and protected area management plans is one of the problems for biodiversity conservation. Physical plans are developed independently of protected area plans and do not incorporate biodiversity conservation. Protected area physical plans are generally inadequately integrated with local land-use needs as identified in county physical plans. Protected areas, specifically national and nature parks, have no overall management plans that would typically include business management plans. As part of Project preparation, a review of existing county physical plans and protected area physical plans was conducted and the resulting recommendations were incorporated into project design. Another problem is that intersectoral coordination in developing physical plans is limited. Methods for intersectoral collaboration and guidelines are needed for the integration of biodiversity concerns into county level physical plans, sectoral plans, and protected areas physical and management plans.

Sectoral Strategies. Biodiversity conservation is not incorporated in most sectoral strategies, notably in those of the tourism, forestry, and agriculture sectors which have potentially great impacts on biodiversity. Sectoral strategies are not subject to review by the MEPP. Tourism. In the pre-war period, tourism was an economic pillar for Croatia accounting for nearly 12% of the GDP. Although much of the country's attraction to tourists was based on the integrity of its natural resources, in fact there was virtually no awareness of conservation. The Government's intention is to increase revenues from tourism to bolster the national economy and, to this end, a national tourism master plan is in preparation. In the absence of adequate safeguards, increased tourism could result in negative environmental impacts such as habitat destruction from overuse or pollution. Nature based tourism should be developed in a manner that recognizes and limits impacts to vulnerable karst ecosystems and biodiversity. Forestry. 70% of the karst

region is forested. All forested lands that are not protected areas, as well as forests of nature parks, are managed by Hrvatske Šume (HS), the state-owned national forest authority. Production in these forests is carried out according to forest management plans, which are developed on a 10 year cycle and take into consideration ecological and environmental functions of the forest. However, forest management may not adequately address biodiversity conservation issues, and production forestry reportedly continues to take place in some areas that have recently been assigned protected area status. HS has 15 forest districts and 168 local offices, which do not directly correspond to the administrative units for physical planning or protected area boundaries. This organizational structure poses a challenge to a more integrated approach to multiple land-use planning, yet the harmonization of forest management, physical and protected area planning processes is a clear need for the project region. Agriculture. There is a strong link between traditional agricultural and grazing practices in the project region and biodiversity. Grazing on highlands and hence the enlargement of meadows have been key factors in establishing the existing biodiversity in the project region. About 50% of the local flora is adapted to open landscapes rather than forests ecosystems. However, significant depopulation of the project region and land mine remnants (about 14% of the forested area in the KEC region is land-mined) have resulted in the cessation of traditional agricultural and grazing practices. The BSAP identified protection of grassland habitats and the revitalization of cattle breeding in the project region as strategic objectives for biodiversity conservation. As examples of successful integration of biodiversity conservation into sectoral programming, the Ministry of Agriculture and Forestry (MOAF), which also considers the karst region as an area of strategic importance for grazing in open grasslands, now promotes keeping livestock in the project region by providing higher than national level subsidies for cows, pigs, sheep, horse and milk. The Croatian Selection Center for Domestic Animals (HSSC) of MOAF coordinates and finances subsidies that protect autochthonous, endangered breeds of sheep, cow, horse and goat in Croatia. Among these breeds is the Lika Pramenka sheep which is important for the protection of the karst grassland areas.

Lack of environmental awareness regarding karst ecosystems and limited public participation in the decision making process. Participation of the public in decision-making of any kind, including environmental issues, has traditionally been low. Mass media show little interest in environmental issues and protection resulting in a low level of information and education of the general public. While growing, the influence and involvement of NGOs has been limited in the past. Despite the lack of awareness regarding the need to protect karst ecosystems, there is a strong sense of pride among Croatians in their natural and cultural landscape and this could easily be tapped if effective mechanisms were put into place.

Government commitment and strategy. The new government has demonstrated a commitment to improving the legal and institutional framework for nature protection. Institutionally the environment sector was elevated from a directorate to ministerial status. Environment was also combined with physical planning to form a Ministry of Environmental Protection and Physical Planning (MEPP) in recognition of the inter-relationship between environmental protection, land-use, and development, and expanded opportunities for inter-sectoral coordination. As a nascent institution, the MEPP suffers from the country's overall budgetary problems -- but it appears to be going in the right direction. The MEPP has shown commitment to environmental issues by preparing revisions of the major piece of environmental legislation, the Law on Nature Protection (82/94), to broaden the mandate of environmental protection and to authorize a more proactive approach in emphasizing sustainable development and use of natural resources. In support of this objective, MEPP has established a Department for Sustainable Use of Natural Resources. The draft legislation is expected to pass a second government review in early 2002 and then be submitted to the government and Parliament for approval (expected in late 2002). The new draft includes guidelines, recommendations and concrete measures from the BSAP, as well as addressing outstanding issues related to international agreements. The new law integrates EU Directives and harmonizes Croatia's law with existing laws of neighboring countries (Slovenia and Hungary). The Government's significant contribution

of US\$3.2 million to the proposed Karst Ecosystem Conservation Project (KEC) reflects its strong commitment to biodiversity conservation.

Regarding the obstacles to effective conservation, the government's strategy is less well formulated. Currently, the biodiversity and protected management sectors are faced with the same economic problems as the rest of the country. The government, in particular the MEPP, is taking a serious look at economic instruments for financing environmental protection. The NEAP recommends new approaches to financing environmental programs, including biodiversity conservation. Meanwhile, the protected areas are each seeking opportunities to increase revenues and capture them for conservation activities. Protected area managers and staff are engaging in study tours and exchange programs, funded under project preparation, to national parks in Italy, Slovenia and the U.S. However, the integration of biodiversity conservation into other sectors' planning, while a strong recommendation of the BSAP, has not taken hold and will be a major goal of the KEC project. This will be accomplished by developing guidelines for sectoral strategies, training, and selected inter-sectoral activities. The government is particularly concerned to identify impacts of tourism on environment. The NEAP recommends a strategy towards tourism that protects natural resources; balances development with sustainability; strengthens eco-tourism and reduces emphasis on mass tourism; and educates tourists and local residents. Several "eco-tourism" conferences have been held in Croatia in 2000 and 2001 bringing together key stakeholder groups to discuss opportunities and strategies. Biodiversity specialists have played key roles in designing and participating in these tourism conference. In the forestry sector, the Forestry Law is being updated in a way that would integrate biodiversity interests and allow other uses of forests e.g. recreation, biodiversity protection, nature based tourism, under certain circumstances.

3. Sector issues to be addressed by the project and strategic choices:

The project will assist the Government to address priorities identified in the BSAP by: (i) building the national capacity to conserve biodiversity and support natural resource management and (ii) establishing community based approaches for biodiversity conservation and sustainable resource use in, and among, selected protected areas and their associated villages in the karst region. Specifically, the project will assist the Government to strengthen the legal and regulatory framework for biodiversity conservation through review of current environment related legislation and strategies (e.g. national tourism strategy) and harmonization of sectoral legislation and policies, to ensure that biodiversity conservation concerns are adequately addressed and overlapping mandates resolved. It will produce guidelines, and training in their use, for incorporating biodiversity conservation into physical and sectoral planning. The project will strengthen the capacity of MEPP to regulate and coordinate biodiversity conservation issues at the national and local levels and to manage protected areas. It will improve the ability of local staff to manage protected areas by improving the quality and accessibility of data. This will include undertaking a thorough inventory and mapping of biodiversity in the project region; evaluating proposed protected area sites; conducting a monitoring program for large carnivores; inventorying biodiversity of caves and sub-terrestrial ecosystems and their related hydrogeology; developing a karst ecosystem biodiversity GIS and database; developing a web-site; and establishing monitoring programs at selected sites. It will increase the capacity for biodiversity conservation on the protected-area level by providing technical assistance, goods and equipment. This will include development of guidelines for protected area management plans; development of three protected area management plans in selected sites; and ranger training programs. Each of the project sites has unique needs in terms of goods and works to improve biodiversity protection which the project will address, e.g. program for the recovery of the Eurasian Vulture (Paklenica NP), program to protect local breeds of sheep (Velebit NP). Additionally, the project will support: (i) monitoring; (ii) facilities for field, interpretation, recreational and education; (iii) staff skill development; (iv) research exchange; and (v) support for "people and parks" programs. The project also aims to contribute to formulation of transboundary tourism marketing plans, as well as the management and monitoring of biodiversity research and projects related to biodiversity conservation, e.g. develop a transboundary protected area management plan between Risnjak NP and neighboring national parks in Slovenia.

The project help the Government to balance economic development and conservation efforts. The project will fund a protected area system market analysis followed by a promotion and marketing plan. It also will fund a protected area financing strategy. It will finance a tourism development strategy for the project region to identify local-level opportunities in tourism for artisans, craftsmen, business people. This effort will be followed by offerings of training in development of business plans and in proposal writing. A major (\$500,000 of grant funds) activity under the project is the "Conservation and Rural Revitalization Grants" (CRRG) program. The CRRG grants program will be available to farmers, foresters, entrepreneurs, businesses, and NGOs in the project region and is intended to finance activities that demonstrate linkages between economic development and conservation. The grants program will encourage activities which demonstrate inter-sectoral collaboration.

The project will increase public awareness and public participation in conservation initiatives and decision making. It will finance preparation of a "how to" guide for protected area managers that outlines steps for community and NGO participation in protected area management. The project will finance a "People and Parks" program in each of the four national parks; local advisory groups; and community outreach and involvement activities in each protected area. The project finances a small grants program for NGOs specifically for educational activities. The project will prepare biodiversity conservation promotional/education materials including a traveling, mobile exhibit; field guides; material for the karst

web-site; TV promotional spots; annual biodiversity festivals; and conduct a pilot biodiversity conservation educational program (designed by NGOs) utilizing the internet, in five schools.

4. Description of the Project Region

Project Region

The project addresses only some of the issues facing the biodiversity conservation sector in Croatia, and confines its activities to the general area of the Dinarids, as previously described, and five of its protected areas, and their associated communities. The Government and the Bank favored a combination of national level attention for issues related to institutional strengthening, intersectoral coordination, and public awareness; and a local level approach to improve protected area management for biodiversity concentration, rural revitalization, and tourism. By limiting the project to a local approach in an area important for biodiversity, the project seeks to increase the possibilities for successful implementation, to have a visible demonstration effect of the linkages between conservation and development, and to focus limited resources.

The project region is a representative karst area of the Dinarids Mountains (see map Annex 2). The 9,500 square kilometer area (17% of total land in Croatia) is defined by the Slovenian border to the north, and the Zrmanja River to the south. Administratively, the region consists of the Lika-Senj county, which is 80% of the project region; Primorsko-Goranka county, 15% of the project region; and Zadar County, 5%. The region contains immense karst aquifers with high quality potable water, large karst springs, and the most extensive forest areas in the Dinarids. Approximately 40% of the project region is designated as protected area. This includes three long established national parks (NP) (Paklenica, Plitvice Lakes and Risnjak), one new national park (Northern Velebit), and one nature park (PN) (Velebit). Paklenica and Northern Velebit National Parks are located within the much larger Velebit Nature Park.

This selection of protected area sites in total provides the project with (i) biodiversity of international value;(ii) importance for economic development;(iii) presence of direct or potential threats to biodiversity; (iv) representative sites for the country and the opportunity for replicability of interventions in other karst areas; (v) importance for overall environmental stability; and (vi) expected sustainability of intervention effects. A detailed description of each of the project protected area sites is found in annex 2.

Protected Area Management in the Project Region

The management of national parks and nature parks is based on physical plans, specific to the site, which, in the project area, vary from park to park. Only Paklenica National Park has an adequate physical plan, well-coordinated with the county physical plan, and thus serves as a best practice to be replicated in the other project sites. The new North Velebit National Park has no plan at all. The protected areas in the project region also vary considerably in terms of size, staffing, and financing (Table 1).

Table 1: Characteristics of the project protected areas - data for 2000

Protected area	Year of declaration	Size in km ²	Number of registered visitors	Employees in protection activities	Financing: National budget/self-financing (%)
NP Risnjak	1953	64	25,000	13	50/50

NP Plitvice Lakes	1949	294	490,000	120	3/97
NP Paklenica	1949	96	70,000	20	30/70
NP Northern Velebit	1999	-	0	1	100/0
Velebit Nature Park	1981	2,000	0	1	100/0

As can be seen above, there are two significantly different groupings of parks: (i) those that have been in existence about 50 years, have a relatively large number of visitors, high degree of self-financing, some level of employees in nature protection, i.e. Paklenica, Plitvice and Risnjak; and (ii) relatively new parks, with no visitor registration, financed largely by the government, few full or part-time staff, i.e. NP North Velebit, and Velebit PN. The GEF funds are allocated according to the level of development, with the newer parks receiving more resources.

Parks are financed by a combination of self-generated revenues, generally from visitor fees, and from the MEPP budget. One of the national parks, Plitvice Lakes, is a major tourist attraction in Croatia and generates considerable revenues from visitor entrance fees. Risnjak and Paklenica National Parks also derive revenues from visitor fees. Currently these revenues are not sufficient to render the parks financially self-sufficient. These parks intend to increase visitor revenues by attracting more visitors and offering them a variety of nature activities. Velebit Nature Park and Northern Velebit National Park do not currently earn tourism revenues, although the potential exists. The Project will include preparation of a general protected area financing strategy.

Physical Planning in the Project Region

County physical plans are of relevance to protection of biodiversity in the project region from two perspectives. First, for the 60% of the project region that is "unprotected", the inadequacy of the county's physical plans in incorporating conservation concerns poses a threat to the biodiversity of the region. Second, county level land-use, construction activities, and economic development, managed through the county's physical plans, have impacts on the protected areas within their boundaries.

Project preparation included a review of county level physical plans for the project region, and protected area management plans for the project's sites. The review indicated the stage of completion, incorporation of biodiversity conservation concerns, realism of plans' recommendations, identification of threats, etc. County plans were found to differ significantly; all had strengths and weaknesses. Project activities have been designed to address the specific shortcomings of each of the three county plans. Similarly, protected area plans varied from none (NP Velebit, Velebit PN, Plitvice NP) to relatively good plans (Paklenica), to good plans that could use some upgrading (Risnjak). The KEC project will develop physical and management plans for those protected areas that don't have them, and update existing protected area management plans, as needed, to incorporate biodiversity issues.

Economic Activities and Resource Use in the Project Region

Project preparation included a social and rural development assessment (Annex 11). The results significantly guided project preparation. The KEC Project area has experienced profound demographic changes over the past several decades. In Lika-Senj county, which includes Plitvice National Park, Velebit Nature Park, North Velebit National Park, and comprises more than 80% of the KEC region, there has been an extreme and steady depopulation in recent years due primarily to the war and lack of economic opportunities. Population density in Lika-Senj is extremely low at 15 person/square kilometer. The

population that remains is very old, and relies largely on pensions for support. The other of the two major counties in the project, Gorski-Kotar District of Primorsko-Goranska county, in which Risnjak National Park is located, have experienced the same depopulation for similar reasons although less hard-hit by war impacts. Similarly, in Zadar county, in the rural region around Paklenica National Park, there are only 120 people living, all elderly. The exact population of the project region is not known. No census has been conducted in the project region since 1990 and due to a number of factors, most significantly the war, and population data from 1990 is not very useful. The social assessment undertaken during preparation for the project attempted to establish population data but could only guess at a figure of about 65,000. The project region has a significant "floating" element due to younger people staying with elders on a revolving temporary basis; people living part-time in rural areas and part-time in larger towns where they work; and younger Serbs moving back and forth between Belgrade and their homes in Croatia. While there is a very rich cultural heritage in Croatia, virtually all of its manifestations in the project region, e.g. heritage buildings, traditional foods and beverages; wood arts and crafts; wool, textiles and clothing production are disappearing.

The economic situation in the KEC project region is significantly depressed, even for Croatia. Unemployment is estimated at over 40%. In Lika-Senj, in the 1980s almost everyone had a paying job in forestry, tourism, or government. To supplement their income in one of the state-organized industries, many practiced traditional agriculture on their family farms. The thriving Plitvice Lakes National Park that was attracting 750,000 visitors in the late 1980s was an all-important source of direct employment. It also provided large guaranteed markets for all the agricultural products people could produce.

In the 1990s, the country saw a major decline of all Lika-Senj's productive sectors, loss of jobs, and out-migration of young people. The war started and was largely fought in the Plitvice National Park area. Even with reconstruction, the area remains depressed and has suffered from the national slump in tourism and other sector activities. Forestry jobs in Lika-Senj have declined by at least 60% from some 1,700 to 2,000 jobs in 1991, to between 570 and 700 today as a result of the bankruptcy of several sawmills as land mines take some forests out of production. As far as agriculture is concerned, the significant decline of tourism at Plitvice has undermined demand for produce. Never a mainstay but a strong supplementary activity, it continues its decline. The predominant elderly farm dwellers are unable to maintain pastoral and crop lands, while the younger people are often unable to farm effectively due to a lack of resources and a lack of knowledge about how to market their products. The year 2000 gave signs that the tourism industry may be on its way to recovery, increasing demand for related goods and services sectors as well. A total of 6.6million people visited Croatia, and the Plitvice Lakes National Park received about 480,000 visitors. It is believed by many that establishment of a sound economic base in this region may be an important factor in achieving sustainable development.

In the northern part of the study area around Risnjak National Park, forestry was, and remains, the overwhelmingly dominant industry, accounting for approximately 1,100 jobs. This represents about the same employment level as in 1991, accounting for an estimated 70%-80% of total employment in the district. Unfortunately, a decline in employment by the sector is anticipated, as a result of reorganization and modernization. Before the war and independence, municipalities used to own the forests within their boundaries and were able to generate important revenues from this resource. HS now manages the forests providing a very small portion of revenues back to the municipalities. Before the war, many of the communities in the Risnjak National Park study area were visited by tourists, mostly Western European, who were staying in nearby Istria and Kvarner Bay (Opatija, Crikvenica) and attracted to the region by the natural and cultural features. Such visitation included day and overnight stays and provided revenues sufficient to diversify the study area's economy beyond forestry. Unfortunately, the war and break-up of Yugoslavia led to a severe decline of the coastal tourism industry, particularly of the Western European

tourists.

In the southernmost part of the study area, around Paklenica National Park, tourism is the mainstay of the economy, centered along the coast around Starigrad. Forestry is not an industry of any importance in this southern region. While agriculture was reportedly important to the area in past decades, there are only a few remaining rural villages.

Implications of these findings for project design are presented in section "E. Summary Project Analysis: 6. Social"

C. Project Description Summary

1. Project components (see Annex 2 for a detailed description and Annex 3 for a detailed cost breakdown):

Results of five studies conducted under project preparation were used in designing the project: Social and Rural Development Assessment; Comprehensive Biodiversity Survey; Legal, Regulatory and Institutional Review; Land and Natural Resource Management Plan Review; and Public Awareness and Environmental Education Needs Assessment. In addition to these studies, results of a technical assistance mission sponsored by the U.S. Department of Interior/National Parks Service, conducted in September, 2000; and a study tour of Croatian national park directors to U.S. National Parks, May, 2001, were used to guide both national level and site specific project activities. Results of the background studies were used to select the project region boundaries. The project region encompasses three counties - Primorje-Gorski Kotar, Lika-Senj, and Zadar. Within the project region are four national parks and nature parks from North to South being: Risnjak National Park, Plitvice National Park, and the Velebit Nature Park, which includes in its territories North Velebit Nature Park and Paklenica National Park. The project region is defined in more detail in Annex 2. The three project components are as follows:

Component 1. Build national capacity to conserve biodiversity and support sustainable resource use

Activities to strengthen national capacity fall into five sub-components:

(i) Strengthening laws and regulatory framework. The project will finance a review and/or revision of biodiversity-related regulations and sectoral strategies to incorporate biodiversity conservation concerns. The project will finance training in the use of the guidelines to staff from relevant government agencies, including the Ministry of Forestry and Agriculture, Ministry of Tourism, Croatia Forests (HS), Croatia Waters (HV); physical planners; and protected area staff; as well as NGOs and citizens.

(ii) Strengthening national capacity to ensure biodiversity conservation. The project will finance preparation of protected area management and planning guidelines which include biodiversity concerns; guidelines for community and NGO participation in protected area management; a protected area system market analysis, promotion and marketing plan; a protected area financing strategy; and a pilot project on biodiversity information dissemination. The project will develop and conduct a ranger training program.

(iii) Expansion of species and taxa under legal protection. Project preparation studies found that may be other areas in the project region which could be eligible for protected area status. For these areas, which include Ogulin and the Kupa Valley, the project will finance feasibility studies including an analysis of biodiversity; assessment of water management issues related to biodiversity conservation; equipment for underwater biodiversity monitoring; and revision of the list of taxa under legal protection.

(iv) *Biodiversity inventory, mapping and monitoring.* The project will finance consultant services and equipment for inventory and mapping of the biodiversity priority areas (identified by the BSAP and Comprehensive Biodiversity Survey); a specific inventory of the biodiversity of caves in the project region and necessary equipment for such; a study of cave hydrology in the project region; and a monitoring program for large carnivores in the project region. The project will finance the development of a GIS for the project region, the database, and training for staff in its use.

(v) *Increasing public awareness and support for biodiversity conservation.* The project will finance development of a public awareness strategy; development of a WEB site and TV spots on biodiversity conservation; a guide to karst biodiversity; annual workshops/festivals on biodiversity conservation; and preparation of a traveling exhibition on biodiversity and the KEC Project.

Component 2. Establishing community-based mechanisms for biodiversity conservation and sustainable resource use in the karst region

The project will support measures to preserve the globally significant biodiversity in the Karst region through community level activities and capacity building for protected area management. Activities to meet this objective fall into three sub-components:

(i) *Promotion of sustainable nature based tourism.* The project will finance development of a local level tourism strategy which includes determination of the nature-based tourism potential in the region and economic opportunities in tourism; a visitor management plan for selected protected areas; and preparation and field works on the European-6 (E-6) hiking trail through the project region (E-6 is a branch of a larger network of hiking trails which spans Europe).

(ii) *Increasing local public awareness and support for biodiversity conservation.* The project will finance preparation of national park promotion materials for park visitors, local population, and schools; and preparation of field guides for the project region.

(iii) *Improve protected area management and services for biodiversity conservation.* In each of the five protected areas in the project region, the project will finance refurbishing of existing visitor structures, information kiosks, and research facilities (where they already exist); a "people and parks" program, each to be designed specific to the protected area and intended to ensure direct, community involvement in the decision making process; field works, e.g. trails, signs; data acquisition, processing and interpretation equipment including computers, GIS software; field equipment, e.g. field telephone, binocular, staff uniforms, safety equipment; equipment for monitoring programs; and staff development in skills such as interpretation, education, monitoring, research. The project will finance distinct investments/activities in each of the five protected areas, according to their needs as follows:

Paklenica NP: The project will finance the "Recovery of the Eurasian Vulture (*Gyps fulvus*) Project" by providing equipment, education material, and monitoring equipment.

Plitvice NP: The project will finance preparation of a park management plan; laboratory equipment for the research facility; and mowing equipment.

North Velebit NP: The project will finance preparation of a park management plan; and rehabilitation of a park road.

Velebit Nature Park: The project will finance preparation of a park management plan; field vehicles; mountain shelters, camp sites, and fire control equipment.

Risnjak NP: The project will finance rescue equipment, horses and equipment; a traveling exhibit; camp

site facilities.

(iv) *Conservation and Rural Revitalization Grants Program.* The goal of this sub-component is to demonstrate of linkages between rural development and biodiversity conservation. The main activity under this sub-component is the financing of the Conservation and Rural Revitalization Grants program (CRRG). The conservation and rural revitalization grants (CRRG) program is designed to enable groups and individuals to carry out activities that contribute to achieving the goals and objectives of the project. The CRRG program will support entrepreneurial projects which demonstrate linkages between sustainable use of natural resources, economic development and biodiversity conservation. \$500,000 will be available for grants to farmers, artisans, entrepreneurs, businesses, and NGOs. Public-private partners or NGOs in partnership with others are also eligible. Grant activities could include support to local communities to develop small businesses, such as tourism services, crafts, food services; support of demonstration projects linking conservation and sustainable natural resource use such as traditional agricultural activities, forestry and water resource related projects; and public education and outreach activities. The goal of the CRRG project is to encourage projects in biodiversity conservation and sustainable use of biological resources in the KEC project region; community development and increased civil society participation in biodiversity conservation; and NGO activity in conservation. The specific objectives of the CRRG program are to:

- Enhance the objectives and activities of the KEC project by supporting community based initiatives which address the KEC goal;
 - Demonstrate the link between the objectives of conservation and tangible benefits for local communities;
 - Develop replicable approaches to economic development which ensures biodiversity conservation;
 - Strengthen new and emerging local civic groups and NGOs in order to promote biodiversity conservation;
 - Test innovative approaches and technologies to biodiversity conservation; and
 - Establish partnership between local communities, protected areas administrations, NGOs and PIUs to promote sustainable development of local communities in the KEC project area

Annex 2 provides more details about the CRRG program. The Project Implementation Plan includes a CRRG draft operations manual which details the proposed administrative, procurement, disbursement, and application arrangements. The operations manual will be finalized with the involvement of the local advisory boards during the first year of KEC project implementation. Completion of the final CRRG operations manual will be a condition of disbursement of grants. This sub-component will also finance a local cattle breeds protection program; and rehabilitation of the Glacka river springs facility which is a cultural heritage and biodiversity conservation site. Both of these activities are further demonstrations of linkages between economic development, tourism, and conservation.

(v) *Regional Cooperation Program for Karst Ecosystem Conservation.* Under this sub-component financial support for Croatia to encourage partnerships with Croatia's neighbors, particularly Slovenia (Risnjak and Kupa River Project), will be provided to encourage and support trans-boundary solutions to biodiversity conservation. The project will finance the inventory and monitoring of the biodiversity of springs, groundwater, caves, meadows, forests and cliffs on the Croatian side of the border region between Croatia and Slovenia in the Risnjak National Park region. It will finance the preparation of the Risnjak National Park Management plan in coordination with Slovenia. The project will finance a tourism marketing plan for the Croatian region on the Slovenian border; promotional materials; international workshops; and participation of Croatian protected area staff in karst workshops. The project will finance study tours to European countries including France; and participation in international and regional

workshops, training, partnerships, and conferences related to project objectives.

Component 3. Project Management and Monitoring

The project will finance the establishment and operation of a central PIU located within the MEPP in Zagreb and composed of a project manager, a procurement specialist, financial management specialist, and an assistant. The project will also finance a local PIU that will be located within the county/municipal physical planning office in Gospic, one of the two county seats included in the project. The local PIU will be staffed by a project field coordinator and assistant.

Donor interest in the KEC project has been strong. During project preparation the U.S. Agency for International Development (USAID), the U.S. Department of the Interior (DOI) and the U.S. National Park Service (NPS) worked together with the KEC project team to help identify KEC project components directed towards the five protected areas included in the project. DOI-NPS financed a technical assistance mission of three protected area management specialists for three weeks to Croatia in September, 2000, to assist with KEC project design. DOI/NPS sponsored a Croatian delegation of protected area managers to the U.S. National Parks in April, 2001. DOI/NPS worked with the KEC project team and MEPP to design a program "Practical Training in National Parks" financed, in part, by USAID/Croatia. This program was designed to improve visitor interpretation services in two KEC project national parks; and to provide job-training to local youths thus assisting in the reintegration of war-affected populations in the KEC project region. This US\$120,000 program was carried out from June 2001-April 2002. Based on its success, US DOI/NPS is currently considering a sequel to be conducted in FY03 at approximately the same funding level. The KEC project will continue to work closely with US DOI/NPS during KEC project implementation. US DOI has offered the services of the project manager of their program to the MEPP/KEC team.

The Dutch Partners for Water program is financing a \$100,000 Croatian technical assistance project for FY03. The goal of the project is to support KEC project activities by providing Dutch expertise in groundwater, pollution and biodiversity conservation in preparing karst conservation guidelines. If successful it is expected that an additional \$100,000 will be available for FY04.

Component	Sector	Indicative Costs (US\$M)	% of Total	Bank financing (US\$M)	% of Bank financing	GEF financing (US\$M)	% of GEF financing
1. Strengthening national capacity to conserve biodiversity and support sustainable resource use.	Institutional Development	1.83	21.9	0.00	0.0	1.04	20.5
2. Community based mechanisms for biodiversity conservation and sustainable resource use in the Karst region		4.88	58.3	0.00	0.0	2.88	56.8
3. Project Management and Monitoring		1.26	15.1	0.00	0.0	0.78	15.4
Unallocated		0.40	4.8	0.00	0.0	0.37	7.3
Total Project Costs		8.37	100.0	0.00	0.0	5.07	100.0
		0.00	0.0	0.00	0.0	0.00	0.0
Total Financing Required		8.37	100.0	0.00	0.0	5.07	100.0

2. Key policy and institutional reforms supported by the project:

The project will address a key environmental policy issue facing the government -- how to manage the country's future growth and development, while protecting the environment, on the national and local level. It will strengthen the ability of the newly established MEPP to implement the new (2002) Law on Nature Protection. It will integrate biodiversity conservation concerns into sector politics and physical planning and increase sectoral collaboration for conservation. The project will expand opportunities for nature based tourism while ensuring the ecological integrity of protected areas. The project will support rural revitalization activities and increase the role of civil society in environmental decision-making.

3. Benefits and target population:

The project would have environmental, financial, institutional and social benefits. The primary environmental benefit would be increased national level capacity to protect globally significant biodiversity in the Croatian karst ecosystems. The project would also benefit other regional, trans-boundary initiatives to conserve the biodiversity of the Alp/Dinarid/Balkan karst mountain chain. Financial benefits would include a more cost-effective approach to protected area management. Protected areas would develop management plans which include a business plan with feasible financial targets and adequate allocation of resources for conservation activities. Institutional benefits would include strengthening of the newly established MEPP and its ability to implement the new Law on Nature Protection; increased overall capacity to manage biodiversity conservation for multiple uses through piloting of participatory, community based planning and management approaches; improved coordination across sectors at the national and local level; and sharing of experience of other protected areas and karst regions across the country. Social benefits would be realized by the entire Croatian society, local communities, and tourists. The project will increase the recreational and existence value of the protected areas for urban and coastal populations and tourists by conserving their karst ecosystems. It will improve the social sustainability of biodiversity conservation by increasing local communities' participation in the decision making process on protected area management and by supporting them in developing small businesses including nature based tourism services. The project will also help local communities realize economic benefits from tourism to the parks, and will contribute to rural revitalization.

4. Institutional and implementation arrangements:

Implementation period: 5 years

Project oversight: The MEPP will have overall responsibility for project implementation and a national level project implementation unit (PIU) will be established in the MEPP Division of General Environmental Policy. The PIU will build on the existence of the KEC project preparation implementation unit. The PIU will be responsible for all procurement, disbursement and financial management aspects of the project as well as oversight of consultants, seminars and training. The PIU will be responsible for coordinating with other donors the implementation of components to be supported through parallel and co-financing. It will also be responsible for all reporting requirements to the Bank and the Government. It will be staffed by a project director, procurement and disbursement specialist, financial specialist and an assistant, funded under the project.

The project would also finance a local PIU office in Gospic, the county seat of Lika Senj. The local PIU office, provided by the government, will be in the county department office building which houses local offices for all sectors and for physical planning. This will facilitate local level inter-sectoral coordination and planning. Since Gospic has been identified by county officials as the best location for a proposed

regional development pole, locating a PIU here offers the potential to coordinate the project with county development plans. The local PIU will be responsible for day-to-day project implementation and local level coordination. The local PIU will be staffed by a project field coordinator and assistant funded by the project. The local level PIU will report directly to the national PIU. Staffing and technical decisions for the local PIU will be the responsibility of the MEPP Division of Nature Protection.

The CRRG program will support projects that further the KEC project development objective. The beneficiaries would include community based organizations, NGOs, private entrepreneurs, and local residents.

The PIU would be assisted by an inter-agency Project Steering Committee established prior to Board presentation. The Steering Committee consists of representatives from relevant Ministries and institutions, including Ministry of Environmental Protection and Physical Planning, Ministry of Agriculture and Forestry, State Directorate for Water, and Croatia Waters. The Steering Committee would be responsible for providing project oversight advice, inter-ministerial coordination, and assistance in resolving issues associated with project implementation. The Minister for Environmental Protection and Physical Planning will be chairman for this committee. The Steering Committee will build on the success of the interagency committee which oversaw KEC project preparation.

Local advisory groups from each of the three main project regions (Plitvice, Paklenica, and the Velebit), selected by, and comprised of, representatives of key stakeholder groups, will also assist the PIU. The functions of the national and local PIU and the terms of reference of staff are included in Annex I of the Project Implementation Plan (PIP) as are the functions of the local advisory board and steering committee.

Financial Management

A review of the Financial Management arrangements for the project was undertaken in December 2001 to determine whether the financial management arrangements within the PIU are acceptable to the Bank (Annex 12). It is concluded that the Project Implementation Unit (PIU) currently does not satisfy the Bank’s minimum financial management requirements. This is due to the following reasons:

- The PIU does not have in place a financial management system acceptable to the Bank;
- The PIU does not have an operational manual describing the accounting policies and procedures, internal controls, delegation of responsibilities

However, the MEPP and PIU has agreed to take the following measures to rectify this situation:

<i>Action</i>	<i>Deadline</i>
1. The National Level PIU to be fully staffed.	Board Presentation
2. The PIU to implement an accounting system acceptable to the Bank.	Board Presentation
3. The PIU to prepare an operational manual describing the accounting policies and procedures, internal controls, delegation of responsibilities	Board Presentation
4. Bank FMS to revise item 2 and 3 above and revise the FM assessment	Prior to Board Presentation
5. Prepare FMRs	

	First half year period after Effectiveness
6. The PIU to select auditors acceptable to the Bank, to audit the Grant accounts.	09/30/2002

Financial Reporting.

The PIU will ensure the preparation and distribution of consolidated periodic progress reports to the relevant government institutions, including the World Bank, to reflect: (i) sources and uses of funds, by component and activity; (ii) project progress; and (iii) procurement activities. In this context, the PIU will prepare quarterly Financial Monitoring Reports (FMRs), which would be submitted to the Bank within 45 days of the end of each half year. The first FMRs will be submitted for the first half year after Effectiveness.. The FMRs formats were discussed during appraisal and will be agreed at negotiations.

Audit Arrangements. The PIU, would be responsible for ensuring that the Project financial statement, Special Accounts (SA), and Statement of Expenditures (SOEs) are audited by an independent auditor, acceptable to the Bank, in accordance with International Auditing Standards (IAS). The PIU will maintain responsibility for the management of project funds and the Special Account. They will monitor and keep track of the use of funds. The audit will cover all funds related to the project, including counterpart funds, for all project components. The annual audit will be carried out in accordance with the Guidelines for Financial Reporting and Auditing of Projects Financed. The audited financial statements, the special accounts, and SOEs of the preceding fiscal year will be sent to the Bank within six months of the end of the fiscal year.

Disbursements. Disbursements from the Grant will using traditional disbursement methods (i.e., from the Special Account with reimbursements made based on Statements of Expenditures (SOEs) and full documentation, and direct payments from the Grant Account). The proceeds of the World Bank Grant will be allocated in accordance with Table C, Annex 6. To facilitate timely project implementation, the MEPP will establish, maintain and operate a Special Account under terms and conditions acceptable to the Bank. While, the PIU will prepare all the required documents and keep accounts for the project, all payments will be made by the accounting department of the MEPP, as required by law. The option to move to FMR based disbursements will not be considered.

D. Project Rationale

1. Project alternatives considered and reasons for rejection:

Alternatives considered were:

- Include only Plitvice Lakes National Park in the project and focus activities on improving biodiversity conservation in one national park. Plitvice is the most renowned of Croatia's national parks, hence this alternative was proposed. However, since other protected areas in the project region also contain unique biodiversity and extending the project to several of these additional protected areas would create synergies among park managers, the scope of the project was broadened to cover five protected areas.
- Focus only on protected areas and improving their management. This option was rejected in favor

of including project activities in non-protected areas bordering the protected areas so as to strengthen linkages between rural development opportunities, biodiversity conservation, and tourism. The broader focus also enables the project to have a greater socio-economic impact on the communities adjacent to the parks; extend the benefits of the project to a wider population; and integrate conservation activities/considerations into regional planning. The social assessment fully supports the need to develop the nature based tourism potential of the region, as well as to identify and support rural development initiatives that link development with sustainable natural resource use.

2. Major related projects financed by the Bank and/or other development agencies (completed, ongoing and planned). The KEC project is linked to the *Croatia Municipal Water Pollution Control Project (MCWPC)* which is mapped to ECSIN and is scheduled for appraisal in FY03. The objective of the US\$100 million MCWPC project is to help the Croatian government combat water pollution and improve water quality in coastal areas. The implementing agencies will be Croatia Waters (HV) for the infrastructure components and the Ministry of Environmental Protection and Physical Planning (MEPP) for the water quality monitoring component. HV and MEPP have been co-implementing agencies for the World Bank Eastern Slavonian Reconstruction Project, also a water infrastructure project, and its associated GEF project, Kopacki Rit Nature Park Project, since 1999. This model of the water infrastructure sector working closely with the environment sector in Croatia, on both the Bank and government side, is thus well established and has proven to be effective. Both the borrower and the Bank (environment and infrastructure departments) are committed to continuing this successful approach in the design and implementation of the MCWPC project and the KEC project. The MCWPC recognizes that since the most of the surface and ground-waters supplying the coastal drinking water supply and discharging into the Adriatic within the project's region, originate in the karst region of the KEC project, protection and conservation of the sensitive karst ecosystems included in the KEC project are essential for the successful implementation of the MCWPC Project. The MCWPC project will use an integrated water management approach which will include wastewater treatment infrastructure in two selected geographic regions and in selected "hotspots." The MCWPC project will support the KEC project by including financing of a specific environmental project component on water quality monitoring and capacity building of MEPP. This component will also finance specialized water quality monitoring equipment, hydrogeological studies in the KEC region, and training. The MCWPC Project may also identify and co-finance environmental infrastructure investments in the KEC project region which would not be eligible for financing by the GEF. As the MCWPC is still under preparation the exact amount of co-financing is not yet determined. The KEC project task manager is the environmental specialist on the MCWPC project team and this assignment was made so that the KEC task manager can design the water quality monitoring component of the MCWPC project in coordination with the KEC project.

It is expected that the KEC project will be effective about one year before the MCWPC and that this timing will be beneficial to both. It will give the MEPP at least one year to build water quality monitoring capacity through implementation of the monitoring program financed under the KEC project and further develop the working relationship between HV and MEPP. In the first year of implementation the KEC project will review and make recommendations regarding incorporation of biodiversity concerns into sectoral strategies, including the proposed national tourism strategy and the coastal zone development strategy. Both of these strategies will influence the MCWPC project, because the driving force for the MCWPC project is to mitigate existing, and pre-empt future, negative environmental impacts of tourism and economic development on the coast. Additional KEC Year one activities which will provide important information to the final design of the MCWPC project are: (i) biodiversity inventory of caves in the MCWPC project region to serve as a baseline; (ii) initiation of the KEC water quality monitoring activities which subsequently can be replicated in the MCWPC project region; (iii) hydrogeological assessment of the karst region in the upper watershed of the MCWPC region; (iv) development of an ecotourism strategy that will incorporate considerations of downstream water quality impacts; and (v) development of protected area management plans which may identify water pollution control investments that would enhance the KEC project and could be financed under the MCWPC project.

The KEC project also will build on the results of the *Coastal Forest Reconstruction Project* (scheduled for closing in June 2002), through activities targeted to improve intersectoral planning for biodiversity conservation between MEPP and MoFA; interagency training programs, joint workshops and study tours; and development of a management plan for the Velebit Nature Park based on guidelines developed under the KEC project for incorporation of biodiversity conservation into the forest strategy. The Forestry

project's objective is to restore and protect forest land in the coastal zone of Croatia in order to enhance landscape and recreation values of the region and thereby contribute to restored tourism. The Coastal Forest Reconstruction Project includes reconstruction of coastal forests destroyed by war activities including the rehabilitation of about 5,800 ha of coastal forests. It also includes forest fire management activities such as prevention through raising public awareness, cleaning and reducing the amount of flammable material, fire detection system and fire fighting roads; as well as equipment e.g. seaplane air-tankers, trucks and fire-fighting equipment. It has assisted with the development of a GIS; research activities; and institutional support to Croatian Forests and the Ministry of Interior (MoI).

During preparation, the proposed Project was discussed with authorities implementing a Bank financed "Croatia Emergency Transport/Mine Clearing Project." The "Mine Clearing" project involves: (i) clearance of mines in priority areas; (ii) screening and surveys; (iii) quality assurance tests; and (iv) technical assistance and training. The location of land mines throughout most of the country, including the protected areas, and their associated communities, has been mapped and this information was used in designing the KEC project. Activities such as trails and camps will not be built in the vicinity of land mines. Land mine location information will also be used in assessing the projects proposed under the KEC's Conservation and Rural Revitalization Grants Program. While funds could be available from the World Bank's Social Recovery and Development Project (in preparation) for de-mining, on a case-by-case basis, it is not expected that there will be any KEC financed activities in areas of land mines.

The KEC project has generated interest in rural revitalization and a US\$1 million grant has been awarded from the World Bank to Croatia for the "Zadar and Knin-Sibenik Counties: Refugee Return and Regional Development Project." This project region is located on the Northern Dalmatian coast of Croatia, and its objective is to create pre-conditions for refugees to return (including youth and working age people) and a broader economic development of Dalmatia. The grant program is under preparation and the team is working closely with the KEC team to coordinate strategies.

Completed and ongoing related projects are:

Table 1. Projects financed by the bank

Sector Issue	Project	Latest Supervision (PSR) Ratings (Bank-financed projects only)	
		Implementation Progress (IP)	Development Objective (DO)
Bank-financed			
Environment	IDF Grant: MEPP	S	S
Natural Resources	Environment Capacity Building Coastal Forest Reconstruction Project	S	S
Agriculture	Farmer Support Project	S	S
Infrastructure/Environment	Eastern Slavonia Reconstruction Project/Kopacki Rit Nature Park (GEF component)	S	S
Biodiversity	Biodiversity Strategy and Action Plan - completed	S	S
Infrastructure	Emergency Transport & Mine	S	S

Social	Clearing Refugee Return and Regional Development Project		
Other development agencies			

IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

Add in "other" UNDP/GEF - Renewable energy

NA

3. Lessons learned and reflected in the project design:

Experience from other similar initiatives in Central and Eastern Europe suggests that:

- (a) All stakeholders should be involved early in project concept design, specifically local communities and influential decision makers, by inviting them to workshops or public awareness programs, in order to instill a feeling of ownership, build lasting commitment and achieve successful project implementation;
- (b) Conservation management strategies should establish a link between the objectives of conservation and tangible benefits for key stakeholders, specifically including local communities (e.g., economic and community development associated with appropriate forms of rural and ecotourism, etc.);
- (c) In order to achieve environmental, social and financial sustainability, conservation strategies must be site-specific and address local needs and issues;
- (d) Where consumptive use of natural resources is an issue, (e.g., grazing, hunting, fishing, and use of other forest products), resource users must be substantively involved in the design of sustainable resource management systems, and effective monitoring and control mechanisms need to be developed and applied;
- (e) Applied research and monitoring programs should also be site-specific and targeted to provide direct support for effective conservation management;
- (f) Problems should be solved jointly with clients and not for them; and
- (g) Decentralized responsibility for financial and project management builds local ownership and sustainability of project activities.
- (h) Successful project implementation requires that PIU staff be in place prior to project start-up; the first year procurement plan is ready by negotiations; and sequencing of project activities is determined prior to implementation.
- (i) A successful competitive grant program is dependent on several factors: (i) identification of realistic and focused priorities; (ii) a well trained Board and staff; (iii) an independent and transparent peer review process; (iv) accountability; (v) efficient and effective fiduciary procedures; and (vi) a well defined monitoring and evaluation system.

The project will incorporate these experiences and build on them specifically by: (i) addressing the links between socio-economic issues and sustainable natural resource use and management through the rural revitalization grants program, (ii) building both the local and national capacity for conservation management, (iii) developing mechanisms for local level participation in conservation and land-use decision-making, e.g. a "People and Parks" program in each protected area; (iv) ensuring a participatory

and transparent approach to project preparation and implementation (v) ensuring PIU staff are in place, the first year procurement plan is ready, and project sequencing determined prior to project start-up; and (vi) preparing a Small grants program operations manual following procedures described in "Good Practices for Procurement, Disbursement and Financial Management for Competitive Grant Program in ECA Countries."

4. Indications of borrower and recipient commitment and ownership:

The World Bank received a letter of support from the GEF focal point, the Director of the State Directorate for Nature Protection and Environment, requesting technical assistance and financial support for the preparation of the Karst Ecosystem Conservation Project (June 1999). Subsequent to this, upon the establishment of a new MEPP, the new minister and new GEF focal point, have supported the request for the KEC project. Additional letters of support have been received (December, 2000, and October, 2001). The Minister of MEPP visited World Bank headquarters April 17, 2001, to reiterate his support of the KEC project, per his letter of support, December 13, 2000.

The Government agencies responsible for environment have shown a commitment to identifying and prioritizing environmental problems and finding solutions. The BSAP was endorsed by the Parliament (June 1999). The KEC project is a national priority under the BSAP, which identifies conservation of biodiversity in the karst region as a key environmental priority. A National Environmental Action Plan (NEAP), produced with support from the World Bank (2001) includes as priority environmental issues, biodiversity conservation, and within biodiversity, specifies the KEC project as the top priority action. MEPP is currently implementing a medium size GEF grant for biodiversity conservation as part of the Eastern Slavonian Reconstruction.

5. Value added of Bank and Global support in this project:

The value added of GEF support for the KEC project comes from providing additional funds to ensure the long-term protection of biodiversity of global importance. Without GEF support to coordinate these activities, Croatia might undertake a series of small activities in different parts of the country, but would lack a mechanism to coordinate the financing, and approaches and geographical targeting of activities. The Bank has assisted Croatia with preparation of the BSAP and NEAP, which both provide a strategic foundation for this project. Bank experience with ongoing project in Croatia's forest, agriculture, water, and biodiversity sectors add value to the KEC project. Through its role as broker, the Bank has and will continue to mobilize donor support for biodiversity conservation in Croatia.

E. Summary Project Analysis (Detailed assessments are in the project file, see Annex 8)

1. Economic (see Annex 4):

- Cost benefit NPV=US\$ million; ERR = % (see Annex 4)
- Cost effectiveness
- Incremental Cost
- Other (specify)

Incremental costs associated with the provision of global benefits through the project were estimated. The global benefits are: (i) increased national capacity to manage protected areas and natural resources sustainably and to conserve biodiversity of global importance; and (ii) increased local capacity for enhanced conservation of globally significant biodiversity and sustainable resource use in the karst region. The total incremental cost of achieving these benefits is US\$8.37 million. The Government of Croatia has committed to financing US\$3.30 million (39%). The GEF grant contribution toward the GEF alternative would be US\$5.07 million (61%).

2. Financial (see Annex 4 and Annex 5):

NPV=US\$ million; FRR = % (see Annex 4)

Fiscal Impact:

Total government financing for taxes and recurrent costs during the implementation period is estimated to be USD 1.3 million which, at an average of USD 0.26 million/year, is less than 2.0% of the MEPP annual budget (USD15.5 million for 2001).

The Karst Ecosystem Conservation project is designed to address concerns of financial sustainability of the national parks it supports by enhancing their eco-tourism capacity for revenue generation and developing a financing strategy for the Protected Areas (PA) system. Croatia has over 50 years experience in attracting significant number of tourists to its national parks, and deriving revenues from user fees, the Plitvice Lakes being a prime example. The rebounding of tourist inflows to the country after a decline in the mid 1990s caused by the war, provides ample opportunity to derive revenues from tourist visits to build on this experience in the national parks supported by the project. The project will fund a PA system market analysis and the development of a promotion and marketing plan. Based on these studies, a PA system financing strategy will develop a visitor fee structure for individual national parks. Furthermore, the project will assist these national parks by building and equipping visitor centers, integrating ecotourism development in park management plans, publishing information material on the parks, and by providing training to park staff in nature interpretation and visitor management.

While project national parks will strive for financial sustainability, some of them may not be able to achieve this at all times for various reasons. To ensure continued funding of recurrent costs in such cases, the PA System financing strategy that will be elaborated under the project may entail a mechanism of cross-subsidization from national parks that have surpluses.

Early in project preparation, concern was voiced regarding the indebtedness of the Plitvice Lakes National Park (PLNP). The issue was whether the debt, related to the renovation of their hotels, might be diverted, with revenues from visitor fees used to serve the debt rather than fund conservation activities. The financial situation of PLNP was studied in detail during project preparation and discussed with the Government. During appraisal, the Government presented the Bank with a letter which stated that "[t]he Government has sought financial solutions to cover the PLNP hotel debts from its internal resources". The letter further assures the Bank that MEPP has taken measures to separate the accounts of the conservation branch funded by visitor fees and the hotel and restaurant branch of the PLNP. The Project Team considers this assurance as satisfactory.

On the fiscal side, the project's support to existing and would-be local enterprises in setting up and expanding environmentally friendly businesses in tourism services, farming and crafts production, will help expand the Government's tax base. To the extent employment is enhanced, fiscal expenditures for social protection may be less than would otherwise be the case.

3. Technical:

The project is technically justified on the basis of the urgent need to address growing and potential threats to the globally significant biodiversity in the karst region of Croatia. This assessment is based on the BSAP and Comprehensive Biodiversity Survey conducted as part of project preparation. The project seeks to mainstream biodiversity considerations into land-use management plans as well as sectoral management plans. The project components are aimed at addressing not just the immediate issues at hand but also to

build capacity to deal with long term priority conservation issues while establishing linkages and technical partnerships with international organizations for regional trans-boundary conservation. The project also aims to strengthen the legislative and regulatory framework for biodiversity conservation and build public awareness and support for biodiversity conservation.

4. Institutional:

4.1 Executing agencies:

The executing agency would be the Ministry of Environment Protection and Physical Planning (MEPP). The MEPP's Division of General Environmental Policy would have overall responsibility for project coordination and supervision of progress. The Division of Nature Protection would have responsibility for technical issues. The MEPP has sufficient capacity to implement the project as evidenced by its successful completion of the GEF financed BSAP and the Bank financed NEAP; as well as its successful ongoing implementation of three GEF financed projects -- Kopacki Rit -- a biodiversity conservation project, and two climate change GEF financed projects.

4.2 Project management:

The MEPP will have overall responsibility for project implementation and a national level project implementation unit (PIU) will be established in the MEPP Division of General Environmental Policy. A project management unit handling donor funded projects has been operational in the MEPP, and former State Directorate, since 1998. It is this unit that has executed the GEF activities and projects mentioned above; prepared the KEC project; and managed donor programs. The KEC PIU will extend the existing management structure to meet the additional management needs. The PIU will be responsible for all procurement, disbursement and financial management aspects of the project as well as oversee the work of consultants, organize seminars and training. It will also be responsible for all reporting requirements to the Bank and the Government. The project would also finance a local PIU office in Gospic. The local PIU office will be in the county department office building which houses local offices for all sectors and for physical planning. The local PIU will be responsible for day-to-day local project implementation and local level coordination.

4.3 Procurement issues:

An assessment of the existing project management unit's capacity to implement the project's procurement plan was carried out in December, 2000. The review addressed legal aspects, procurement cycle management, organization and functions, support and control systems, and record keeping. The review rated procurement under the project in the high-risk category although public procurement in Croatia is an average risk. The rating is based on the limited experience the PIU has with procurement. The following actions were recommended in the assessment and will be implemented to mitigate the procurement risk: (i) a procurement book containing the guidelines, templates of tender notices, standard bidding documents, evaluation forms, etc. will be prepared and made available to the PIU prior to project launch so that their procurement staff can familiarize themselves with Bank procurement policies, procedures and documents; (ii) a project launch workshop will be held for the PIU after effectiveness of the loan with sufficient time dedicated to procurement issues; (iii) the PIU will hire a local procurement specialist with experience in Bank projects, upon effectiveness, (in fact MEPP has already done so in September, 2000) with an international procurement consultant retained for at least six months to train the local counterpart; and (iv) intensive procurement supervision will be provided during the first three supervision missions. PIU staff have attended the Bank's 4 week procurement training course in Turin, Italy (in March, 2001) and the Bank's Competitive Grants course in Turkey (March 2001).

4.4 Financial management issues:

CFAA for Croatia was carried out in 1999. The reforms carried out to date in the area of financial management put Croatia ahead of many other CEE countries. Croatia has, in fact, set up a modern legal and regulatory framework, compatible with the needs of a market-driven economy, completely discarded its old accounting system and opted to introduce a comprehensive new framework based on international guidelines. In order to enhance public sector financial management and to achieve a higher level of accountability, the issues related to the integrity and universal coverage of the budget process need to be addressed in greater depth, together with the start of the Treasury, the modernization of accounting and reporting systems and the further development of the institutions in charge of budget compliance through internal and external audits. Bank rehabilitation is under way but additional efforts are needed to strengthen banking supervision and improve credit institutions risk-management. Financial markets and their regulatory institutions need further development; this would also make the privatization process more effective. Market competition and corporate governance are main areas to be reformed to achieve greater transparency and financial accountability for the private sector. A self-regulating and standard-setting national body, ensuring the application of high standards of ethics and progressively taking on the functions currently performed by the government, should define the organization of the accounting and auditing profession.

To improve overall public sector accountability, reform is needed of the institutions (namely, the ZAP and the relevant Departments of the MoF) currently involved in accounting, reporting and internal control functions. In brief, the establishment of an adequate financial management framework for the public sector requires the modernization of accounting systems, the harmonization of reporting formats as well as the introduction of effective internal controls and auditing functions.

From a financial management perspective, the project is considered moderate risk however for the following reason. The existing PIU is well-versed in Bank procedures having gained experience implementing an IDF Grant and another on-going GEF project. The same PIU will implement the KEC Project. The PIU is “ring fenced”, and will have its own financial management system and will carry out all procurement functions in line with Bank’s procurement guidelines. However, this risk assessment also assumes that:

- the same PIU will be officially appointed to implement the KECP prior to Board; and
- a FMS and an operational manual acceptable to the Bank will be in place, prior to Board.

5. Environmental: Environmental Category: B (Partial Assessment)

5.1 Summarize the steps undertaken for environmental assessment and EMP preparation (including consultation and disclosure) and the significant issues and their treatment emerging from this analysis.

The project addresses national, global and trans-boundary biodiversity conservation issues. It is designed to preempt the negative environmental impacts that could accompany economic development, particularly tourism, in the karst region. The project activities which could have negative environmental impacts include: (i) rehabilitation of existing structures in national parks, such as kiosks, visitor facilities; rehabilitation of existing roads within parks; refurbishing of the local PIU office in Gospić (government financed); upgrading of biodiversity research and monitoring facilities in Plitvice National Park; trail construction in Gorski Kotar; and minor works in fences, small trails, landscaping in the National Park Northern Velebit and the Park of Nature Velebit; and (ii) possibly some activities financed by the Conservation and Rural Revitalization Grants program since these will involve small grant awards to farmers, entrepreneurs, NGOs, on a competitive basis, for projects aimed at increasing economic activity in the project area whilst ensuring biodiversity conservation and environmental protection. CRRG proposals could include activities such as conservation of mountain meadows, organic farming, handicrafts

production, wood processing.

Mitigation measures to be taken are detailed in the Environmental Management Plan (EMP) and will ensure that construction procedures mitigate for dust and noise; that trails will be individually assessed and designed to take into consideration factors which influence the amount of resource damage caused by trail use; that individual small projects carried out under the small grants program be reviewed under the existing environmental impact assessment procedure (which is fully compatible with the World Bank OP 4.01); and that all project activity sites are clear of land mines. The operation manual for the CRRG program will include environmental assessment guidelines consistent with those of the MEPP. Criteria for selection of CRRG awardees will include compliance with existing Croatian environmental standards.

5.2 What are the main features of the EMP and are they adequate?

The EMP provides an assessment of the potential impacts of protected area facilities improvements; and indicates possible projects to be financed under the small grants program. The small grants program will develop an operational manual before negotiations which will include procedures for environmental review of the small grants projects. The EMP provides a table of activities, potential impacts/issues, mitigating measures, costs, institutional responsibility, and comments.

5.3 For Category A and B projects, timeline and status of EA:

Date of receipt of final draft: December 30, 2000

5.4 How have stakeholders been consulted at the stage of (a) environmental screening and (b) draft EA report on the environmental impacts and proposed environment management plan? Describe mechanisms of consultation that were used and which groups were consulted?

The environmental assessment was discussed during the project design workshop II (October, 2000) with over 80 stakeholders, including NGOs. The EMP is on the MEPP's web-site; and has been made available for public consultation.

5.5 What mechanisms have been established to monitor and evaluate the impact of the project on the environment? Do the indicators reflect the objectives and results of the EMP?

The EMP has designed a monitoring and evaluation program for the project which reflects the objectives of the EMP.

6. Social:

6.1 Summarize key social issues relevant to the project objectives, and specify the project's social development outcomes.

A social assessment (SA) was conducted as part of project preparation. At the time the demographics of the project region had not been examined since 1991, pre-war, and most of the project region was not included in the recent (2000) Croatia Poverty Assessment. (Since the SA, a 2001 census has been conducted but the results are not yet available). The SA study area consisted of the communities in and around the four protected areas that are the focus of the KEC, including: Paklenica National Park (within north Zadar County, at the south end of the KEC study area); Plitvice Lakes National Park in Lika-Senj County; Velebit Nature Park, also in Lika Senj County; and Risnjak National Park (in the Gorski-Kotar District of Primorsko-Goranska County).

The main findings of the SA relevant to the KEC project are that the population in the project region has declined substantially in the past ten years; the area is economically depressed; and traditional rural and agricultural activities once practiced in the region have largely been abandoned. From available information, the SA estimates the population of the total project region is about 65,000. Since 1991 (the date of the census for which data is available, 2001 census data not yet available), the demographics of the project area have shifted significantly. It is estimated that in Lika-Senj County, which comprises more than 80% of the project area, the population has decreased over ten years from 64,000 to approximately 44,000 people, most of whom are elderly. While unemployment was already high before the war, it is now much higher throughout the project area which includes the poorest county in Croatia (Lika Senj). Employment in the main towns, such as Gospić and Otočac, is largely in the forestry sector, public sector, and in a few small businesses. Although agricultural pursuits have long been practiced throughout the area, agriculture has not been the economic mainstay of most families in the recent past, but rather has usually been carried out as a supplementary activity. One of the most vulnerable segments of society in the project area are those living in the rural villages and undertaking subsistence agriculture. Most of these people are the elderly living on pensions and welfare support that often amounts to only 300 - 400 Kunas /month (US\$45). Perhaps the most vulnerable and poverty-stricken elements of society observed are the Serbs and Croats who have returned to the rural villages in the Plitvice area in the aftermath of war. Both groups tend to be dominated by the elderly and live in isolated settlements with limited access to resources.

Civil society participation in environmental (or any type of) decision making is weak. The environmental NGO movement in Croatia is in its early stages of development. While there are numerous entities identifying themselves as environmental NGOs, they are small and fragmented, and have limited resources and capacity. There is no tradition of community participation in local decision making. Some residents expressed resentment because they could no longer use areas, now protected, for economic activities. This sentiment is limited to the Velebit area, as the other national parks have all been in existence for over 50 years.

The SA identified a broad range of groups and individuals who have a stake in how the Karst ecosystem resources are managed. They include: (a) government institutions at the national, regional and local levels (including MEPP, MOAF, HS, Ministry of Tourism, HV); (b) managers of national and nature parks in the project area; (c) local residents and resource users (farmers, forest users, HS employees, herders, service providers to national parks and park visitors); (d) national and local NGOs; (e) the academic community and research institutes; and (e) tourists. Annex 11 identifies and evaluates the role of specific stakeholders that are most able to influence the project, likely to be most affected by the project, and have potential to contribute knowledge or others support it. The results of the SA have been used to define activities for the project as follows:

- The project aims to establish a sound public participation program and to ensure that decision-making be decentralized to the local level as much as possible.
- The KEC project includes, at each of the protected area sites, a "people and parks" integration program to strengthen the links between the national parks, protected areas and the local populations who live in and around them. The program will include the development of local, community advisory groups that include a range of stakeholders (for example, park residents, adjacent communities, park managers, NGOs). These groups will serve as advisors to the PIU.
- The project includes a tourism initiative to boost the local economy which includes: baseline research of supply-side/product; market analysis; survey of tour operators' perceptions (international and national operators); "comparable" evaluation (for example, Slovenia); identification of, and packaging, business opportunities; constraints; and an action strategy.

- The project is a vehicle for rural revitalization by promoting linkages between biodiversity conservation and rural development issues. The small grants program for rural development provide opportunities in line with stakeholders' interests and the suitability of the resource base.
- The project includes, under the small grants program, a specific program for environmental education and public awareness that will draw upon, and build the capacity of, environmental NGOs.

Specific social outcomes are delineated in Annex 11.

6.2 Participatory Approach: How are key stakeholders participating in the project?

The project has been developed with a participatory approach. Beginning with pre-identification, the World Bank team met with national, regional, and local level government authorities; NGOs; scientists and academics; research institutes; and local communities to discuss conservation of biodiversity in the karstic regions of Croatia. The BSAP, which guided identification of the KEC project, itself, was developed through a participatory process with over 100 stakeholders involved in its preparation. An inter-sectoral steering committee and counterpart team was established at identification. National and local level workshops at milestones in project preparation used a participatory process and involved a wide range of stakeholders. Key stakeholders that participated in the project identification and preparation phase included representatives from relevant Ministries and Institutions, including Ministry of Environmental Protection and Physical Planning, Ministry of Agriculture and Forestry, Ministry of Tourism, Ministry of Culture, Ministry of Economy, State Directorate of Tourism, State Directorate of Water, Chamber of Commerce, Croatia Forests, Croatia Waters, private sector tourism, Institute 'Hrvoje Pozar', Croatian Building Institute Ltd., Geological Research Institute, Natural History Museum, Zagreb University, county level authorities, local level protected area managers, and representatives of approximately 30 NGOs.

The SA team met with the full range of stakeholders, including Croat and Serb villagers; town residents; and representatives of community-based organizations (CBOs), nongovernmental organizations (NGOs), international relief agencies, local businesses, and all levels of government.

Reports of all preparation workshops, including an evaluation by participants, were produced in English and Croatian, widely disseminated and posted on the MEPP web-site. All preparation reports were produced in Croatian and English and also posted on the web-site. Results of the preparation reports, as well as the SA, were discussed in a series of local level meetings. To pilot an approach for local level dissemination of information during preparation, the project team prepared a brochure "Karst Ecosystems Conservation: Information on Project Preparation" in Croatian and English, posted the brochure on the web, and distributed over 500 copies which were discussed in a series of local level meetings. Feedback from the participants indicated that this was an effective tool in disseminating information and, throughout project implementation, similar pieces will be produced for discussion purposes. Input from the local and national level meetings and workshops was incorporated into the final project design which was the topic of a national workshop (October 2000). The workshop report is on the MEPP web-site. Stakeholders will participate in the implementation of the project components at all three levels of participation, namely information sharing, consultation and collaboration as indicated below (also see Annex 11).

- National Park management and staff will contribute to, and be recipient of, information in a number of project components that directly affect national parks and biodiversity management and monitoring in the Karst region. This includes: development of policies and guidelines for the system of protected areas in the karst; provision of support to newly protected areas; development and implementation of biodiversity information inventory; development of mapping and monitoring system; strengthening local PA staff capacity; and the development of regional and international vehicles for cooperation. Park management will also play an important role in ensuring public awareness of, and subscription to, the goal of Karst ecosystem conservation, notably through people and parks liaison committees, and

more informally, taking into account local populations' needs in planning park activities.

- Participation and feedback of local farmers, households, NGOs, and businesses will be integral to the implementation of demonstration projects on sustainable resource use, to be financed under the CRRG grants program. This group of stakeholders will also participate in the rural revitalization program, as recipients of project support and information, as well as members of decision-making committees, "people and parks" liaison committees and local small grant administration boards. Local communities, businesses and county and municipal governments will also collaborate in the preparation of the management plans of the Velebit Nature Park and Northern Velebit National Park.
- The public at the national and local levels will be informed about the importance and values of karst ecosystems through a variety of media, including TV spots, booklets, annual workshops, traveling exhibition, and a project newsletter. NGOs will play an active role in this effort.
- Current and potential tourism service providers in the region, tour operators nationwide, protected areas, the Tourism Institute, and the Ministry of Tourism will both be providers and recipients of information in the context of the supply/demand analysis of feasibility of nature tourism in the Karst region and on the carrying capacity and revenue breakeven targets for the national parks. The development of pilot marketing plans and action plans for the nature tourism product in the karst region will heavily rely on the collaboration of these stakeholders to be most beneficial to sustainable tourism development in the region.

6.3 How does the project involve consultations or collaboration with NGOs or other civil society organizations?

During project preparation, the SA included NGOs as a key stakeholder group, and a separate study on public awareness and public participation in biodiversity involved consultations with NGOs. There are about 150 NGOs dealing with some aspect of the environment in Croatia. A meeting was held during project identification with environmental NGOs to discuss technical issues on karst biodiversity conservation and the project objectives. The World Bank and counterpart preparation team has met with national and local NGOs that are working in the project region to discuss the project and relevant NGO activities and get input on project design. The project was discussed in a national level meeting between the Minister of MEPP and 200 members of NGOs (October 13, 2000). NGOs have been included in all national and local level workshops during project preparation. Two specific project activities have been designed to be carried out by NGOs, preparation of guidelines for community and NGO involvement in biodiversity conservation, and a public awareness and education activity. NGOs will be represented on the KEC working group and local advisory boards.

6.4 What institutional arrangements have been provided to ensure the project achieves its social development outcomes?

The SA identified social development issues, existing structures and mechanisms needed for community participation in the project and necessary resources, and recommendations on how best to structure and finance community-based protected area organizations so as to facilitate a partnership with protected area management, with concerned NGOs, and with county development committees. The implementation of the project will include the establishment of a community-level local advisory group for each county (3) in the KEC region. These groups will include local residents and other relevant stakeholders and will convene for the purpose of consultation on various park and protected area management as well as local planning issues. The local advisory groups will evaluate CRRG proposals.

6.5 How will the project monitor performance in terms of social development outcomes?

The project will finance periodic SAs to monitor social development outcomes identified in the initial SA carried out during project preparation. Annex 11 presents a list of social development outcomes and indicators as well as a plan for social development outcome monitoring and evaluation.

7. Safeguard Policies:

7.1 Do any of the following safeguard policies apply to the project?

Policy	Applicability
Environmental Assessment (OP 4.01, BP 4.01, GP 4.01)	<input checked="" type="radio"/> Yes <input type="radio"/> No
Natural Habitats (OP 4.04, BP 4.04, GP 4.04)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Forestry (OP 4.36, GP 4.36)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Pest Management (OP 4.09)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Cultural Property (OPN 11.03)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Indigenous Peoples (OD 4.20)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Involuntary Resettlement (OP/BP 4.12)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Safety of Dams (OP 4.37, BP 4.37)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Projects in International Waters (OP 7.50, BP 7.50, GP 7.50)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Projects in Disputed Areas (OP 7.60, BP 7.60, GP 7.60)*	<input type="radio"/> Yes <input checked="" type="radio"/> No

7.2 Describe provisions made by the project to ensure compliance with applicable safeguard policies.

An environmental assessment was prepared under project preparation and is provided in the EMP.

F. Sustainability and Risks

1. Sustainability:

1a. Institutional sustainability

The national government agencies responsible for biodiversity conservation, municipal governments of the local projects' areas, and the local protected area management and technical staff are in full support of the project. The project preparation counterpart team includes representatives from local level protected areas, protected area advisory boards, county management; national level government officials and private sector experts from biodiversity conservation, forestry, water, agriculture, and tourism.

On the field level, where day-to-day project implementation will occur, the local PIU will work closely with the directors of the protected areas, as well as the local authorities responsible for physical planning, forest management, and environmental protection. The local PIU office is located within the county offices which manage local level environment, forestry, agriculture and water activities which will contribute to sustainability. Through capacity building and institutional strengthening and increased coordination between various implementing agencies at the local, regional and national level, institutional sustainability has been addressed.

1b. Social sustainability

From its inception the project has tried to involve key stakeholders in project preparation and implementation, including policy makers, citizens and NGOs, to ensure social sustainability of the project. Future initiatives aim to involve the local communities by developing activities that will reduce pressure on the natural resources through effective management and alternatives, increase in public awareness and support for biodiversity conservation. These should also contribute to social sustainability. The inclusion of a "people and parks" program into each of the five protected areas will ensure community involvement in decision making. To demonstrate sustainable economic development, compatible with biodiversity conservation, the components will be responsive to the needs of the local residents. Local advisory boards for each of the KEC region's three counties will be key players in project implementation.

1c. Financial Sustainability

The Government's contribution to the project of US\$3.2 million includes taxes (US\$1.3 million); some investment costs -- facilities and refurbishing costs (US\$1.4 million); and US\$0.5 million to cover recurrent costs (staff). The 39% level of government contribution reflects the extremely strong commitment to the project. The Project incorporates measures to ensure financial sustainability of protected area maintenance and eco-system conservation in the Karst region. The Government recognizes the importance of conservation of Karst ecosystems and minimization of the negative impact of protected area visitation for the sustainability of tourism in the long run. It is committed to ensuring that protected area operations and maintenance and conservation activities are financed adequately and in a sustained fashion. To this end, MEPP has decided that in the Plitvice Lakes National Park an adequate amount from the visitor revenues be dedicated to the above activities. In the Risnjak, Paklenica and Velebit National Parks, where there is potential for increased at the visitation level, project components, such as demand analysis and marketing plan development, based on carrying capacity assessments, will help improve visitation and hence revenues. The recent revitalization of tourism to Croatia will be a complimentary, positive factor in this direction. At times when visitor revenues are insufficient to cover necessary operation and maintenance and conservation costs, the Government is committed to provide complimentary funding.

2. Critical Risks (reflecting the failure of critical assumptions found in the fourth column of Annex 1):

Risk	Risk Rating	Risk Mitigation Measure
From Outputs to Objective		
Proposed changes in legislation and policy not adopted	N	The project will support a national public awareness program targeted at key audiences, including politicians and Parliament, to explain the benefits of biodiversity conservation and need for changes in legislation. For the purposes of EU accession, which Croatia is discussing, it is mandatory that the environmental legislation be harmonized with that of the EU.
Inter-sectoral conflict among agencies responsible for land-use and natural resource management planning	M	Stakeholders will be involved throughout preparation and implementation of the project to build collaboration and support for the project objectives, design and activities.
Lack of support by local communities and counties for sustainable management and use of Karst ecosystems	M	The project will demonstrate the economic benefits of using sustainable technologies and conserving biodiversity.
From Components to Outputs		
Delayed contribution of counterpart financing. Government doesn't allocate enough resources to protected areas	M	Periodic visits to MoF to share progress of project activities
MEPP does not allocate adequate (full-time) staff and office facilities for national and local PIU	M	Discussions are on-going to ensure that a full-time national and local PIU are established prior to implementation of the project

Steering Committee not functioning effectively	M	Committee roles and responsibilities clearly spelled out in PIP.
Strategies developed under project not implemented	M	Performance based criteria used at project milestones to determine if project should continue
Hotel debt servicing drains resources from BC in Plitvice Lakes NP	M	Continue to work with government to ensure that an adequate share of PLNP visitor revenues are allocated to biodiversity conservation.
Overall Risk Rating	M	

Risk Rating - H (High Risk), S (Substantial Risk), M (Modest Risk), N(Negligible or Low Risk)

3. Possible Controversial Aspects:

The project will seek to ensure that visitation to the Plitvice Lakes National Park be kept at a level that is sustainable from a biodiversity conservation point of view. However, due to its large hotel related debt with annual servicing requirements of US\$3-4 million, PLNP management may be inclined to attract more visitors to the park reaching unsustainable levels. The project will continue to work with the Government to ensure that the hotel debt is funded from the Government's internal resources or privatized and tourism is kept at sustainable levels.

G. Main Grant Conditions

1. Effectiveness Condition

None

Board conditions

- (a) The National level PIU staff (a national project coordinator, procurements specialist, financial management specialist, and assistant) have been appointed
- (b) The PIU has prepared an operational manual, satisfactory to the Bank, describing the accounting policies and procedures, internal controls, and delegation of responsibilities
- (c) A financial management system, satisfactory to the Bank, is established

2. Other [classify according to covenant types used in the Legal Agreements.]

Financial Covenants

- (a) The PIU will complete the agreed financial action plan for strengthening the project financial management systems by December 31, 2002
- (b) The Government will cause the PIU to have its records, accounts, and financial statements audited each year, commencing with the accounts for the year ending December 31, 2002

H. Readiness for Implementation

- 1. a) The engineering design documents for the first year's activities are complete and ready for the start of project implementation.
- 1. b) Not applicable.
- 2. The procurement documents for the first year's activities are complete and ready for the start of project implementation.
- 3. The Project Implementation Plan has been appraised and found to be realistic and of satisfactory quality.
- 4. The following items are lacking and are discussed under loan conditions (Section G):

I. Compliance with Bank Policies

- 1. This project complies with all applicable Bank policies.
- 2. The following exceptions to Bank policies are recommended for approval. The project complies with all other applicable Bank policies.

Rita Klees
Team Leader

Kevin Cleaver
Sector Director

Andrew N. Vorkink
Country Director

Annex 1: Project Design Summary

CROATIA: CROATIA KARST ECOSYSTEM CONSERVATION PROJECT

Hierarchy of Objectives	Key Performance Indicators	Data Collection Strategy	Critical Assumptions
<p>Sector-related CAS Goal: Protect the environment which is crucial for economic growth and private sector development through tourism development.</p>	<p>Sector Indicators:</p>	<p>Sector/ country reports:</p> <ul style="list-style-type: none"> • Parliamentary gazette • CAS updates • Government “State of the Environment” reports; <p>ESW (occasional)</p>	<p>(from Goal to Bank Mission)</p> <p>Biodiversity protection and sustainable natural resource management contribute to local economic development, and poverty alleviation. Political stability and stable economic development</p>
<p>GEF Operational Program: To promote conservation of biological diversity and ecological integrity of mountain, forest, freshwater ecosystems, and associated landscapes of karst region (OP2, OP3, OP4).</p>	<ul style="list-style-type: none"> • Baseline level of globally important species, habitats, and communities maintained. • Regional Collaboration and Coordination Program for Karst Ecosystem Conservation established. 	<ul style="list-style-type: none"> • Biodiversity information and monitoring system • National biodiversity inventories • Official gazette 	<p>Continued Government commitment to biodiversity conservation.</p> <p>Biodiversity conservation benefits local stakeholders</p>
<p>Global Objective:</p> <p>Project Development Objective:</p> <p>Local residents, tourists and other visitors to participating parks and natural areas refrain from identified destructive practices and adopt recommended behaviors that preserve and protect the unique features of the natural environment.</p>	<p>Outcome / Impact Indicators:</p> <ul style="list-style-type: none"> • Significant reduction in destructive practices (list TBD based upon results of the baseline survey). • Significant increase in the adoption of environmentally responsible practices by local residents, tourists, and other visitors within the project area <p>(Measurable indicators: Level of visitor satisfaction with PA services with respect to biodiversity; number of level of destructive behavior in the PA; level of knowledge of Croatian karst, species, habitats, and impact of human behavior on biodiversity.)</p> <ul style="list-style-type: none"> • Improvement in livelihood and employment generation in 	<p>Project reports:</p> <ul style="list-style-type: none"> • Park and natural area management reports (quarterly) • Project monitoring reports (quarterly) • Supervision mission reports; • Evaluation mission reports (MTR & ICR); • Registration of entrepreneurs • PA visitor surveys with questionnaires filled out before and after visit 	<p>(from Objective to Goal)</p> <p>Continued political support for biodiversity conservation and sustainable resource use, despite changes in Government</p>

<p>Global Objective Conservation of biodiversity and sustainable use of bio resources in Croatian Karst areas.</p>	<p>selected communities (Indicator: Number of entrepreneurs in the project region)</p> <ul style="list-style-type: none"> • Stable or increasing numbers of 2-3 indicator species (flora & fauna, to be identified during preparation) • Gradually improved status of key forest species within the project area 	<ul style="list-style-type: none"> • Indicator species surveys (annual); • Forest cover mapping (annual) 	
<p>Output from each Component:</p> <p>1. Biodiversity Conservation and Resources Management: Effectiveness of biodiversity conservation and resources management enhanced at national and local levels.</p> <p>2. Conservation and Rural Revitalization Grants (CRRG): Viability of biodiversity friendly resource use demonstrated among local stakeholders.</p> <p>3. Global Karst Network Participation: International working relationships established with sister institutions to facilitate information sharing regarding Karst ecosystems management approaches.</p> <p>4. Project Management, Monitoring and Reporting Project implementation successfully completed; project results adequately monitored and reported</p>	<p>Output Indicators:</p> <p>Favorable program review by international panel of experts (mid-term & final)</p> <ul style="list-style-type: none"> • Verification that the grant funds were distributed for productive purposes and were used by beneficiaries as intended. • Verification that the activities were carried out as planned. • Timely submission of quality reporting, as required. 	<p>Project reports:</p> <ul style="list-style-type: none"> • Project monitoring reports (quarterly) • Supervision mission reports; • Evaluation mission reports (MTR & ICR); <p>As above, +</p> <ul style="list-style-type: none"> • Financial audit report <p>As above, + Technical audit</p> <p>As above</p>	<p>(from Outputs to Objective)</p> <ul style="list-style-type: none"> • Legislation and policy adopted, where necessary. • Legal protection is enforced effectively.

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Annex 2: Detailed Project Description

CROATIA: CROATIA KARST ECOSYSTEM CONSERVATION PROJECT

Background

Croatia enjoys unusually rich biodiversity of global significance due to its geography, between the Mediterranean and Central-European continental climatic regions, and its geology, which is predominantly karst. The term “karst” originated in Croatia and is applied to a specific landscape and morphology characterized by the presence of limestone or other soluble rocks, where drainage has been largely diverted into subterranean routes. The globally prominent Croatian karst ecosystems host 3,500 species of flora (283 endemic), 12 species of amphibians, 36 species of reptiles, 200 species of resident birds, 79 species of mammals, and 64 species of freshwater fish, of which eleven are endemic. Much of Croatia is karstic. The project selected for its focus, the karst region located within the Dinarid Mountain range, which runs through Croatia from Slovenia to Bosnia. The Dinarids include hundreds of sinkholes, chasms, underground streams, and caves. Its estimated 8,000 caves are among the deepest and most extensive in the world and render the region a global hotspot of subterranean biodiversity. These subterranean karst habitats support an ever increasing list of newly discovered endemic trogloditic (eyeless and adapted for an entirely subterranean existence) species and families. These include one new species, genus and family of leech *Croatobranthus mestrovi*, which was found in a 1300 meter deep cave in the Velebit mountain in 1994. Among the unique species found in Croatian karst ecosystems are the only known cave sponge, the only known cave clam, and the only known cave polychaete worm.

Croatia is equally famous for its karst freshwater ecosystems which include travertine/tuffa-building communities of micro-organisms. The resulting travertine barriers, some estimated to be over 40,000 years old, have led to the spectacular lakes and waterfalls now protected within two national parks, one of which is also included in the KEC project, Plitvice Lakes National Park.

Large areas of the Dinarids, particularly in the Velebit Mountains, are densely covered by forest communities of beech, fir, spruce and black pine, a relict alpine sub-species found only in the Velebit area. The Karst region contains the largest part of unfragmented forest in Croatia (almost 50% of forests), the integrity of which is evidenced by the presence of viable populations of large carnivores (wolf, brown bear, and lynx). The Dinarids serve as an important trans-European forest mountain corridor between Slovenia and Bosnia Herzegovina. The global significance of Croatia's karst ecosystem is evidenced by the international recognition it has received. Plitvice Lakes National Park is on the UNESCO's World List of Natural and Cultural Heritage. The Velebit Mountain Range is part of the UNESCO's Man and the Biosphere Program, and has been identified by the WWF's Forest Hotspot Initiative as one of the ten most important forest areas in the Mediterranean region.

The impacts of the threats to the karst ecosystem's biodiversity, with the exception of eutrophication in the surface waters of Plitvice Lakes National Park, have not been scientifically documented to date, but are believed by the country's environmentalists to be significant. The BSAP and NEAP note that the lack of systematic inventorying and monitoring of the ecosystem and species status has resulted in an insufficient basis for determining the exact nature and magnitude of threats to biodiversity. But in the light of observed habitat changes and fragmentation; water and air pollution; extensive exploitation of natural resources; and introduction of foreign species experienced in the project region, the BSAP assumes that the karst ecosystem biodiversity is declining. Both the subterranean and terrestrial karst ecosystems are fragile, interconnected, and dependent upon the maintenance of a delicate balance between relief, hydrology, climate and vegetation. The surface ecosystems of predominantly natural forest and traditional pastoral

land generally serve to buffer the subterranean ecosystems but this function can be significantly negatively impacted by subtle changes in land-use and vegetation cover. For instance, land-use changes can lead to the rapid influx of water in all parts of a karst cave system resulting in significant changes in the subterranean ecosystems. In recent years, these threats have been somewhat averted by reduced economic activity, particularly in tourism and agriculture, during and after the war (1991-96). Today, post-war Croatia is on a fast track of economic development, spurred, in part, by a new government (February 2000) and the opening of EU accession discussions. Tourism, once a mainstay of Croatian economy, has traditionally been characterized as “mass tourism” as opposed to “nature-based tourism”. As the tourism industry rebounds it could have serious implications for biodiversity conservation. Other sector development projects which commonly negatively impact upon biodiversity, e.g. roads, hydropower, are also proposed for the project region.

The project development objective is to protect the biodiversity of karst ecosystems in Croatia in a way that is participatory, economically viable, and integrated with the country's socio-economic goals.

Project Region and Protected Area Sites

The focus of the project region is the Croatian Highlands, which is one of the four major landscape units in the country and includes the mountain corridor of the Dinarids between Slovenia and Bosnia Herzegovina. The project region encompasses three counties, Primorje-Gorski Kotar, Lika-Senj, and Zadar. The project area is primarily rural; over 50% is forested, and 65% has few or no inhabitants. The project area includes two main municipalities, Gospić and Ogulin, and five small towns and has a total population of approximately 60,000. The main economic activities in the region are forestry, animal husbandry and tourism. Agricultural and industrial activities are minimal. In the few areas with tourism, it is the primary economic activity of the immediate area. The project region provides resources to the coastal towns, and there are future plans to establish a triangle of highways, inside the project area, connecting major Croatian cities. Annex 11 - the Social Assessment; and PAD section A.4 give more detailed information about the socio-economic characteristics of the project region.

Risnjak National Park (NP) is located in the Gorski-Kotar District of the Primorska-Goranska County, at the Slovenian border of Croatia to the north-east of the Istria Peninsula and in close vicinity of the resort town Rijeka. The Park was established in 1953 on 3,200 hectares. In 1997 its area doubled to include the headwaters and the upper portions of the watershed of the Kupa River. Although it is only 1,528 meters high, Risnjak represents a very strong climatic barrier between the coastal and inland parts of the country. 6100 hectares of the Park are covered by forests comprising thirty flora populations. The Park is a public company with only 10% of its area being private property. It comprises two villages, one with 300 residents and another with only eight full time inhabitants. The average age of the village populations is high and depopulation is an ongoing process. The main Rijeka-Zagreb highway is only 15 kilometers away, which makes Risnjak easily accessible.

The National Park Administration employs 21 full-time staff (of whom 6 are professionals) and carries out activities in protection, public education and community relations, visitor management and catering (the Park operates a small-scale hotel-restaurant and mountain huts) and tourism promotion. The Park has a solid research and resources preservation program. Between 25,000-50,000 people visit the Park annually. About 40% of the visitors are local, 15% are foreigners and the rest are Croatians from other parts of the country. The park charges a daily entrance fee of about US\$2.00 to adults and US\$1.00 to students. Local residents are not charged a fee for entering the Park. The Park's annual income from visitor fees is

about US\$15,000. The salaries of the Park's 21 employees, making up about 50% of current expenditures, are covered by a transfer from the state budget. Just over the border in neighboring Slovenia, the tourism and recreational markets are thriving with small businesses engaged in river rafting, kayaking, horseback riding, etc. Much of this recreation is based upon the Kupa River and begins at the point where the river flows out of the park at the international boundary. Presumably, similar income generating recreational activities could be offered on the Croatia/Risnjak side as well.

The Park's buffer zone, defined as the area within 500 meters of the Park's borders, is mostly forested. The main economic activities are forestry, and to a lesser extent agriculture and tourism services. Hunting, though prohibited, is carried out excessively, in the buffer zone. The buffer zone does not fall under the jurisdiction of the National Park Administration.

The main problems facing Risnjak NP in regards to biodiversity conservation are:

- Depopulation of the park area reducing traditional agricultural activities that help maintain existing biodiversity;
- Transboundary acid rain which has impacted the forests and contaminated the soil
- Excessive hunting in the buffer zone
- Insufficient tourism infrastructure and poor roads in the Park
- Insufficient financial resources
- Lack of equipment/facilities for monitoring, interpretation, education, camping, hiking

Plitvice Lakes National Park, founded in 1949, is located in the Lika Senj County between the mountain massif of Mala Kapela and a spur of Licka Pljesivica. Administratively, a minor part of the park falls within the areas of Slunj, Otocac and Ogulin, but most of it comes under Titova Korenica. The Park's headquarters is in Plitvice jezera. The park covers an area of 29,482 hectares with a large forest cover of 22,306 hectares; 6,957 hectares of meadows and pastures; and 217 hectares in surface water features, i.e. lakes, streams, water falls. The Park is famous for its travertine lakes (a series of 16) and the waterfalls that connect them. A unique phenomenon of karst topography, the lakes have nevertheless remained surface features. The water largely comes in from the Crna rijeka, Bijela rijeka, and potok Ljiskovac (black and white rivers, Ljeskovac brook), which flow into the Proscansko jezero (lake). This lake lies at an altitude of 636 meters above sea level, and the water runs from it through the lower lakes down to the River Korana, racing over many travertine barriers of various morphological forms, creating countless falls and rapids. of great beauty. Plitvice forests provide habitat for diverse flora and fauna, including but not limited to the brown bear, wolves, otter and 126 bird species, of which 70 breed there. 25% of the Park area is privately owned. The park hosts several small settlements with elderly populations mostly engaged in basic agricultural activities.

The Park received an average of 750,000 visitors per year in the 1980s, 90% of whom were foreign tourists on their way to or on a day trip from coastal resort areas. During the war (1991-1996), the Park was not operational. In the latter part of the 1990s, visitation recovered to only about 400,000 per year (1999). However, in 2000, in parallel to the overall recovery of tourism to the Adriatic coast, the visitor numbers reached 700,000. The park, charges US\$5.00 per day to adults, and US\$3.00 to students. The Park owns and operates 3 hotels with a total bed capacity of 722, three restaurants, a motel and a camping facility. A total of 620 staff are employed in the Park. Revenues from their own resources cover about 97% of the Park's operating costs. The Government provides the salaries of three nature protection professionals which amount to 3% of current expenditures.

The main problems facing Plitvice NP in regards to biodiversity conservation are:

- Eutrophication of Plitvice Lakes

- Lack of research and data to document the trend of declining biodiversity;
- Lack of scientific information to adequately assess state of biodiversity through the park;
- Lack of an adequate park management plan, including a business management plan;
- Damaged trails, hiking infrastructure, boardwalks;
- Lack of promotional/educational/interpretation materials;
- Low public awareness in local communities of conservation;
- Lack of a center for promotion, presentation and education.

Velebit Nature Park

The Velebit Nature Park and world bio-sphere reserve was established in 1981. It covers 200,000 hectares in the Lika-Senj and Zadar County. The exact borders of the park have not been established legally. The area of the park encompasses the entire Velebit mountain range including the coastal area with villages and tourist settlements. The Nature Park also houses the Paklenica National Park, Northern Velebit National Park, as well as a number of other protected areas: the Hajducki and Rozanski Kukovi Strict Reserve (1,220 hectares), the Zavizan-Balinovac kosa Special Botanic Reserve (118 hectares), the Velebit Botanic Garden (50 hectares) and Stirovica Special Forest Reserve (117 hectares). The Velebit Nature Park encompasses the most important parts of the Dinarid Mountains in terms of relief and vegetation. Forests occupy nearly 75% of the Nature Park. 10% of the national park area is private property mainly in the coastal and southern part of the protected area.

Although established two decades ago, the Velebit Nature Park is still at the beginning stage of planning and development which provides the KEC project with a vehicle to demonstrate new protected area management planning systems and processes. There is a need to being a process that will integrate the park with local communities and villages. At present, the park is staffed with a director, manager, and three rangers. Economic activities in the Velebit Nature Park include forest operations which are controlled by Hrvatske Sume (HS). The forest management approach, including timber harvest level, is a controversial issue between the HS and Velebit NP management the resolution of which can be catalyzed by the KEC project. Through the protected area management plan developed by the KEC project for the Nature Park; NGO support through the project; regional planning and development inclusion of biodiversity concerns; grant funding for demonstration projects linking activities such as forestry, with biodiversity conservation, the KEC project will help resolve issues relating to conflicting use of natural resources in the Velebit. As in other rural areas in the KEC project, economic opportunities in the region are extremely limited, and local people are leaving for greater opportunities elsewhere. support for the park will increase to the extent that tourism can be generated.

Tourism is very limited, and undocumented. The local mountaineering club, based in Gospić, guides several hundred visitors per year to various sites in the nature park. Due to lack of an administrative structure and legal basis, visitors are not charged an entrance fee as yet.

The most important problems and issues facing the Velebit Nature Park are:

- Lack of an administrative system and visitor management system (administration building, personnel, management plan);
- Insufficient government budget to hire personnel, acquire monitoring and other equipment and develop nature tourism facilities;
- Lack of facilities and infrastructure to attract nature tourists;
- Poaching and poisoning of game animals;
- Environmental degradation due to exploitation of minerals, solid waste landfills, and uncontrolled

- housing development on the coast;
- Landmine remnants, especially in the southern and south-eastern Velebit area;
- Lack of an ecologically integrated approach to forest operations;
- Need to define and register the exact NP borders;
- Lack of promotional, education, interpretive information and services in the Park.

Paklenica National Park is located within the Velebit Nature Park, on the southern, sea-facing side of the Velebit Range. Its total size area is 3600 hectares, with about 2/3 of the territory in Zadar County and the rest in Lika Senj County. Administratively, it is within the area of the city of Zadar, while the park headquarters and visitor center are in Starigrad Paklenica, a coastal tourist destination. Founded in 1949, this is the second oldest national park in Croatia. Unlike the slightly older Plitvice NP, it has not suffered from the consequences of excessive use and hotel waste impacts. Management of the Park is clearly the most balanced in Croatia, and the KEC project will foster transfer of this know-how to the other national parks. Paklenica is a particularly interesting part of the Velebit by reason of its richness of natural phenomena. The Park includes mountain landscapes including the highest peaks of Velebit, geomorphologically rich rocks, numerous caves, and two deep mountain gorges. Steep cliffs up to 400 meters high draw technical climbers from around Europe. Some 300 climbing routes have been identified and established in one of the two main canyons in the park. The other canyon, which also contains appealing routes for climbing, is closed to climbing, for conservation purposes. Climbing is well managed however there remains the challenge of rescuing lost/injured climbers. Most (60%) of the area is covered by forest. Because of its geographical position and variations in altitude, there is a great diversity of vegetation in the park. There is the stone scrub and maquis of the coastal region; then broad, low woods that become high forests in the interior. Above them are beech and juniper forests; and then mountain meadows stretching up to the highest peaks. The Park also has richly varied flora ranging from Mediterranean to high Alpine. Paklenica National Park provides habitat for a number of animals and insects, including but not limited to the endangered Griffin vulture, bears, pine and beech marten, wild cat, wild boar, reptiles and mountain butterflies. The Park is an active participant in a regional and international effort to support reestablishment of a stable population of the endangered Griffon Vulture, an endangered species in Croatia. Local residents, in attempts to poison wolves, which the vultures feed on, contribute to their decline.

The Park employs 20 full time workers and 10 part time (summer) workers. In addition to protection and research, park staff are engaged in visitor management, notably climbers and cave visitors.

In 2000, the Park had about 70,000 visitors which is nearly double the number of visitors in 1999. Of these visitors, an estimated 1/3 were rock climbers, another 1/3 visited the Manita Pec Cave, and the rest were hikers and students. It is estimated that 50% of the visitors arrived from coastal resorts. Park management believes that annually 100,000 and daily 600 visitors could be managed by the Park in an environmentally sustainable manner. Currently most visitation occurs in August when the average daily number of visitors is 1,000. Management's goal is to reach the annual sustainable visitor level and at the same time spread visitation more evenly across the months. The buffer zone of the national park offers potential for bed and breakfast operations to support increased tourism.

The Park charges about US\$3.00 entrance fee per person to adult visitors. It also operates a camping site by the management building in Starigrad and charges about US\$10.00 per night per tent. Revenues from entrance and camping fees make up about 60-70 % of the current expenditures. A public company, the Park receives the rest from the Government in the form of a budget transfer.

The main problems of Paklenica National Park in terms of biodiversity conservation are:

- Hunting of park-protected animals, especially of the endangered griffon vulture;
- Poaching of large mammals on high elevations;
- Uncontrolled alpinist behavior and related accidents;
- Lack of biodiversity data, research and mapping;
- Need for rehabilitation and equipment in the visitor/interpretation center;
- Need for rehabilitation and expansion of the trail system.

Northern Velebit National Park

The North Velebit National Park was established in 1999 and is located in the central part of the Velebit Nature Park. It is staffed with a director, manager and one ranger. Being a very new park, there is no management plan; no registered visitor system; and the park is fully funded by the state budget. The main issues for the Northern Velebit NP are to get the Park up and running. To do this effectively, the Park needs:

- A management plan including a financing strategy;
- Basic infrastructure -- remodeling of an existing building to establish a visitor center;
- Construction of Field works, e.g. trails, camp sites;
- visitor center, field, monitoring and office equipment;
- A business/tourism plan;
- Promotional/education/interpretive equipment;
- Mechanisms for community and NGO involvement in park decision making.

The Project and Its Components

The project's global objective is to protect the biodiversity of karst ecosystems in a way that is participatory, community-based, economically viable, and integrated with the country's socioeconomic goals. The project's development objective is: Local residents, tourists and other visitors to participating national parks and other protected areas refrain from practices identified as detrimental to biodiversity conservation and adopt recommended behaviors that preserve and protect the unique features of the karst environment. The project will strengthen institutional and technical capacity for biodiversity conservation; integrate biodiversity conservation into management plans and sectoral strategies; improve management of protected areas; and promote entrepreneurial and tourism activities to support rural revitalization and biodiversity conservation; and increase civil participation in decision making processes. Accordingly, the three project components and their subcomponents are:

By Component:

Project Component 1 - US\$1.83 million

GEF US\$1.04 million; GOC US\$0.79 million)

Building national capacity to conserve biodiversity and support natural resource management.

(i) *Strengthening of laws and regulatory framework (\$0.02m).* The project will finance a review and/or revision of biodiversity-related regulations and sectoral strategies to incorporate biodiversity conservation concerns. The project will finance training in the use of the guidelines to staff from relevant government agencies, including the Ministry of Forestry and Agriculture, Ministry of Tourism, Croatia Forests (HS), Croatia Waters (HV); physical planners; and protected area staff; as well as NGOs and citizens.

(ii) *Strengthening national capacity to ensure biodiversity conservation (\$0.32m)*. The project will finance preparation of protected area management and planning guidelines which include biodiversity concerns; guidelines for community and NGO participation in protected area management; a protected area system market analysis, promotion and marketing plan; a protected area financing strategy; and a pilot project on biodiversity information dissemination. The project will develop and conduct a national ranger training program.

(iii) *Expansion of species and taxa under legal protection (\$0.18m)*. Project preparation studies found that there are two areas in the project region which could be eligible for protected area status; Ogulin and the Kupa Valley. The project will finance feasibility studies for these areas including an analysis of biodiversity in Ogulin and water management issues related to biodiversity conservation; equipment for underwater biodiversity monitoring; and revision of the list of taxa under legal protection in these two areas.

(iv) *Biodiversity inventory, mapping and monitoring (\$1.14m)*. The project will finance consultant services and equipment for inventory and mapping of the biodiversity priority areas (identified by the BSAP and Comprehensive Biodiversity Survey); a specific inventory of the biodiversity of caves in the project region and necessary equipment for such; a study of cave hydrology in the project region; conduct a monitoring program for large carnivores in the project region. The project will finance the development of a GIS for the project region, the database, and training for staff in its use.

(v) *Increasing public awareness and support for biodiversity (\$0.17m)*. The project will finance development of a public awareness strategy; development of a WEB site and TV spots on biodiversity conservation; a guide to karst biodiversity; annual workshops/festivals on biodiversity conservation; and preparation of a traveling exhibition on biodiversity and the KEC Project.

Project Component 2 - US\$4.88 million

GEF US\$2.88 million; GOC US\$1.99 million

Establish community-based mechanisms for biodiversity conservation and sustainable resource use in the karst region

The project will support measures to preserve the globally significant biodiversity in the Karst region through community level activities and capacity building for protected area management. Activities to meet this objective fall into three sub-components:

(i) *Promotion of sustainable nature based tourism in karst region (US\$0.21m)*. The project will finance development of a local level tourism strategy which includes determination of the nature-based tourism potential in the region and economic opportunities in tourism; a visitor management plan for protected area; and preparation and field works on the European-6 (E-6) hiking trail through the project region (E-6 is a branch of a larger network of hiking trails which spans Europe).

(ii) *Increased local public awareness and support for biodiversity conservation (US\$0.08m)*. The project will finance preparation of national park promotion materials for park visitors, local population, and schools; preparation of field guides for the project region; and fund a small grants program for NGO sponsored activities related to public awareness.

(iii) *Improving protected area management and services for biodiversity conservation (US\$3.86m)*. The

project will finance activities which are common to all the protected areas, and activities specific to the individual park's needs and aspirations. In each of the five protected areas in the project region, the project will finance refurbishing of existing visitor structures, information kiosks, and research facilities (where they already exist); a "people and parks" program, each to be designed specific to the protected area and intended to ensure direct, community involvement in the decision making process; field works, e.g. trails, signs; data acquisition, processing and interpretation equipment, e.g. computers, GIS software; field equipment, e.g. field telephone, binocular, staff uniforms, safety equipment; essentials for monitoring programs; and staff development in skills such as interpretation, education, monitoring, research. The project will finance distinct investments/activities in each of the five protected areas, as follows:

Plitvice NP (US\$0.45m): The project will finance preparation of a park management plan; laboratory equipment for the research facility; and mowing equipment.

Paklenica NP (US\$0.35m): The project will finance the "Recovery of the Eurasian Vulture (*Gyps fulvus*) Project" by providing equipment, education material, and monitoring equipment.

Risnjak NP (US\$0.39m): The project will finance rescue equipment, horses and equipment; a traveling exhibit; camp site facilities.

North Velaviti NP (US\$1.65m): The project will finance preparation of a park management plan.

Veleviti Nature Park (US\$1.02m): The project will finance preparation of a park management plan; field vehicles; mountain shelters, camp sites, and fire control equipment.

(iv) *Conservation and Rural Revitalization Grants Program (US\$0.57m)*. The objective of this sub-component is to demonstrate linkages between rural development, tourism and biodiversity conservation. The main activity under this sub-component is the financing of the Conservation and Rural Revitalization Grants (CRRG) program which is designed to enable groups and individuals to carry out activities that contribute to achieving the goals and objectives of the KEC project. The CRRG program will support entrepreneurial projects demonstrate linkages between sustainable use of natural resources, economic development and biodiversity conservation. \$500,000 will be available for grants to farmers, artisans, entrepreneurs, businesses, NGOs. Public-private partners or NGOs in partnership with others are also eligible.

The goal of the CRRG project is to encourage projects in biodiversity conservation and sustainable use of biological resources in the KEC project region; community development and increased civil society participation in biodiversity conservation; and NGO activity in conservation. The specific objectives of the CRRG program are to:

- Enhance the objectives and activities of the KEC project by supporting community based initiatives which address the KEC goal;
- Demonstrate the link between the objectives of conservation and tangible benefits for local communities;
- Develop replicable approaches to economic development which ensures biodiversity conservation;
- Strengthen new and emerging local civic groups and NGOs in order to promote biodiversity conservation;
- Test innovative approaches and technologies to biodiversity conservation; and
- Establish partnership between local communities, protected areas administrations, NGOs and PIUs to promote sustainable development of local communities in the KEC project area

The CRRG program is open to any qualifying body operating in, or located within, the defined KEC project region. The following types of organizations are eligible to apply:

- Private sector – companies, businesses, and scientific institutions (both foreign, and locally owned), and individuals
- Governmental sector – companies, local, provincial and national authorities, state scientific institutions
- Non-Governmental sector – local and National NGOs, local associations

Grants would support a range of activities that conform to the overarching biodiversity conservation objectives of the KEC project. Given the nature of participatory planning which provides the flexibility for communities to decide their own priorities, the CRRG operations manual does not prescribe a precise range of sub-projects, but expects that broadly three categories of projects will be proposed: (i) small business and infrastructure investments, (ii) capacity building and business management, (iii) environmental education and public awareness. The projects proposed will be categorized into one of three categories:

- Small grants – up to US\$2,000 for the small projects. These are expected to be used largely by individuals.
 - Medium grants – up to US\$10,000
 - Large grants – up to US\$25,000
- . Successful proposals will demonstrate:

- Benefits to biodiversity conservation
- Benefits to the livelihood of local people
- Activities bringing benefits to the project region
- Compatibility with other GEF project activities
- Catalytic role of the project
- Positive environmental effect on the karst ecosystem
- Efficiency in achieving tangible results with verifiable indicators
- An activity that can be replicated on a larger scale
- A realistic plan describing how maintenance and operational expenses (if applicable) will be financed after the grant period
- A clear timeline describing the implementation of the project

Criteria for grant funding : Criteria will be determined during the first year of the program, but could include:

- Investment should relieve pressures on community natural resource base
- Should be beneficial to the majority of community
- Must be financially feasible
- Involve low risk
- Proven technology unless designated as a demonstration or pilot technology
- Developed markets and good access to markets
- Must be environmentally friendly with no significant environmental impacts
- Must not increase unsustainable pressures on natural resource base or utilization of biodiversity resources from protected areas (e.g. increase in livestock numbers, collection of medicinal plants and wild rare and protected species)
- Must be owned and implemented by community groups, or private and not by the protected areas
- Should be compatible with the protected areas, buffer zone management plans, forest management plans, and tourism strategy, once they become available

- Funding proposals should focus on target communities or community groups living in the buffer zones and vicinity of the PA, or make explanation for exception

Details of the CRRG program can be found in the draft operations manual attached to the Project Implementation Plan (PIP). Completion of the final CRRG operations manual will be a condition of disbursement for the grants. This sub-component will also finance a local cattle breeds protection program; and rehabilitation of the Gacka river springs facility which is a cultural heritage and biodiversity conservation site as these two activities are designed to demonstrate linkages between sustainable development and conservation.

(v) *Regional cooperation programme for karst ecosystem conservation (US\$0.16m)*. Under this sub-component partnerships with Croatia's neighbors, particularly Slovenia (Risnjak and Kupa River Project), will be financed to encourage and support trans-boundary solutions to biodiversity conservation. The project will finance the inventory and monitoring of the biodiversity of springs, groundwater, caves, meadows, forests and cliffs of the border region between Croatia and Slovenia in the Risnjak National Park region. It will finance the preparation of the Risnjak National Park Management plan in coordination with Slovenia. The project will finance a tourism marketing plan for the Croatia/Slovenia border region; promotional materials; international workshops; and participation of protected area staff in karst workshops. The project will finance study tours to European countries including France; and participation in international and regional workshops, training, partnership activities, and conferences.

Project Component 3 - US\$ 1.30 million

GEF US\$ 0.78 million; GOC US\$0.48 million

Project Management and Monitoring

The MEPP will have overall responsibility for implementation of the five year project. A national level project implementation unit (PIU) will be established in the MEPP Division of General Environmental Policy. The PIU will build on the existence of the KEC project preparation implementation unit. The PIU will be responsible for all procurement, disbursement and financial management aspects of the project as well as oversee the work of consultants, organize seminars and training. The PIU will be responsible for coordinating with other donors in the implementation of components which will be supported through parallel and co-financing. It will also be responsible for all reporting requirements to the Bank and the Government. It will be staffed by a project director, procurement and disbursement specialist, financial specialist and an assistant, funded under the project.

The project would also finance a local PIU office in Gospic, the county seat of Lika Senj. The local PIU office, provided by the government, will be in the county department office building which houses local offices for all sectors and for physical planning. This will facilitate local level inter-sectoral coordination and planning. Furthermore, since Gospic has been identified by county officials as the best location for a proposed regional development pole, locating a PIU here offers the potential to coordinate the project with county development plans. The local PIU will be responsible for day-to-day project implementation and local level coordination. The local PIU will be staffed by a project coordinator and assistant funded by the project. The local level PIU will report directly to the national PIU. Staffing and technical decisions for the local PIU will be the responsibility of the MEPP Division of Nature Protection.

The PIU would be assisted by an inter-agency Project Steering Committee established prior to negotiations. The Steering Committee consists of representatives from relevant Ministries and institutions, including Ministry of Environmental Protection and Physical Planning, Ministry of Agriculture and Forestry, State Department for Water, and the directors of the protected areas covered by the project. The Steering

Committee would be responsible for providing project oversight advice, inter-ministerial coordination, and assistance in resolving issues associated with project implementation. The Minister for Environmental Protection and Physical Planning will be chairman for this committee.

Local advisory groups from each of the three main project regions (Plitvice, Paklenica, and the Velebit), selected by, and comprised of, representatives of key stakeholder groups, will also assist the PIU. The functions of the national and local PIU and the terms of reference of staff are included in Annex I of the Project Implementation Plan (PIP).

NOTE: For the project overall, a total of US\$0.41 million of which GEF is financing US\$0.37 million has been set aside in unallocated funds for contingencies is not reflected in the component costs given in this Annex.

Annex 3: Estimated Project Costs
CROATIA: CROATIA KARST ECOSYSTEM CONSERVATION PROJECT

Project Cost By Component	Local US \$million	Foreign US \$million	Total US \$million
Component 1 - national capacity building	1.47	0.36	1.83
Component 2 - decentralized conservation	3.81	1.07	4.88
Component 3 - project management	1.23	0.03	1.26
Unallocated	0.40	0.00	0.40
	0.00	0.00	0.00
Total Baseline Cost	6.91	1.46	8.37
Physical Contingencies	0.00	0.00	0.00
Price Contingencies	0.00	0.00	0.00
Total Project Costs¹	6.91	1.46	8.37
Total Financing Required	6.91	1.46	8.37

¹ Identifiable taxes and duties are 1.13 (US\$m) and the total project cost, net of taxes, is 7.24 (US\$m). Therefore, the project cost sharing ratio is 70.06% of total project cost net of taxes.

Annex 4

CROATIA: CROATIA KARST ECOSYSTEM CONSERVATION PROJECT

CROATIA: Karst Ecosystem Conservation (KEC) Project

Incremental Costs and Global Environmental Benefits

Overview

1. The general objective of the GEF alternative is to protect and conserve karst ecosystems in Croatia. The project development objective is to protect the biodiversity of karst ecosystems in Croatia in a way that is participatory, economically viable, and integrated with the country's socio-economic needs. The GEF alternative will: (a) build national capacity in biodiversity conservation and sustainable resource use; and (b) establish community-based mechanisms for biodiversity conservation and sustainable resource use in the Karst region. This will include: a review and revision of the legal and regulatory framework to incorporate biodiversity conservation and sustainable natural resource use; strengthening the national capacity to ensure biodiversity conservation; promoting public awareness and support for biodiversity conservation with active role of NGOs; incorporating biodiversity conservation in land-use plans, land development and natural resource use in the Karst region; establishing effective planning and management systems for protected areas; demonstration of linkages between rural development and biodiversity conservation; and establishing a Regional Cooperation Programme for Karst Ecosystem Conservation. The GEF Alternative intends to achieve these outputs at a total incremental cost of US\$8.37 million to be financed by the GEF (US\$5.07 million) and the Croatian Government (US\$3.30 million). The proposed GEF Alternative should be viewed as complementary to ongoing activities in the karst Region of Croatia.

Context and Development Goals

2. Located between the Mediterranean and central-European continental climatic regions with a predominantly karst geology, Croatia enjoys unusually rich biodiversity. Karst is a term applied to regions characterized by the presence of limestone or other soluble rocks, where drainage has largely diverted into subterranean routes. Its existence is dependent upon the maintenance of a balance between relief, hydrology, climate and vegetation. The Dinarid Mountain range, which runs through Croatia from Slovenia to Bosnia, is one of the best known karst regions in the world and the term "karst" originated there. The karst features in the Dinarids include hundreds of sinkholes, chasms, underground streams, cavities and an estimated 8,000 caves. Croatian cave systems are among the deepest and most extensive in the world and contain subterranean pools, lakes, streams and rivers. Sites included in the project area have received international recognition. Notably, (i) the Velebit Mountain range (within the Dinarids) is part of the UNESCO's Man and the Biosphere Program and has been identified by the WWF's Hot Spot Initiative as one of the ten most important forest areas in the Mediterranean region; and (ii) Plitvice Lakes National Park is on UNESCO's global list of Natural and Cultural Heritage.

3. The biodiversity of the Croatian karst ecosystem is of global significance and hosts 3,500 species of flora (283 endemic), 12 species of amphibians, 36 species of reptiles, 200 species of resident birds, 79 species of mammals, and 64 species of freshwater fish (11 endemic). Croatia's subterranean karst habitats support an ever increasing list of newly discovered endemic and trogloditic (eyeless and adapted for an entirely subterranean existence) species and families, including one new species, genus

and family of leech *Croatobranthus mestrovi*, found in a 1300 meter deep cave of the Velebit mountain in 1994. A great number of relict species and taxa of flora, originating from the tertiary period, survived in Croatia's montane forest and pasture ecosystems because the area was never glaciated. This also resulted in a prevalence of a higher diversity of aquatic fish than in other parts of Europe. The karst freshwater ecosystems also include travertine/tuffa-building communities of micro-organisms. The resulting travertine barriers, some estimated to be over 40,000 years old, have led to the spectacular lakes and waterfalls now protected within two National Parks. Large areas of the Dinarids, particularly in the Velebit are densely covered by forest communities of beech, fir, spruce and black pine, a relict alpine sub-species found only in the Velebit area. The karst region contains the largest part of unfragmented forest in Croatia (almost 50% of forests), the integrity of which is evidenced by the presence of viable populations of carnivores (wolf, brown bear, and lynx). The Dinarids are also an important trans-European forest mountain corridor between Slovenia and Bosnia Herzegovina.

Baseline Scenario

4. Croatia gained independence from the former Yugoslavia in 1991. In 1993, the Government launched a successful stabilization program bringing down inflation and stabilizing the exchange rate. However, by 1998, the initially buoyant economy slowed down and in 1999 it contracted (by 0.3%). There were two main reasons for this. First, the progress made in public finance reforms, and in the banking and enterprise sectors was inadequate. Second, the earlier economic growth was based largely on reconstruction efforts and domestic consumption, instead of investments that would have enhanced the country's competitiveness. This, in turn, contributed to the current account deficit which has been financed increasingly from external borrowing, thereby leading to a rapid build up in external debt. In early 2000, a newly elected government and a new President came to power promising economic restructuring and stabilization, and stronger integration with the western world. This year has also brought some positive developments in the economy. Notably, the GDP started to grow again mainly thanks to local consumption, exports to the EU and a major increase in tourism, especially to the Dalmatian coast. Moreover, arrears in government payments, in particular to farmers, have been reduced. Macroeconomic stability has been sustained. The growth in the rate of inflation has been contained in the range of 3-4%. The most important economic challenges facing the Government are large scale unemployment which now stands at about 20% of the workforce which is even higher in rural areas and among older sections of the populations is even higher. Coupled with a troubled pension system and high levels of relative poverty and inequality, unemployment carries the potential of social tensions. Government's fiscal revenues remain low. Another problem that the Government needs to address is the very low level of investments and nearly non-existent financial intermediation which is largely the cause of the former. Foreign direct investments remain low as well.

5. The key environmental policy issue for the government is how to manage the country's future growth and development, while protecting the environment. Central issues include: the strengthening of environmental agencies, management and enforcement of environmental protection; and integration of environmental concerns into sector policies and plans. In February 2000, the Government established the Ministry of Environmental Protection and Physical Planning (MEPP) and included within it the agency formerly responsible for environmental protection, the State Directorate for the Protection of Nature and the Environment (SDPN), and the Ministry of Physical Planning. By virtue of elevating the main organization in charge of environment from a state directorate to a ministry, the government has given a strong signal that it is serious about its commitment to the environment. The major environmental legislation, the Law on Nature Protection is being revised, broadening the mandate of environmental protection to a more proactive approach, emphasizing sustainable

development and use of natural resources. In support of this objective, MEPP has established a department for Sustainable Use of Natural Resources. An Institutional Development Fund (IDF) grant is helping the Government to prepare its National Environmental Action Plan (NEAP) designed to detail environmental priorities and set the basis for future cooperation. A Bank/GEF Biodiversity Strategy and Action Plan (BSAP) was prepared in 1999.

6. The same karst ecological conditions, which have led to the development of rich subterranean biodiversity, also render the area extremely susceptible to environmental impacts. Due to the rapid influx of water throughout a karst cave system, subtle changes in land-use and vegetation cover on the surface can result in immediate and sometimes catastrophic changes in the subterranean ecosystems. Currently in Croatia, surface land is predominantly natural forest and traditional pastoral land, which provides a buffer for the subterranean ecosystems. However, in the absence of mechanisms to ensure sustainable land-use practice, the buffer provided by these surface ecosystems could easily be damaged, and the subterranean ecosystems could quickly and negatively be affected. Consequently, the threats to the biodiversity of the Karst region relate to the existing and potential changes in land-use that would remove the buffer that protects the subterranean ecosystem ecosystem or directly impact the montane forest and pasture ecosystems and aquatic species of the Adriatic watershed.

7. BSAP identifies the principal threats to Croatia's unique biodiversity as habitat transformation, fragmentation and degradation; and pollution including solid waste and waste water, road construction and drainage associated with tourism and municipal developments. These are compounded by a weak institutional policy and legal framework for the protection and conservation of biodiversity, limited institutional capacity for conservation management, lack of collaboration between sectors to sufficiently incorporate biodiversity conservation into physical and land-use and sectoral strategies, and a general lack of environmental awareness and the importance of Croatian karst biodiversity.

8. Under the baseline scenario, it is expected that the Government of Croatia expenditures related to ecosystems management biodiversity conservation in the project area over the period of the project will be approximately US\$24.131 million. These expenditures are detailed as follows.

i. The **Directorate for Nature Protection of the Ministry of Environment and Physical Planning** will spend an estimated US\$9.431 million on central and protected area level operating costs, nature protection and sustainable natural resource use programmes, wildlife damage compensation to local populations.

ii. The **Ministry of Agriculture and Forestry** considers the karst region as an area of strategic importance for grazing in open grasslands. It promotes livestock keeping by providing higher than national level subsidies for cows, pigs, sheep, horse and milk. Promotion of grazing on highlands and hence the enlargement of meadows is beneficial to biodiversity conservation as about 50 % of the local flora is adapted to open landscapes rather than forests ecosystems. The total cost of these subsidies over the project period may be estimated as US\$12.981 million.

iii. The **Croatian Selection Centre for Domestic Animals (HSSC)** of MOAF coordinates and finances a program geared towards protecting autochthonous, endangered breeds of sheep, cow, horse and goat in Croatia. Among these breeds is the Lika Pramenka sheep which like other local breeds that were selected during the last centuries to survive hard conditions are important for the protection of the karst grassland areas. Breeders of Lika Pramenka and other domesticated species under protection receive an annual subsidy. According to HSSC, in 1999 the total subsidy payments made in the Licko-Senjnska and Primorsko-Goransk counties was equivalent to US\$387 thousand. Assuming that

the same annual outlays will be made by HSSC during the 5 year project period, the total sum may be estimated as US\$1.720 million.

9. The National Parks located in the KEC Project area are expected to allocate their own resources (mainly from visitor fees) to biodiversity protection within their borders. These expenditures may be conservatively estimated as US\$1.691 million over the project period.

10. A number of natural resource management and biodiversity conservation activities in Croatia are being financed by other international development agencies, or will be under implementation during part or all of the proposed GEF project:

i. The **World Bank Coastal Forest Reconstruction and Protection (CFRP) Project** has been under implementation since 1996 and is scheduled to close in June 2002. Its main objective is to restore and protect forest lands in the coastal zone of Croatia in order to enhance landscape and recreation values of the region. There is partial geographical overlap with the KEC Project. The CFRP Project is supporting reforestation activities that are believed to allow for the return of the native climatic forest communities after one rotation. The project is spending a total of US\$2.2 million on this component. It is estimated that about 20% of this amount, or US\$440 thousand, account for biodiversity conservation in the KEC Project area. The CFRP Project is also investing US\$40 million in improving the existing fire management system to enhance the capacity of fighting annually recurrent large scale fires. Given limited geographical overlap, it is estimated that 10% of this amount, or US\$4 million, may be considered as part of the baseline for the KEC Project.

ii. The **Government of the Netherlands** has provided trust funds in the amount of US\$300 thousand to support the preparation for and introduction of forest product certification in Croatia. Certification will contribute significantly to the introduction of sustainable management practices in Croatian forests which will also ensure due attention to biodiversity conservation..

iii. The **Ecological Center Large Carnivore Program** monitors and protects bears, wolves and lynx in the Karst region. The annual funding of this program amounts to approximately US\$23 thousand and is projected to continue over the KEC Project period of 2001-2005. The total baseline cost is estimated as US\$115 thousand. Of this amount, about US\$64 thousand will be provided from the Croatian Central budget, US\$29 thousand from Swiss grant funds and about US\$23 thousand from German grant funds.

11. Despite being completed before the implementation of the KEC Project, the BSAP should be considered as part the of the baseline scenario since most of its findings provided the basis for the project. The KEC Project will implement recommendations made in the BSAP. The production of BSAP cost approximately US\$170 thousand, of which US\$102 thousand was a GEF grant and the rest Government of Croatia contribution.

12. The NEAP the Government of Croatia is in the process of preparing and which will have biodiversity conservation as one of its components is also considered part of the baseline since it will further strengthen the institutional basis for the attainment of the KEC Project objectives. Of the US\$273 thousand IDF grant, approximately US\$35 thousand will account for biodiversity conservation related action planning.

13. Although not considered part of the baseline since they are not within the KEC project area, the following projects are noted for their contribution to biodiversity conservation in Croatia:

i. **Regional Environmental Center for Central and Eastern Europe** is carrying out a trans-boundary project within the Regional Environmental Reconstruction Program of the Stability Pact. The US\$1.45 million project is called Promotion of Networks and Exchanges in the Countries of South Eastern Europe, financed by the **Swiss Agency for Cooperation and Development** and includes biodiversity protection in the Neretva River Area of Croatia and Bosnia and Herzegovina. The component will be implemented in 2000-2001 and cost approximately US\$98 thousand.

ii. The Ministry of Science and Technology will spend US\$138 thousand to finance the following biodiversity-related projects:

- Biological and ecological characteristics of Vransko lake in Cres Island
- Biodiversity protection of the Adriatic Sea
- Characteristic species and coastal ecosystems in South Adriatic
- Research on Adriatic Sea mammals
- Structural and metabolic characteristics of phytoplankton in Adriatic
- Mariculture: biological, genetic and ecological valuation
- Ecology and protection of endangered national ornitofauna
- Creation and transformation processes of organic matter in Adriatic
- Vegetation map of Croatia
- Review of ichthyosystems and fish population dynamics in coastal waters
- Biodiversity of selected areas in Adriatic
- Insects population in coastal area and island of Croatia
- Long-term changes mechanisms in North Adriatic
- Fauna of Croatian Adriatic islands

14. **Costs.** Total expenditures under the Baseline Scenario are estimated at US\$30.88 million including US\$30.39 million from the Government of Croatia, US\$0.44 million through international cooperation and US\$0.05 million from national and international NGOs.

15. **Benefits.** Implementation of the Baseline Scenario will result in improvements in the legal and institutional framework for biodiversity conservation. Furthermore, in the Karst region important measures will be taken to enhance resource management, through: on-going MEPP support to protected areas and sustainable resource use; incentives for the protection of autochthonous livestock breeds; protected areas recurrent expenditures on the resource conservation; improvement in the capacity to prevent recurrent large scale fires that have negative impacts on forest eco-systems; and the protection of large carnivores. However, additional resources are needed to enhance the information base, monitoring and management planning for and public participation in the conservation of globally significant Karst ecosystems. The GEF grant will address these issues at the local and national levels.

Global Environmental Objective

16. The GoC ratified the Convention of Biological Diversity in 1996. The World Bank/GEF Biodiversity Strategic Action Plan (BSAP), completed in 1999, identifies “the preservation of the existing values of the biological and landscape diversity of the Karst region as an area of global value and ensuring the coordinated management of all natural resources in this area” as a strategic objective.

17. **Scope.** The GEF Alternative would build on the baseline scenario and make possible activities and

programs that would not be undertaken under the Baseline Scenario. This would include strengthening capacity at the field and national levels for planning and managing land-use for conservation and sustainable use of biodiversity; establishing effective inter-sectoral participatory planning and sustainable management of natural ecosystems and associated landscapes at selected project sites and thus protecting key freshwater, forest mountain and coastal ecosystems; supporting participatory approaches to sustainable natural resources conservation in key protected areas; supporting environmental education and awareness programs; developing mechanisms to reduce non-sustainable resource use; and promoting ecotourism development.

18. **Costs.** The total costs of the GEF alternative is estimated at US\$39.25 million, detailed as follows: [Note: A total of US\$0.41 million - of which GEF financing US\$ 0.37 million - has been set aside in unallocated funds for contingencies and is not reflected in the component costs given in this Annex.]

i. Building national capacity to conserve biodiversity and support sustainable resource use: Legal and regulatory framework review and subsequent revisions to incorporate biodiversity conservation and sustainable use of natural resources (Law on Nature Conservation and other sectoral laws); strengthening the national capacity to ensure biodiversity conservation; increasing public awareness and support for biodiversity conservation with active role of NGOs – US\$2.34 million (GEF financing: US\$1.04 million);

ii. Establishment of community-based mechanisms for biodiversity conservation and sustainable resource use in the Karst region: Incorporating biodiversity conservation in land-use plans, land development and natural resource use in the Karst region; effective planning and management systems for protected areas; demonstration of linkages between rural development and biodiversity conservation mainly through a Conservation and Rural Revitalization Grants; establishing a Regional Cooperation Program for Karst Ecosystem Conservation (exchange of information, tourism promotion and partnerships with other Karst regions) – US\$35.25 million (GEF financing: US\$2.89 million);

iii. Project Management: Support for operating costs of national level and local level Project Implementation Units (PIU) – US\$1.26 million (GEF financing: US\$0.78 million)

19. **Benefits.** The Project will increase national level capacity to protect globally significant biodiversity in the Croatian karst ecosystems. This will include a review and revision of Croatia's legal and regulatory framework as well as sectoral and land-use plans to incorporate biodiversity conservation; devising a tourism strategy that will strive to achieve the dual goal of financial resources for conservation activities and minimizing tourism's harm to the ecosystems; the expansion of species and areas under legal protection; development of a biodiversity information inventory, mapping and monitoring system; and raising public awareness about the significance of the Karst ecosystems as a national and global heritage. The project will also improve local capacity for enhanced conservation of globally significant biodiversity and sustainable resource use in the karst region. Specifically, the project will develop effective planning and management systems for protected areas; provide monitoring equipment; and train rangers. The project will also improve social sustainability of biodiversity conservation by increasing local communities' participation in the decision-making process on protected areas management; supporting them in developing small businesses, such as tourism services; and in reviving biodiversity friendly traditional land-use practices.

Incremental Costs

The difference between the cost of the Baseline Scenario US\$30.88 million and the cost of the GEF

Alternative US\$39.25 million, US\$8.37 million represents the incremental cost of achieving sustainable global environmental benefits. Of this amount, the Government of Croatia has committed to financing US\$3.30 million and US\$5.07 million is requested from GEF.

Incremental Cost Matrix

Component Sector	Cost Category	Cost (US\$ Million)	Domestic Benefits	Global Benefits
1. Building capacity to conserve biodiversity and support sustainable resource use	Baseline	0.51		
	With GEF Alternative	2.34		Increased national capacity to manage protected areas and natural resources sustainably and to conserve biodiversity of global importance.
	Increment	1.83		
2. Establish community-based mechanisms for biodiversity conservation and sustainable resource use in the Karst region	Baseline	0.30	Enhanced biodiversity protection and sustainable resource management in the karst region.	
	With GEF Alternative	35.25		Increased local capacity for enhanced conservation of globally significant biodiversity and sustainable resource use in the karst region.
	Increment	4.88		
3. Project Management	Baseline	0	Not applicable	
	With GEF Alternative	1.26		Not applicable
	Increment	1.26		
Unallocated		0.41		
Totals	Baseline	30.88		
	With GEF	39.25		

	Alternative			
	Increment	8.38		

Annex 5: Financial Summary
CROATIA: CROATIA KARST ECOSYSTEM CONSERVATION PROJECT
Years Ending

	IMPLEMENTATION PERIOD						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Total Financing Required							
Project Costs							
Investment Costs	1.6	2.7	1.9	1.1	0.6		
Recurrent Costs	0.1	0.2	0.1	0.1	0.0		
Total Project Costs	1.7	2.9	2.0	1.2	0.6	0.0	0.0
Total Financing	1.7	2.9	2.0	1.2	0.6	0.0	0.0
Financing							
IBRD/IDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Government	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central	0.6	1.1	0.8	0.5	0.3	0.0	0.0
Provincial	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Co-financiersUSAID	0.1	0.0	0.0	0.0	0.0	0.0	0.0
User Fees/Beneficiaries	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Project Financing	0.1	0.0	0.0	0.0	0.0	0.0	0.0

Main assumptions:

Annex 6: Procurement and Disbursement Arrangements

CROATIA: CROATIA KARST ECOSYSTEM CONSERVATION PROJECT

Procurement

Summary of Procurement Procedures.

Proposed procurement arrangements are summarized in Tables A and A1. All other procurement information, including capability of the implementing agency, and the Bank's review process is presented in Tables B and B1.

Project Implementation Unit. The Ministry of Environmental Protection and Physical Planning (MEPP) will have overall responsibility for project implementation. A national level project implementation unit (PIU) will be established at the MEPP Division of General Environmental Policy, built on the existence of the current KEC project preparation implementation unit and will be responsible for all procurement, disbursement and financial management aspects of the project as well as for overseeing the work of consultants, and organization of seminars and training. It will coordinate with other donors in the implementation of components which will be supported through parallel financing and co-financing and will also be responsible for all reporting requirements to the Bank and the Government.

The project will also finance a local PIU office in Gospic, the county seat of Lika Senj. The local PIU will be responsible for day-to-day local project implementation and local level coordination, but the procurement responsibility will lie with the Central PIU. Staffing and technical decisions for the local PIU will be the responsibility of the MEPP Division of Nature Protection.

The PIU would be assisted by an inter-agency Project Steering Committee established during project preparation. The Steering Committee consists of representatives from relevant Ministries and institutions, including Ministry of Environmental Protection and Physical Planning, Ministry of Agriculture and Forestry, State Department for Water, and the directors of the protected areas covered by the project. The Steering Committee would be responsible for providing project oversight advice, inter-ministerial coordination, and assistance in resolving issues associated with project implementation. The Minister for Environmental Protection and Physical Planning will be chairman for this committee. Local advisory groups from each of the three main project regions (Plitvice, Paklenica, and the Velebit), selected by, and comprised of, representatives of key stakeholder groups, will also assist the PIU.

Summary of the Procurement Capacity Assessment. An assessment of the PIU's capacity to implement the project's procurement plan was carried out in November 2000, and revisited during appraisal mission on November/December of 2001. The review addressed legal aspects, procurement cycle management, organizations and functions, support and control systems, record keeping, staffing, general procurement environment and made a general risk assessment of the PIU. The review rated the project's risk with regard to procurement as "average." On the other hand, while the PIU has accumulated experience and is well staffed for this project, still it has no experience in complex procurement such as ICB, NCB and procurement of large consulting assignments and there is no staff dedicated to procurement activities. Because of that, thresholds for NCB are kept on the lower side.

The following actions are recommended to mitigate this risk: (i) before board submission, PIU should

hire a procurement specialist; (ii) PIU should send staff working on procurement activities to an advanced procurement training course; (iii) the project launch workshop should include a comprehensive seminar on procurement and financial management, including preparation of bidding documents for each type of procurement method proposed in the Grant agreement (this seminar needs not to coincide in time with the project launch); (iv) an updated library including all the standard bidding documents for relevant procurement methods should be in place in the PIU prior to project launch; and (v) supervision missions every six months should include accredited procurement specialist to provide consultation and advice, conduct post review of contracts not subject to Bank Prior Review, and resolve pending procurement-related issues.

Participation of Government Owned Enterprises (GOEs) in procurement of goods and works.

GOEs willing to participate in procurement of works and goods financed by the Bank in this project should meet the Bank's eligibility criteria: they should be financially and legally autonomous and operate under commercial law in Croatia. Their status has to be properly clarified by interested GOEs before participating in any bid under this project and screened by the PIU..

Participation of Nongovernmental Organizations (NGOs). Non-governmental Organizations (NGOs) can compete in the selection process under the provisions of Bank Guidelines, provided that they have expressed their interest in doing so, and that their qualifications are satisfactory to both the Government and the Bank. NGOs as eligible voluntary nonprofit organizations may be uniquely qualified to assist in the preparation, management, and implementation of projects, essentially because of their involvement and knowledge of local issues, community needs, and/or participatory approaches. For assignments that emphasize participation and considerable local knowledge, the short list may comprise entirely NGOs. Selection of Consultants and their contracts will be based on the standard documents issued by the Bank for the procurement of such services with the minimal necessary modifications as agreed by the Bank.

Procurement of Goods and Works

Goods and works financed by the Bank will be procured in accordance with the provisions of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997, and January 1999. The appropriate standard and regional procurement documents issued by the Bank will be used with the minimum changes acceptable to, and agreed with, the Bank.

Procurement of Civil Works (US\$0.945 million - Bank: US\$0.766 million). Civil works are intended for building trails, rehabilitation of park roads, rehabilitation of buildings, and rehabilitation of facilities in four national parks. The following procurement methods would be used:

International Competitive Bidding or ICB. ICB procedures will be applied to works contracts estimated to cost US\$0.5 million and above.

National Competitive Bidding or NCB (US\$0.945 million - Bank: US\$0.756 million). NCB procedures will be applied for works contracts estimated to cost below US\$0.5 million. All efforts should be made to ensure proper advertisement nationally, so that a wide range of contractors, including foreign contractors, if interested, can have the opportunity to bid.

Procurement of Goods (US\$1.424 million - Bank: US\$0.992 million). Vehicles, specialized underwater gear; monitoring equipment; GIS equipment; computers; audio/visual equipment and

office furniture and other equipment will be grouped to the extent practical to encourage competitive bidding. The following procurement methods will be used:

International Competitive Bidding or ICB (US\$0.911 million - Bank: US\$0.634 million). Goods contracts for procurement estimated to cost US\$100,000 or more will be procured through ICB procedures.

National Competitive Bidding or NCB (US\$0.082 million - Bank: US\$0.057 million). NCB procedures for goods, using the ECA standard document, will be applied for contracts for supply of furniture and equipment for National Park Paklenica estimated to cost US\$0.06 million

International Shopping or IS (US\$0.116 million). Contracts for the procurement of GIS equipment, estimated to cost less than US\$100,000 each, may be procured under IS procedures by obtaining competitive price quotations from at least three suppliers in two different countries. Award through IAPSO would be acceptable as an alternative to IS, and IAPSO could be invited as a supplier under the said IS procedures.

National Shopping or NS (US\$0.182 million). Goods contracts for computers, office equipment; furniture, equipment for national parks, vehicles, and miscellaneous equipment for park functioning estimated at less than \$50,000 each may be procured through using NS procedures.

Procurement of Consultants' Services (US\$2.30 million). Contracts for consultants' services will be awarded in accordance with the provisions of the "Guidelines for the Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January of 1997 and revised in September 1997 and January, 1999. The services financed or co-financed under the grant are: (describe generically). Selection of Consultants and their contracts will be based on the standard documents issued by the Bank for the procurement of such services with the minimal necessary modifications as agreed by the Bank.

Selection of firms (US\$1.76 million)

Quality-and Cost-Based Selection (QCBS) will be the preferred method for selection of firms in contracts with estimated values starting US\$200,000 equivalent and above.

Least Cost Selection Method will be applied to procurement of contracts estimated to cost less than \$100,000 for services such as knowledge dissemination, production of media materials and brochures and financial audit services.

Consultants Qualifications (CQ). Contracts estimated to cost less than US\$100,000 may be procured using CQ for the procurement of consulting services in the field of preparation of guidelines for NGO participation in biodiversity conservation activities.

Selection of Individuals (US\$0.54 million). Individual consultants to provide a wide variety of services will be mostly selected on the basis of their qualifications for the assignment preferably by comparing at least 3 CVs from potential eligible candidates.

Small Grant Program.

Small Grants (US\$0.500 million financed by the Bank). The Small Grants program (Conservation and Rural Revitalization Grants Program [CRRG]) will support projects that further the KEC project development objective such as financing the development of a "people and parks" strategy and programs for each of the four national parks. Under this objective, the project will also finance activities for increased public awareness on the local level, including preparation of park promotional materials for visitors and local population; preparation of educational material for regional schools; preparation of field guides for Velebit and Plitvice national parks;. The beneficiaries would include community based organizations, NGOs, private entrepreneurs, and local residents. Procurement will be conducted according to the procedures laid out in the Manual for Conducting Very Small-Value Procurement Under World Bank/IDA Small Grants, Loans and Credits, approved in ECA (single purchases of goods, works and services estimated to cost less than \$5,000 equivalent may be conducted on the basis of local commercial practices screened with anticipation by the PIU and acceptable to the Bank, including sole sourcing when appropriate). Main criteria for project eligibility will include biodiversity "friendliness", technical feasibility, sustainability cost effectiveness, poverty reduction impact, environmental impact, and potential to yield short term benefits. A draft operations manual for the CRRG Grants Program will be completed by project negotiations. Completion of a final CRRG operations manual will be a condition of disbursement for the grants.

Review by the Bank of Procurement Decisions.

Goods and Works: The following contracts are subject to Bank’s prior review as set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines: (i) all ICB contracts; (ii) the first contract for works and goods to be procured through NCB; (iii) each contract for goods estimated to cost the equivalent of \$100,000 or more and works contracts estimated to cost each the equivalent of \$200,000 or more; (iv) the first contract procured under IS procedures, the first contract procured under NS procedures.

Consultants: With respect to consulting services, prior Bank review will be required for all terms of reference for consultants. Contracts for services estimated to cost the equivalent of \$100,000 or more for firms and \$50,000 or more for individuals are subject to Bank’s prior review as set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines. For all consultants, terms of reference will be prior reviewed. All other contracts are subject to post review (one in 5 contracts). With respect to the selection of individuals, most consultancy positions will be advertised.

Procurement methods (Table A)

Table A: Project Costs by Procurement Arrangements
(US\$ million equivalent)

Expenditure Category	Procurement Method ¹			N.B.F.	Total Cost
	ICB	NCB	Other ²		
1. Works	0.00 (0.00)	0.94 (0.77)	0.00 (0.00)	0.00 (0.00)	0.94 (0.77)
2. Goods	0.91 (0.63)	0.08 (0.06)	0.43 (0.30)	0.00 (0.00)	1.42 (0.99)
3. Services	0.00 (0.00)	0.00 (0.00)	2.43 (2.30)	0.00 (0.00)	2.43 (2.30)

4. Small Grants	0.00 (0.00)	0.00 (0.00)	0.50 (0.50)	0.00 (0.00)	0.50 (0.50)
5. Incremental Operating Cost	0.00 (0.00)	0.00 (0.00)	0.35 (0.14)	0.00 (0.00)	0.35 (0.14)
6. Unallocated	0.00 (0.00)	0.00 (0.00)	0.37 (0.37)	0.00 (0.00)	0.37 (0.37)
Total	0.91 (0.63)	1.02 (0.83)	4.08 (3.61)	0.00 (0.00)	6.01 (5.07)

^{1/} Figures in parenthesis are the amounts to be financed by the Bank Grant. All costs include contingencies.

^{2/} Includes civil works and goods to be procured through national shopping, consulting services, services of contracted staff of the project management office, training, technical assistance services, and incremental operating costs related to (i) managing the project, and (ii) re-lending project funds to local government units.

^{3/} A total of US\$0.37 million has been set aside in unallocated funds for contingencies.

^{4/} Please note that the total costs does not include contingencies for Tables A and A1.

Table A1: Consultant Selection Arrangements (optional)
(US\$ million equivalent)

Consultant Services Expenditure Category	Selection Method							Total Cost ¹
	QCBS	QBS	SFB	LCS	CQ	Other	N.B.F.	
A. Firms	1.51 (1.51)	0.00 (0.00)	0.00 (0.00)	0.21 (0.21)	0.04 (0.04)	0.00 (0.00)	0.00 (0.00)	1.76 (1.76)
B. Individuals	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.54 (0.54)	0.00 (0.00)	0.54 (0.54)
Total	1.51 (1.51)	0.00 (0.00)	0.00 (0.00)	0.21 (0.21)	0.04 (0.04)	0.54 (0.54)	0.00 (0.00)	2.30 (2.30)

1\ Including contingencies

Note: QCBS = Quality- and Cost-Based Selection

QBS = Quality-based Selection

SFB = Selection under a Fixed Budget

LCS = Least-Cost Selection

CQ = Selection Based on Consultants' Qualifications

Other = Selection of individual consultants (per Section V of Consultants Guidelines), Commercial Practices, etc.

N.B.F. = Not Bank-financed

Figures in parenthesis are the amounts to be financed by the Bank Grant.

Prior review thresholds (Table B)

Table B: Thresholds for Procurement Methods and Prior Review ¹

Expenditure Category	Contract Value Threshold (US\$ thousands)	Procurement Method	Contracts Subject to Prior Review (US\$ millions)
1. Works	>500,000 <500,000	ICB NCB	0.77
2. Goods	>100,000 <100,000 <100,000 < 50,000	ICB NCB (furniture, park equipment) IS NS	0.76
3. Services		QCBS, LCS CQ, IND	2.10
4. Miscellaneous			
5. Miscellaneous			
6. Miscellaneous			

Total value of contracts subject to prior review: 3.63

Overall Procurement Risk Assessment

High

Frequency of procurement supervision missions proposed: One every 6 months (includes special procurement supervision for post-review/audits)

Frequency of procurement supervision missions proposed: One every 6 months (includes special procurement supervision for post-review/audits) during the first year of implementation; then, once a year. Ex-Post review procurement will be part of the supervision missions and will be carried out by a PAS.

It is expected that, by the time of effectiveness, a year of procurement documentation will be ready. The project launch workshop is estimated to be taking place in 2002.

¹Thresholds generally differ by country and project. Consult OD 11.04 "Review of Procurement Documentation" and contact the Regional Procurement Adviser for guidance.

Disbursement

Allocation of grant proceeds (Table C)

Table C: Allocation of Grant Proceeds

Expenditure Category	Amount in US\$million	Financing Percentage
Works	0.77	85%
Goods	0.99	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
Services	2.30	100%
Small Grants	0.50	100%
Incremental Operating Cost	0.14	80% until October 2004; 50% thereafter
Unallocated	0.37	
Total Project Costs	5.07	
Total	5.07	

Disbursements

Disbursements from the Grant would be made by the Bank initially on receipt of full documentation for all project expenditures except those submitted as SOE. Replenishment applications should be submitted on a monthly basis and must be fully documented and supported by bank statements and reconciliation statements. This documentation will be made available for the required audit as well as to Bank supervision missions and will be retained by the PIU for at least one year after receipt by the Bank of the audit report for the year in which disbursement was made. The proceeds of the World Bank Grant will be allocated in accordance with Table C, Annex 6. To facilitate timely project implementation, the MEPP will establish, maintain and operate a special account under terms and conditions acceptable to the Bank. The option to move to a FMR based disbursements will not be considered.

Use of statement of expenditures:

Statement of Expenditure (SOE) would be used for:

- (a) goods estimated to cost less than US\$100,000 per contract
- (b) works less than US\$200,000
- (c) consultant contracts with firms less than US\$100,000
- (d) individual consultant contracts costing less than US\$50,000
- (e) incremental recurrent costs
- (f) sub-grants referred to in Table C, category "sub-grants"

Special account:

To facilitate timely project implementation, the MEPP would establish, maintain and operate, under conditions acceptable to the bank, a special accounts in US dollars in a commercial bank for the GEF grant. The selection process and criteria for selection of the commercial bank will follow the Bank's

Disbursement Handbook procedures. The bank would, upon request, make a deposit of US\$350,000 for the GEF special account. Applications for the replenishment of the account will be submitted monthly or when 20 percent of the initial deposit has been utilized, whichever occurs earlier. The necessary documentation, the special account bank statement, and a reconciliation of this bank statement will support the replenishment application

Please see Annex 12 for Financial Management Assessment Report

Annex 7: Project Processing Schedule
CROATIA: CROATIA KARST ECOSYSTEM CONSERVATION PROJECT

Project Schedule	Planned	Actual
Time taken to prepare the project (months)		21
First Bank mission (identification)	03/18/2000	03/18/2000
Appraisal mission departure	01/04/2002	11/26/2001
Negotiations	03/05/2002	
Planned Date of Effectiveness		01/04/2002

Prepared by:

Re: project schedule, note the project was "on hold" (for 14 months) due to a shortfall in GEF funds from the completion of the pre-appraisal mission, October, 2000, until the GEF Council Meeting 12/6/01, when the project was approved for the work plan, and appraisal was conducted.

Preparation assistance:

Bank staff who worked on the project included:

Name	Speciality
Rita Klees	Task Manager, Senior Environmental Specialist
John Fraser Stewart	Senior Biodiversity Specialist
Tijen Arin	Consultant - Natural Resource Economist
Valencia Copeland	Program Assistant/Project Cost
Karin Shepardson	Senior Environmental Economist - GEF Regional Coordinator
Gonzalo Castro	Senior Biodiversity Specialist - ENV
Jan Post	Principal Biodiversity Specialist
Anthony Whitten	Senior Biodiversity Specialist
Jane Holt	Sector Leader - Environment
Marjorie Ann Bromhead	Sector Leader - Natural Resources
Jose Martinez	Procurement Specialist
Gurdev Singh	Consultant - Procurement Specialist
Hiran Herat	Financial Management
Janis Bernstein	Senior Environmental Specialist - Social Team
Vladimir Skendrovic	Senior Operations Officer
Anamarija Frankic	Consultant - Ecologist
Martin Schneider-Jacoby	Consultant - Biologist
Voltaire Andres	Consultant - Leadership Development Center
Rimma Dankova	Consultant - Economist

Annex 8: Documents in the Project File*
CROATIA: CROATIA KARST ECOSYSTEM CONSERVATION PROJECT

A. Project Implementation Plan

B. Bank Staff Assessments

C. Other

Social and Rural Development Assessment

Comprehensive Biodiversity Survey

Legal, Regulatory and Institutional Review

Land and Nature Resource Management Plan Review

Public Awareness and Environmental Needs Assessment

Environmental Management Plan

Letter from MEPP regarding Plitvice Lakes National Park Finances

*Including electronic files

Annex 9: Statement of Loans and Credits
CROATIA: CROATIA KARST ECOSYSTEM CONSERVATION PROJECT
01-Mar-2002

Project ID	FY	Purpose	Original Amount in US\$ Millions					Difference between expected and actual disbursements ^a	
			IBRD	IDA	GEF	Cancel.	Undisb.	Orig	Frm Rev'd
P067223	2002	SAL	202.00	0.00	0.00	0.00	100.00	-34.00	0.00
P065466	2001	COURT & BANKRUPTCY ADM (LIL)	5.00	0.00	0.00	0.00	5.00	0.00	0.00
P070088	2001	TRADE & TRANS FACIL IN SE EUR	13.93	0.00	0.00	0.00	12.60	7.61	0.00
P051273	2000	HEALTH SYSTEM	29.00	0.00	0.00	0.00	24.36	-4.62	0.00
P039161	1999	RAILWAY MOD. & REST.	101.00	0.00	0.00	0.00	56.06	61.78	0.00
P057767	1999	TA INST REG REF PSD	7.30	0.00	0.00	0.00	5.42	2.79	0.00
P043444	1998	MUN ENV INFRA	36.30	0.00	0.00	0.00	21.43	11.02	0.00
P040139	1998	INVESTMENT RECOVERY	30.00	0.00	0.00	7.70	1.43	10.11	0.00
P048983	1998	EAST SLAVONIA REC	40.60	0.00	0.80	0.00	24.76	26.40	0.00
P008334	1997	COASTAL FOREST RECON - HR	42.00	0.00	0.00	0.00	6.54	6.54	0.00
P008335	1996	FARMER SUPPORT SERV	17.00	0.00	0.00	2.00	2.35	4.35	0.02
Total:			524.13	0.00	0.80	9.70	259.95	91.97	0.02

CROATIA
STATEMENT OF IFC's
Held and Disbursed Portfolio
Jan - 2002
In Millions US Dollars

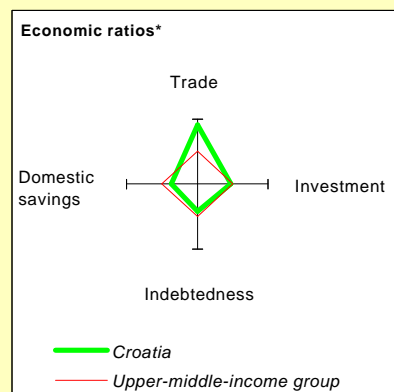
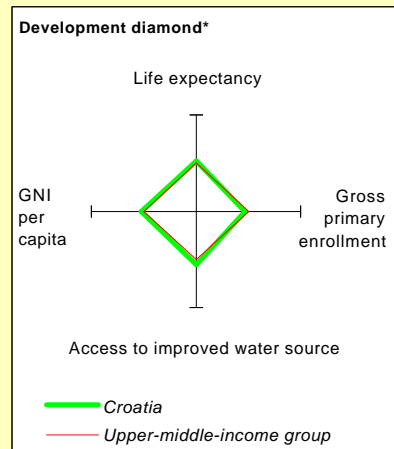
FY Approval	Company	Committed				Disbursed			
		IFC		Quasi	Partic	IFC		Quasi	Partic
Loan	Equity	Loan	Equity						
1998	Alpe Jadran	2.23	0.00	0.00	0.00	2.23	0.00	0.00	0.00
1973/81/98	Belisce	9.65	6.01	0.00	6.00	9.65	6.01	0.00	6.00
1999	Croatia Capital	0.00	5.00	0.00	0.00	0.00	2.69	0.00	0.00
1999	E&S Bank	12.81	0.00	0.00	0.00	12.81	0.00	0.00	0.00
2001	Pliva	25.00	0.00	10.00	12.50	20.00	0.00	10.00	10.00
	T.S. Banka D.D.	0.00	1.24	0.00	0.00	0.00	1.24	0.00	0.00
1996/99	Viktor Lenac	6.00	1.90	4.20	9.00	6.00	1.90	3.70	9.00
2000									
Total Portfolio:		55.69	14.15	14.20	27.50	50.69	11.84	13.70	25.00

		Approvals Pending Commitment			
FY Approval	Company	Loan	Equity	Quasi	Partic
2001	Locat Leasing CR	5.00	0.00	1.20	0.00
2000	RZB Pension	0.00	0.00	3.00	0.00
Total Pending Commitment:		5.00	0.00	4.20	0.00

Annex 10: Country at a Glance

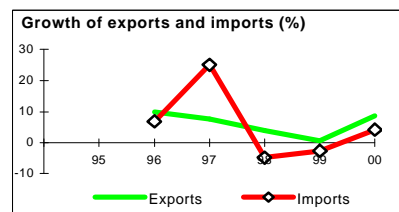
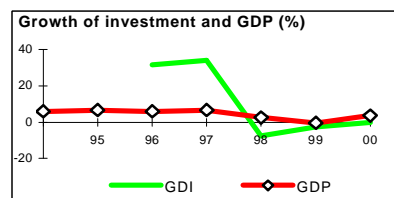
CROATIA: CROATIA KARST ECOSYSTEM CONSERVATION PROJECT

POVERTY and SOCIAL	Europe & Central Asia		Upper-middle-income		
	Croatia	Asia			
2000					
Population, mid-year (millions)	4.4	475	647		
GNI per capita (Atlas method, US\$)	4,840	2,010	4,620		
GNI (Atlas method, US\$ billions)	21.2	956	2,986		
Average annual growth, 1994-00					
Population (%)	-0.9	0.1	1.3		
Labor force (%)	-3.1	0.6	2.0		
Most recent estimate (latest year available, 1994-00)					
Poverty (% of population below national poverty line)	8		
Urban population (% of total population)	58	67	76		
Life expectancy at birth (years)	73	69	69		
Infant mortality (per 1,000 live births)	8	21	28		
Child malnutrition (% of children under 5)		
Access to an improved water source (% of population)	96	90	87		
Illiteracy (% of population age 15+)	..	3	10		
Gross primary enrollment (% of school-age population)	99	100	107		
Male	..	101	106		
Female	..	99	105		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1980	1990	1999	2000	
GDP (US\$ billions)	20.3	22.4	
Gross domestic investment/GDP	23.4	22.0	
Exports of goods and services/GDP	40.6	45.0	
Gross domestic savings/GDP	15.1	16.4	
Gross national savings/GDP	16.5	18.7	
Current account balance/GDP	-6.8	-1.8	
Interest payments/GDP	2.1	2.1	
Total debt/GDP	46.0	46.6	
Total debt service/exports	17.2	20.9	
Present value of debt/GDP	46.1	..	
Present value of debt/exports	101.2	..	
	1980-90	1990-00	1999	2000	2000-04
<i>(average annual growth)</i>					
GDP	..	0.6	-0.4	3.7	4.4
GDP per capita	..	1.2	0.5	4.4	3.2
Exports of goods and services	..	5.5	0.7	8.7	3.7



STRUCTURE of the ECONOMY

	1980	1990	1999	2000
<i>(% of GDP)</i>				
Agriculture	..	10.3	9.7	9.5
Industry	..	33.8	33.1	32.8
Manufacturing	..	27.7	22.4	23.2
Services	..	55.9	57.2	57.7
Private consumption	57.1	57.2
General government consumption	27.8	26.5
Imports of goods and services	48.9	50.6
	1980-90	1990-00	1999	2000
<i>(average annual growth)</i>				
Agriculture	..	-2.0	-2.0	1.3
Industry	..	-2.5	0.1	1.5
Manufacturing	..	-3.3	4.1	4.1
Services	..	2.2	-0.3	5.0
Private consumption	..	2.6	-2.7	4.1
General government consumption	..	1.1	0.8	-0.7
Gross domestic investment	..	8.4	-2.6	-0.1
Imports of goods and services	..	4.8	-2.7	4.2

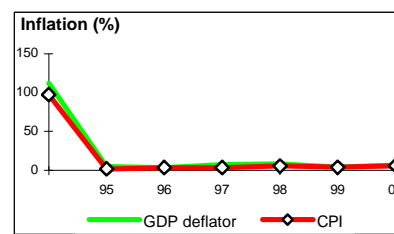


Note: 2000 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

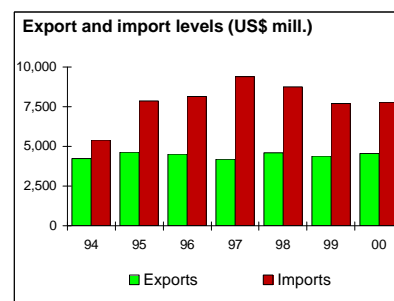
PRICES and GOVERNMENT FINANCE

	1980	1990	1999	2000
Domestic prices				
(% change)				
Consumer prices	4.2	6.2
Implicit GDP deflator	4.1	6.5
Government finance				
(% of GDP, includes current grants)				
Current revenue	47.7	45.2
Current budget balance	1.1	-1.4
Overall surplus/deficit	-2.2	-5.2



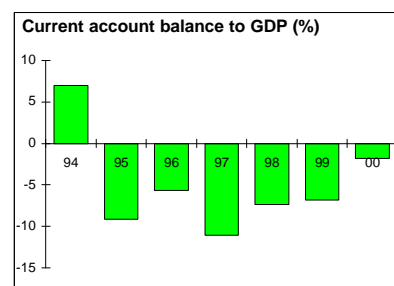
TRADE

	1980	1990	1999	2000
(US\$ millions)				
Total exports (fob)	4,395	4,567
Capital goods	243	251
Chemicals	338	486
Manufactures	2,800	2,751
Total imports (cif)	7,693	7,805
Food	560	538
Fuel and energy	804	1,094
Capital goods	2,732	2,606
Export price index (1995=100)
Import price index (1995=100)
Terms of trade (1995=100)



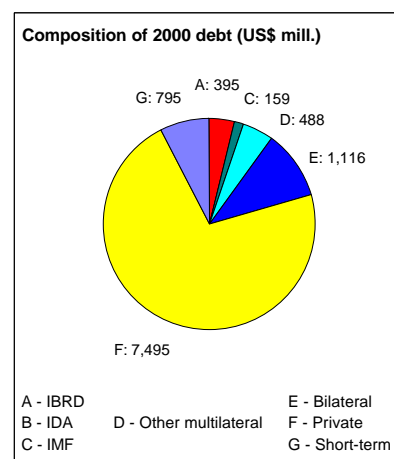
BALANCE of PAYMENTS

	1980	1990	1999	2000
(US\$ millions)				
Exports of goods and services	..	6,819	8,118	8,651
Imports of goods and services	..	7,115	9,791	9,598
Resource balance	..	-296	-1,673	-946
Net income	..	-192	-350	-310
Net current transfers	..	1,541	632	858
Current account balance	..	1,053	-1,391	-399
Financing items (net)	..	-1,053	1,769	981
Changes in net reserves	..	0	-379	-582
Memo:				
Reserves including gold (US\$ millions)	3,025	3,525
Conversion rate (DEC, local/US\$)	7.0	7.0



EXTERNAL DEBT and RESOURCE FLOWS

	1980	1990	1999	2000
(US\$ millions)				
Total debt outstanding and disbursed	9,335	10,448
IBRD	387	395
IDA	0	0
Total debt service	1,596	2,085
IBRD	40	41
IDA	0	0
Composition of net resource flows				
Official grants
Official creditors	83	154
Private creditors	979	1,004
Foreign direct investment	1,445	898
Portfolio equity	574	733
World Bank program				
Commitments	108	29
Disbursements	85	55
Principal repayments	18	22
Net flows	67	34
Interest payments	22	19
Net transfers	46	14



**Additional
Annex 11**

CROATIA KARST ECOSYSTEM CONSERVATION PROJECT

SOCIAL ASSESSMENT AND PARTICIPATORY APPROACH

As part of the preparation of the Croatia Karst Ecosystem Conservation (KEC) Project, the World Bank commissioned Blackstone Corporation Resource Management & Tourism Consultants, a Canadian consultant firm, to carry out a social assessment (SA). The results of the SA and consultations with a wide range of stakeholders were incorporated into the project to improve the effectiveness of the project design. The following summarizes the SA objectives and methodology, socioeconomic conditions, especially principal economic activities as well as demographic and economic changes in the project areas since 1991, social development issues, framework for public participation, and social development indicators for project monitoring and evaluation during implementation.

Social Assessment Objectives and Methodology

The main objectives of an SA are to identify and address key social issues associated with a proposed investment; identify main stakeholders, their interests capacities, conflicts, and likely effects on the protected areas and levels of support/participation in project implementation; evaluate potential social impacts on individuals and social groups; and identify desirable social development outcomes and the social and institutional arrangements to achieve them. The specific SA objectives for the KEC project are to:

- Characterize the local population in the proposed project area in terms of who is currently living in the study area, their economic activities and use of natural resources, and the changes that have occurred since 1991.
- Characterize the extent to which the refugees, most of whom fled in 1995, are returning to the study area and the social impacts of this development.
- Identify specific measures that can be incorporated into the project to contribute to poverty alleviation, as well as strengthening social capital and ensuring equity.
- Identify socio-economic activities, issues and needs, and their relationships to sustainable development and conservation goals (e.g., activities that demonstrate linkages between conservation and development, such as rural tourism, traditional agriculture, handicrafts, etc., as well as those that may pose a threat to biodiversity conservation).
- Identify economic development/income-generating activities for the study area communities that can contribute positively to conservation goals, and assessment of possible financial mechanisms, and other vehicles, to support such development.
- Identify the current involvement of the population in tourism and opportunities for community-based initiatives in the tourism sector.
- Assess current level of public awareness of need for biodiversity conservation, current level of

participation of communities in decision-making related to biodiversity conservation, existing structures for participation., and appropriate mechanisms for increasing community participation.

- Identify social development outcomes and indicators as well as mechanisms for monitoring and evaluating them during project implementation.

The SA methodology involved qualitative techniques, particularly formal and semi-formal in-depth interviews with key stakeholders supplemented by a series of focus groups to bring people together to discuss a specific set of questions about socio-economic conditions and social issues relating to the project. The SA team interviewed over 225 individuals, representing the full range of stakeholders, including Croat and Serb villagers; town residents; and representatives of community-based organizations (CBOs), non-governmental organizations (NGOs), international relief agencies, local businesses, and all levels of government. The SA study area consisted of the communities in and around the four protected areas that are the focus of the KEC.

Social and Economic Conditions

Demographic Changes Since 1991. The KEC study area has experienced profound demographic changes over the past several decades. In Lika-Senj County, which comprises more than 80% of the KEC study area, there has been an extreme and steady depopulation for many decades, declining by 65% between 1900 and 1991. In 1991, the last year that census results are available (2001 census data not yet available), only 64,000 people were recorded as living in the inland. The county's inland population has decreased a further 32% over the past decade, to approximately 43,450 people. This depopulation is the result of the war (including the fleeing of the Serbs), and the disastrous privatization process, which led to the closure of factories, massive unemployment, and out-migration of people in search of jobs.

At the time of the 1991 census, the study area's population consisted largely of the elderly, with people over 60 years of age comprising 23% of the population. Since 1991, many more youth have left, causing the proportion of elderly to increase significantly, particularly in the rural areas. Many young people have moved to cities such as Zagreb and Rijeka to obtain advanced degrees, often because they are unable to find employment. Rural depopulation has implications for the biodiversity aims of the KEC, because much of the farmland meadows that were important contributors to the karst system's biodiversity have been abandoned and overtaken by the forests.

The north part of the study area around Risnjak National Park, generally coinciding with the District of Gorski-Kotar, has also experienced rural depopulation in the order of 20% since 1991, largely as a result of the loss of employment and an exodus of people in search of jobs. Some of the mayors in the towns near the park note that the loss of youth has reached the point where schools are being closed, and there is a fear that some settlements will no longer be able to retain their status as municipalities.

The southern part of the study area, around Paklenica National Park, has reportedly succeeded in holding its 1,200-1,500 population over the past 10 years due to the availability of employment in tourism along the coast. Today, there are only about 120, mostly elderly people, living in rural areas around the national park.

Little is known about land-ownership in this area. Forests comprise much of the area and they are mainly state-owned. There is an on-going process of decentralization and divesting of parcels (for example, church land is being returned). Reportedly there are no conflicts among users.

The ratio of men to women was relatively stable throughout the region according to the 1991 census. The SA investigations, however, identified a very interesting and important factor related to gender balance in post-war times. It was noted by several of the younger men that a major impediment to them staying in the study area is the fact that there are so few young women.

Economic Activities and Resource Use in the Study Area. With Croatia's independence in 1990 came the decision to make the transition to a market economy. The transition and in particular, privatization, proved to be one of the two forces behind the economic decline that the KEC study area has experienced since 1991 (the other being the war). Privatization took the form of the transfer of economic ownership and control of productive enterprises from government to new owners. The bankrupting of many enterprises through the 1990s in the country meant that factories closed, workers lost their jobs, and many of the banks that held the debt of these failed operations went bankrupt.

Thus, in Lika-Senj, the economic picture has changed dramatically during the past decade. Before 1991, stakeholders noted that almost everyone had a paying job, in forestry, tourism, or government. To supplement their income in one of the state-organized industries, many practiced traditional agriculture on their family farms. The thriving Plitvice Lakes National Park that was attracting 750,000 visitors in the late 1980s was an all-important source of direct employment. It also provided largely guaranteed markets for all the agricultural products people could produce.

Unfortunately, the past ten years have seen the major decline of all of Lika-Senj's productive sectors, the loss of jobs, and the out-migration of young people. Plitvice's success as a tourism destination in the 1980s had been heavily linked with the coastal tourism industry that had been the source of 60% of the Park's visitation. Because of the devastating effect that the war has had on Croatia's tourism industry, and because of the bankrupting of many hotels through privatization, the coastal tourism industry has been severely affected, as has Plitvice's. Access to credit, high taxation, and lack of a center to provide business start-up are major impediments to the development of a private tourism industry.

Today, the future of Plitvice, once the most important economic growth engine for Lika-Senj, is uncertain at best. One of the central findings explained more fully in the SA is that the revival of Croatia's coastal tourism industry is closely linked with, and likely a pre-requisite for, the future of a viable tourism industry within the KEC study area. A second conclusion is that, while there are other secondary natural and cultural tourism attractions in the central part of the KEC study area, the land mines present the most severe detriment to development of alternative/"eco" tourism, given the "wandering nature" of this type of tourist.

Forestry jobs in Lika-Senj have declined by at least 60% from some 1,700 to 2,000 jobs in 1991 to between 570 and 700 today as a result of the bankrupting of several sawmills, and because landmines have taken some forests out of production. As far as agriculture is concerned, the significant decline of tourism at Plitvice has undermined demand for produce. Never a mainstay but long a strong supplementary activity, it continues its decline. The predominant elderly farm dwellers are unable to maintain the pastoral and crop lands, while the younger people are very often unable to farm effectively due to a lack of resources and a lack of knowledge about how to market their products.

In the northern part of the study area around Risnjak National Park, forestry was and remains the overwhelmingly dominant industry, accounting for approximately 1,100 jobs. This represents about the same employment level as in 1991, accounting for an estimated 70%-80% of total employment in the district. Unfortunately, a decline in employment by the sector is anticipated, as a result of reorganization and modernization. The situation was quite a bit different before the war and independence, as

municipalities used to own the forests within their boundaries and were able to generate important revenues from this source.

In terms of tourism, before the war many of the communities in the Risnjak National Park study area enjoyed visitation by mostly Western European upscale tourists who were staying in nearby Istria and Kvarner Bay (Opatija, Crikvenica) and who were attracted by the natural and cultural features. Such visitation included day and overnight stays and provided revenues sufficient to diversify the study area's economy beyond forestry. It is expected that effective recovery of the tourism industry will occur in the next three to five years.

In the southernmost part of the study area, around Paklenica National Park, tourism is the mainstay of the economy, centered along the coast around Starigrad. Forestry was not identified as an industry of any importance in this southern region. While agriculture was reportedly important to the area in past decades, there are only a few remaining rural villages. The Paklenica area is reportedly recovering well from the effects on tourism brought on by the war, at least in terms of total numbers of visitors, reaching 120,000 visitors annually, or 60% of pre-war levels. However, as was true in all other parts of the study area, the Eastern European adventure travelers (e.g., climbers, backpackers) who spend relatively little.

Social Development Issues

The following are the main social development issues associated with the proposed project:

Weak civil society. The environmental NGO movement in Croatia is relatively weak, and in its early stages of development. While there are dozens of entities forwarding themselves as environmental “NGOs”, they are small and fragmented, with limited resources and capacity. Many in the environmental NGO community have recognized that there is a need to coordinate activities and establish some type of umbrella organization to represent their interests more effectively. Given the sheer number of NGOs, it was not possible for the project team to communicate individually with all of the groups.

Inadequate capacity for community development. Participation of stakeholders in KEC activities can be difficult. Stakeholders expressed a reticence to meet in groups and do things cooperatively. SA findings are that KEC project initiatives would likely have a higher chance of success if they build on areas of “social energy”, that is to say, on areas where there are indications of energy/activity, entrepreneurship, and enthusiasm. The SA identified a number of communities where people are attempting to work together to develop both community and private sector activities.

Lack of trust in local institutions. Plans, policies and regulations are often poorly implemented and enforced. It was repeatedly noted by stakeholders that although some very good plans exist for county development, park management, etc., they tend to be “paper plans” that are rarely implemented, and laws and regulations are not enforced. This is an important factor for consideration during the KEC project preparation process, as any planning/regulatory initiatives that are proposed under the KEC should be accompanied by a high degree of confidence that they will be implemented.

Lack of adequate community participation in park management decision making. The parks generally tend to function as fairly solitary entities. Local people are generally neither consulted about, nor involved in, park activities, even when they may be very directly affected. Many people are living within park boundaries, especially at Plitvice, where they report a real need for improved communications between management and people to identify suitable activities, provide for garbage collection, etc. Several other local stakeholders reported that they were somewhat confused about the parks, were not consulted about

their establishment, did not know where the boundaries were, and did not understand the reasons for their establishment. There is a legacy of resentment that has grown up around some of the parks, which, as many stakeholders noted, are viewed as having limited activities of those who had previously used the parks for economic purposes. Moreover, it was observed that the relationship between people and parks is extremely weak. One of the key challenges to the KEC Project will be to narrow this gap, and to bring those who are most affected by the Parks' evolution into the decision-making process.

Threats to Cultural heritage. Concern was expressed by several stakeholders about the loss of cultural heritage. As one stakeholder warned, "traditional knowledge will be gone in 10 years." While there is a very rich cultural heritage in Croatia, virtually all of its manifestations (e.g., heritage buildings; traditional foods and beverages; wood arts and crafts; wool, textiles and clothing production; music and dance; etc.) are endangered in the study area. For example, many buildings, old corn mills, fortifications, and churches have been destroyed during the various aggressions. Despite many official designations and protection under the law, stakeholders observed that little is done to preserve these resources in the face of the many other pressing issues confronting the country. Local traditional cultural pursuits and traditional environmental knowledge are also dwindling because the formerly very strong extended family structures break down, and the elderly no longer pass along their knowledge to the youth.

Vulnerable Populations. One of the most vulnerable segments of society in the KEC Project area are those living in the rural villages undertaking subsistence agriculture. Most of these people are elderly and living off pensions that often amount to only 150 or 200 Kunas/month (US\$25). It was observed that often these villagers are isolated and do not necessarily have strong extended family structures to help and support them. Some of these villagers indicated that the young people would come back to the land if they could make a living. In this regard, the KEC Project may be able to play a positive role by providing assistance to this group. Perhaps the most vulnerable and poverty-stricken elements of society observed are the Serbs and Croats who have returned to the rural villages in the Plitvice area in the aftermath of war. Both groups tend to be dominated by the elderly and live in isolated settlements with limited access to resources. Most are trying to reestablish agriculture and crafts production.

Return of the Serbian Population. In 1991, prior to the war, 43% of Lika-Senj's population, or 30,741 people, were Serb, 90% of who fled the country in 1995. By May 2000, SA sources estimate that some 20% (approximately 5,500 people) have returned. Those who have returned are overwhelming the elderly, who have come back to capitalize on their pensions as they have no other sources of income available to them. The SA estimates that, of the 5,500 Serbs who have returned, only 678 (some 12%) are under 45 years of age, underscoring the fact that the young are not returning.

Gender Issues. Little information and few issues related to the status of women in Croatia were identified. There are no agencies of government that deal specifically with women's affairs, and no literature related to gender-specific information was reported. In government, academia and business, observations and stakeholder interviews indicated that women hold positions, at most levels (outside higher levels of government, management and the military), in a proportion relatively equal to men. Rural women have difficult lives, being responsible for work on the farm as well as all household duties. With respect to the issue of poverty, however, it was reported that poor households headed by women (that is, widows) are not receiving war pensions, divorced women and single mothers also are considered vulnerable, but that there are also many households headed by divorced men who are living in very poor conditions. The lack of a social network outside the family makes life difficult for many women today, as in many cases almost all family members have moved away, and there are few children to care for.

Stakeholder Analysis and Participation Framework

A broad range of groups of people have a stake in the way Karst ecosystem resources are managed. Key stakeholders include: (a) Government institutions at the national, regional and local levels (including MEPP, MOAF, HS, Ministry of Tourism); (b) national and nature parks in the project area; (c) local residents and resource users (farmers, forest users, HS employees, herders, service providers to national parks and park visitors); (d) national and local level NGOs; (e) the academic community and research institutes; and (e) tourists. Each of these stakeholder groups has specific interests and needs related to resource use and control and will, therefore, will be affected by the project. The stakeholders consulted during the SA process were evaluated and grouped into three categories: those most able to influence the KEC project; those who are likely to be most affected by the KEC project (both positively and negatively, including the most vulnerable); and those who have potential to contribute knowledge or other support to the KEC project. Table 1 summarizes groups identified as being a part of each of these categories.

Table 1: Summary of Stakeholder Analysis: Interests, Impacts and Influence			
Stakeholder Groups	Interests at Stake in Relation to The Project	Potential Influence of Stakeholder Group on the Project	Potential Impact of the Project On the Stakeholder Group
Stakeholders Most Able to Influence the Project			
Ministry of Environmental Protection And Physical Planning	<ul style="list-style-type: none"> · Oversees the KEC project design and implementation. · Has responsibility for Parks. 	<ul style="list-style-type: none"> · Is an implementing agency of the KEC Project and has a fundamental influence on selection of project components, implementation and monitoring of results. 	<ul style="list-style-type: none"> · Will benefit from institutional strengthening in parks management, sustainable development and natural resource management.
Ministry of Agriculture and Forestry/Hrvatske Sume	<ul style="list-style-type: none"> · Oversees/manages state forests 	<ul style="list-style-type: none"> · Revisions to forestry law could affect the range of permitted uses in the forests of the KEC Project area; · Could provide assistance and input to various forestry/agriculture related project components. 	<ul style="list-style-type: none"> · KEC will promote inter-sectoral cooperation and planning · Rural Revitalization grants are expected to include demonstration of biodiversity friendly forestry practices Improved protected area management should result in improved management of forests in their area.
Ministry of Tourism	<ul style="list-style-type: none"> · MoT has interest in seeing tourism revive in the KEC Project area. 	<ul style="list-style-type: none"> · Ministry could shape the Terms of Reference of other upcoming national tourism studies to include analyses that would be helpful to the KEC Project. 	<ul style="list-style-type: none"> · KEC Project will finance studies and actions in support of ecotourism development KEC project will prepare regional tourism strategy KEC project will support, through rural revitalization grants program, tourism related development
County & Municipal Governments	<ul style="list-style-type: none"> · Interest in creating employment in project areas and limiting reductions in permitted natural resource 	<ul style="list-style-type: none"> · Can facilitate the decentralization process, and encourage participation of its local/county 	<ul style="list-style-type: none"> · Is likely to increase the connection and level of cooperation between government and

	uses that the KEC project might impose.	<p>stakeholders;</p> <ul style="list-style-type: none"> · Can participate directly in specific aspects of the KEC Project. · Can provide information and insights that will ensure a strong understanding of KEC participants of local realities. 	<p>residents/participants through participatory development of protected area management plans, people and parks liaison communities and administration of small grants program</p> <ul style="list-style-type: none"> · Could affect popularity and support of government, if project goal of enhancing economic development is achieved.
Parks Management	<ul style="list-style-type: none"> · Parks strengthening with respect to resource management and biodiversity protection are central to the Karst ecosystem conservation and therefore of strong interest to parks managers. 	<ul style="list-style-type: none"> · Will be the key local contacts and facilitators of KEC Project components. · Will be a key source of information regarding biodiversity and resource use in the parks. 	<ul style="list-style-type: none"> · KEC Project will strengthen legal basis for biodiversity conservation in and around national parks. · Project will help improve financial sustainability of biodiversity conservation efforts. · Project will finance management plan development], equipment, training, field trips [· Project will enhance local community support to national parks · Project will strengthen knowledge about biodiversity in parks.
Stakeholders Most Affected by the Project – The “Key Stakeholders”			
The rural poor	<ul style="list-style-type: none"> · Have a big stake to the extent to which the KEC project focuses on economic development, and a lesser interest if protection is the focus; · Do not appear, in general, to be practicing environmentally unsustainable resource uses; 	<ul style="list-style-type: none"> · Could be participants in KEC Project (e.g. crafts, agriculture, tourism); · If participants in KEC agricultural initiatives, could help to protect biodiversity by preserving the meadows. 	<ul style="list-style-type: none"> · Could be beneficiaries of any KEC project economic development initiatives. · Could alienate and adversely affect the rural poor to the extent that the KEC effects a reduction in permitted resource uses, or does not benefit them; · Could have a neutral/no effect to the extent that the KEC does not focus on this group as a high priority target for participation, or to the extent that the KEC focuses on scientific research.
Serbs and Croats returning to villages	<ul style="list-style-type: none"> · Same as above. 	<ul style="list-style-type: none"> · Same as above. 	<ul style="list-style-type: none"> · Same as above; · Could induce more Serbs to return, particularly to the Plitvice area.

Young people	<ul style="list-style-type: none"> · Same as above. 	<ul style="list-style-type: none"> · Same as above. · Can provide energy and enthusiasm through their participation. 	<ul style="list-style-type: none"> · Could help to enable young people to stay in, or be drawn back to the project area.
Local entrepreneurs	<ul style="list-style-type: none"> · Have interest in economic development in the Project area that will enhance their business. · Producers of crafts/products that are of cultural value wish to revive their business. 	<ul style="list-style-type: none"> · Could participate in ways that help to generate employment growth and help to keep youth in the project area, and preserve culturally important practices; 	<ul style="list-style-type: none"> · Could be beneficiaries of support programs for environmentally businesses.
People living within and adjacent to parks (including local farmers)	<ul style="list-style-type: none"> · Villagers use natural resources for their survival (e.g. farming). [Note: Resource use was not observed to be unsustainable on an overall basis.] · Villagers would like to be able to sell produce and crafts to the parks again · Villagers complain often, that they have little or no input to decisions that affect their lives. 	<ul style="list-style-type: none"> · Same as above; · Can improve sustainable use of resources if the KEC Project successfully encourages their participation and implements measures that help improve their material well being. 	<ul style="list-style-type: none"> · Could be beneficiaries of any KEC project economic development initiatives · Project will encourage their participation by raising awareness and supporting economic activities that are based on sustainable resource use · Villager will be encouraged to participate in the development of park management plans and in parks and people programs.
Tourism industry	<ul style="list-style-type: none"> · The tourism industry throughout the KEC study area is suffering from reduced post-war visitation, a low-end, low-spending tourist, high seasonality, a lack of funds for marketing, and a lack of experience with ecotourism. 	<ul style="list-style-type: none"> · The tourism industry (crafts producers, pension/other accommodations operators, tour guides, etc.) can participate in Karst ecosystem conservation by generating employment and increasing the attractiveness of parks as tourism destinations. 	<ul style="list-style-type: none"> · The KEC Project will benefit the tourism industry by financing the promotion of the parks system. and supporting the analysis, production and marketing of local tourism services .
Community-based organizations (crafts, fishing, hunting, mountaineering)	<ul style="list-style-type: none"> · Currently, these groups base their activities on the use of natural and cultural resources. · Currently, there is reportedly unsustainable hunting within and around some of the parks undertaken by poachers. 	<ul style="list-style-type: none"> · CBOs can be participants in the KEC project and have expressed interest in receiving support (for crafts production and sales and tour guiding), and for support to restore and manage the fishing and hunting resources. 	<ul style="list-style-type: none"> · The KEC project will support measures to protect hunting and fishing resources, thereby benefiting local CBOs, whose activities depend on the quality of the environment; · Mountaineers could benefit if the KEC project supports signage/other amenities.
The Bosnian Croats	<ul style="list-style-type: none"> · Appear to be limited; 	<ul style="list-style-type: none"> · Appear to be limited if not non-existent. 	<ul style="list-style-type: none"> · Appears to be limited but project design should be undertaken recognizing their vulnerable situation.
Stakeholders Who Have Potential to Contribute to the Project			
NGOs	<ul style="list-style-type: none"> · There are dozens of environmental NGOs, including several 	<ul style="list-style-type: none"> · Some NGOs appear to have an understanding of, and relevant experience at the 	<ul style="list-style-type: none"> · The KEC project could strengthen and coalesce the energies of an

	specifically active in the KEC study area.	local/parks level in the project area. They can contribute to the KEC project, possibly facilitating some of the components, such as organic agriculture. · Some NGOs may be able to facilitate the linkage between parks and the local people.	environmental NGO community that is in its early stages of development; · NGOs could, as a result of participation in the KEC, increase their overall influence and effectiveness at county/national levels, as far as environmental awareness and protection, and sustainable development are concerned.
Chamber of Economy	· The Chamber has an interest in economic development, including among others, tourism.	· The Chamber could act as a tourism/other sector resource, and as a partner with the KEC implementers, in terms, among others, of developing recommendations for changes in policies and regulations affecting the success of the KEC, particularly in areas involving economic development.	· Project activities to revive the local rural economy will help the Chamber reach its objective of economic development.
Croatian Livestock Selection Center	· Is actively working in parts of the project area to promote a return on the part of farmers to the breeding of indigenous livestock, which are deemed to be important to biodiversity.	· Could cooperate with the KEC to facilitate a strengthening of local agriculture and protection of biodiversity, through keeping farmers on the land;	· The project includes a breed protection activity which will work with the the Livestock Selection Center and potentially, enable it to generate financial support from national/international sources to continue expanding its work.
Tourism Institute	· Is actively involved in devising policy to promote Croatia as an ecotourism destination in addition to being a sun& sand country. · Interested in enhancing information on the tourism and recreation value of the Karst region.	· Could contribute to the tourism potential and carrying capacity assessment under the project. · Could help monitor ecotourism growth in project areas and its effect on the eco-system.	· Will cooperate to collect information on and shape the policy for ecotourism development in the project areas.
Institute of Social Sciences	· The Institute has experience in alternative tourism development in other parts of Croatia and wishes to contribute to it in the Karst region. · Senior members of the Institute appear to have the trust and understanding of the local people in the	· Could provide assistance to facilitate consultation with and participation of local people, in the KEC Project area, particularly where KEC can benefit local people's lives.	· Could strengthen the Institute's image and involvement.

	Project area.		
World Lutheran Federation, UNDP & Red Cross	· These groups are providing relief to the most vulnerable in the KEC Project area.	· Could provide the KEC with a profound and highly current understanding of social changes and poverty in the KEC Project area and areas of greatest need; · Could provide the KEC Project with advice, and with information that will help to avoid overlap of effort.	· KEC could provide value-added to the efforts of these groups.
Serb Democratic Forum	· The SDF is interested in promoting the return of the Serbs and particularly the young, which is, in part, dependent on the creation of job opportunities.	· Organic farming and alternative tourism are areas of interest to the SDF and which would possibly lead to their participation and cooperation with KEC components dealing with sustainable economic development. · SDF could criticize and resist the KEC if it does not give equal opportunity for participation to both Croats and Serbs.	· KEC could help to advance the interests of the SDF by providing sustainable economic development opportunities.
International Agencies	· Croatia is in the process of negotiating entry into the EU, which makes it eligible for assistance and cooperation with many of these agencies.	· These agencies could top up investments undertaken by the KEC Project, thereby giving it a high value-added.	· The KEC could provide a replicable/successful example of sustainable development and biodiversity protection.
Media	· Media is interested in obtaining and spreading to the population information on environmental protection.	· Journalists and others in the media may be able to act as disseminators of information to the stakeholders.	· KEC Project will cooperate with the media in increasing public awareness on the importance of biodiversity and progress made by the Project in its conservation.

Stakeholder Participation Plan in Project Implementation

The findings of the SA indicate that the main focus of the KEC project should be aimed at ensuring that decision-making be decentralized to the local level to the extent possible. This suggestion responds to the frequently voiced complaints by stakeholders about the traditional top-down decision-making process that has effectively ignored local realities. It also inherently recognizes that realization of the goals of the KEC will necessarily involve, and require, the cooperation and participation of those living on and around the karst region. Table 2 summarizes stakeholder participation expected during project implementation. Table 3 presents the project sub-components in which each of the major stakeholder group will participate and their more of participation.

Table 2: Stakeholder Participation During Project Implementation

Stakeholder	Project Component	Mode of Participation COL = Collaboration CON = Consultation INF = Information Sharing
Ministry of Agriculture Forestry Hrvatske Sume Croatian Livestock Selection Center	<ol style="list-style-type: none"> 1. Review of and amendments to the biodiversity-related regulation, intersectoral harmonisation and development of co-ordinating mechanisms and decision-making decentralisation. 2. Biodiversity conservation and soil protection guidelines and training for land-use and sectoral planning. 3. Monitoring of the biodiversity components for priority areas* (populations of target threatened species, selected karst biotopes) 4. Preparation of spatial and management plan for Velebit Park of Nature and National park Northern Velebit 5. GIS and RS based inventory and monitoring system including acquisition of infrared colour aerial photos for National Park Risnjak. 6. Biodiversity conservation and management of valuable forests within NP Plitvice Lakes and PN Velebit. 7. Project for the protection of local cattle breeds (buša cow and pramenka sheep) 8. Rural economy revitalisation programme (conservation of mountain meadows, organic farming, handicrafts production, wood processing, etc.) including small grants programme for firms and NGOs. 	<ol style="list-style-type: none"> 1. COL 2. COL 3. INF 5. COL 6. INF 7. CON 8. COL 9. CON/COL
Ministry of Tourism Institute of Tourism	<ol style="list-style-type: none"> 1. Legal and regulatory framework review and subsequent revisions to incorporate biodiversity conservation and sustainable use of natural resources 2. Development of national protected areas management and planning guidelines 3. PA system market analysis, promotion and marketing in the project area 4. Web site for karst biodiversity 5. KEC project newsletter 6. Nature based tourism strategy for karst region 7. Preparation of National Park Plitvice Lakes carrying capacity assessment and management plan 8. Preparatory works for the project on construction of mountaineering path and trails in Velebit area 9. Rural economy revitalisation program (conservation of mountain meadows, organic farming, handicrafts production, wood processing, etc.) including small grants programme for firms and NGOs 10. Implementation of Gacka river springs area protection 	<ol style="list-style-type: none"> 1. COL 2. INF 3. COL/CON 4. INF 5. INF 6. CON/COL 7. INF/CON 8. INF/CON 9. CON 10. INF/CON

	and revitalization of cultural heritage (mills) 11. Transboundary regional co-operation of karst PAs (Risnjak, Kupa valley, Snežnik, Škocijanske jame, Kočevje, etc.)	11. CON
Tourism agencies, Local Tourism Service Providers, Mountaineering and Climbing Associations	1. Development of national protected areas management and planning guidelines 2. PA system market analysis, promotion and marketing in the project area 3. Web site for karst biodiversity 4. KEC project newsletter 5. Nature based tourism strategy for karst region 6. Preparation of National Park Plitvice Lakes carrying capacity assessment and management plan 7. Preparatory works for the project on construction of mountaineering path and trails in Velebit area 8. Rural economy revitalisation programme (conservation of mountain meadows, organic farming, handicrafts production, wood processing, etc.) including small grants programme for firms and NGOs 9. Implementation of Gacka river springs area protection and revitalization of cultural heritage (mills) 10. Transboundary regional co-operation of karst PAs (Risnjak, Kupa valley, Snežnik, Škocijanske jame, Kočevje, etc.)	1. CON 2. COL/CON 3. INF 4. INF 5. COL/CON 6. INF 7. CON 8. CON 9. CON/INF 10. CON/INF
County & Municipal Governments	1. Review of and amendments to the biodiversity-related regulation, intersectoral harmonisation and development of co-ordinating mechanisms and decision-making decentralisation 2. Incorporation of biodiversity conservation in sectoral and land-use plans 3. Development of national protected areas management and planning guidelines 4. Formulation of a sustainable financing strategy for the PA system 5. PA system market analysis, promotion and marketing in the project area 6. Web site for karst biodiversity 7. Biodiversity information inventory, mapping and monitoring system 8. Annual workshops on biodiversity in local county centres 9. Biodiversity conservation incorporated in land-use plans, land development and natural resource use in the karst region. 10. Environmental education and local awareness development 11. Demonstration of linkages between rural development and biodiversity conservation 12. Regional Cooperation Programme for Karst Ecosystem Conservation (exchange of information, tourism)	1. CON 2. COL 3. COL 4. CON 5. CON 6. INF 7. INF 8. COL 9. CON 10. CON 11. COL/CON 12. INF/CON

	promotion and partnerships with other karst regions)	
Parks Management and Staff	<ol style="list-style-type: none"> 1. Incorporation of biodiversity conservation in sectoral and land-use plans 2. Policies and guidelines for system of protected areas in karst 3. Biodiversity information inventory, mapping and monitoring system 4. Increased public awareness and support for biodiversity conservation with active role of NGOs 5. Pilot demonstration projects on sustainable technologies that address priority threats to karst ecosystem 6. Nature based tourism strategy for karst region biodiversity conservation, monitoring and evaluation projects 7. Design of spatial and management plans an 8. Strengthening capacity of local staff to manage Protected Areas 9. Environmental education and local awareness development 10. Facility construction and equipment acquisition for PAs 11. Demonstration of linkages between rural development and biodiversity conservation 12. Regional Cooperation Program for Karst Ecosystem Conservation (exchange of information, tourism promotion and partnerships with other karst regions) 	<ol style="list-style-type: none"> 1. COL/CON 2. COL/CON 3. COL/CON 4. COL/CON 5. CON 6. COL/CON 7. COL 8. COL 9. CON/COL 10. COL 11. COL/CON 12. COL
Local entrepreneurs	<ol style="list-style-type: none"> 1. PA system market analysis, promotion and marketing in the project area 2. Nature based tourism strategy for karst region 3. Design of spatial and management plans and biodiversity conservation, monitoring and evaluation projects 4. Environmental education and local awareness development 5. Facility construction and equipment acquisition for PAs 6. Demonstration of linkages between rural development and biodiversity conservation 	<ol style="list-style-type: none"> 1. INF 2. CON/INF 3. CON/INF 4. INF 5. COL 6. COL/CON
People living within and adjacent to parks (including local farmers) Serbs and Croats returning to villages The rural poor Young people Bosnian Croats	<ol style="list-style-type: none"> 1. Increased public awareness and support for biodiversity conservation with active role of NGOs 2. Nature based tourism strategy for karst region 3. Design of spatial and management plans and biodiversity conservation, monitoring and evaluation projects 4. People and Parks program development - includes a community monitoring program 5. Environmental education and local awareness development 	<ol style="list-style-type: none"> 1. INF 3. CON 4. CON 5. COL 6. CON/INF

	6. Demonstration of linkages between rural development and biodiversity conservation through rural revitalization grants program	7. COL/CON
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Social Development Objectives, Monitoring Indicators and Mechanisms

The findings of the SA led to the identification of social development outcomes for the KEC project and were taken into account in reaching agreement in the design of the project. The following presents these outcomes and the main SA report presents monitoring guidelines:

- **Decentralization of decision-making.** The project requires the participation of key stakeholders at the local level. Indicators would include having the local Mjesni Odbor (“Board Place”) organizations contacted and becoming special liaisons with and conduits for local input into the KEC project; and locally based leaders’ assuming responsibility for implementing project activities where the intended beneficiaries are local stakeholders who have the greatest vested interest in seeing that results are achieved (for example, eco/cultural tourism; organic farming; sale of local products).
- **Integration of people and parks.** The project will establish a partnership between park management and park residents and/or adjacent local communities around them. Public participation and awareness-building programs will be required, and park management and local in-park/adjacent residents will operate as a team to decide on policies guiding land-uses, biodiversity protection, and management practices within park boundaries where the project will affect these stakeholders.
- **Support of existing centers of “social energy” and entrepreneurship.** The project builds on the pockets of “social energy” and entrepreneurship that already exist. Existing centers of “social energy” that meet defined criteria are targeted as recipients/leaders of KEC project initiatives (for example, arts and crafts, organic farming, community-based tourism development, environmental education, cultural interests). Existing entrepreneurs are identified in sectors, consistent with KEC goals and “hands-on” practical business/entrepreneurship training (business plan preparation, market demand and cash flow analyses), is provided to individuals/groups who qualify, under defined and transparent criteria, as meeting KEC project goals, by international experts; and the top tier of those undertaking training are given financial support.
- **Poverty alleviation.** The project contributes to poverty alleviation through economic development. KEC support materially improves the medium/long-term outlook of the poor and vulnerable and/or does no harm.
- **Beneficial or at least benign impact on those most vulnerable.** The project does not adversely affect those identified as vulnerable key stakeholders, and preferably offers them some benefit.
- **Ethnic and gender equality.** The project can realistically achieve a balance of participation and benefits among men and women and among different ethnic groups. KEC projects and processes are underscored by concerted measures to encourage participation by a balance of men and women, and to provide equal access to participation by all ethnic groups.
- **Achievement of “value-added.”** Because of the project’s merits, it has the potential to attract capital and technical assistance from other sources, thereby enhancing the project’s long-term benefits and

sustainability. KEC funds are supplemented by financial/technical assistance support of outside/non-KEC sources.

- **Contributions to policy/legal changes.** Either the project does not require a change in policy or law to realize success, or an opportunity exists for the KEC to have substantive input into dialogues to update policy/law and/or influence new legal and regulatory initiatives (for example, Forestry Law, Law of Nature, Corporate Law). The project affords the KEC leadership an opportunity to have substantive policy input to policy areas of particular relevance to the KEC’s success and to social development objectives.

TABLE 3. MONITORING & EVALUATION GUIDELINES FOR SOCIAL DEVELOPMENT OUTCOMES		
Intended Outcome	Outputs	Process Indicators
1. Decentralization of decision- making		
	(a) Local Mjesni Odbor (Board Place) organizations are contacted and, where appropriate, become special liaisons with, and conduits for, local input into the KEC project. (b) Locally based leaders assume responsibility for implementing those sustainable economic development KEC projects in those instances where the intended beneficiaries are local stakeholders who have the greatest vested interest in seeing that results are achieved (e.g. eco/cultural tourism; organic farming; sale of local products, etc.).	(i) Communications program informs local residents within and around each park and/or project area of the KEC project and solicits interest in participation. (ii) Launch workshops are convened in each park and/or project area to shape projects & create local oversight. (iii) Benchmarks, defining tasks, target times for completion and associated budgetary allocations are defined in a participatory process using a professional facilitator. Care is taken to ensure targets are measurable and transparent.
2. Integration of parks and people	(a) Parks management and local in-park/adjacent residents operate as a team to decide upon policies guiding land uses, biodiversity protection, practices within park boundaries, where KEC projects affect these stakeholders’ lives.(c) Performance of benchmarks is monitored systematically.	(i) Same as 1 (i) above. (ii) A policy is adopted by the MEPPP that advocates the right of in-park residents to have a say in decisions made regarding KEC-related initiatives affecting their lives. (iii) In-park residents’ committees are established to provide input to parks policies affecting them. (iv) Measurable and transparent benchmarks are established, using a professional facilitator.(i) Every 3 months (or other appropriate time interval), senior KEC managers receive and review progress reports. If targets are not met, assistance is provided to identify and relieve barriers to their achievement.
	(b) Performance of benchmarks is monitored systematically.	(i) Every 3 months (or other appropriate time interval), senior KEC managers receive and review progress reports. If targets are not met, assistance is provided to identify and relieve barriers to their achievement.
3. Support of centers of existingsocial	(a) Existing centers of social energy who meet defined criteria are targeted as	(i) Measurable criteria are established by KEC and local participants to define social energy

energy	recipients/leaders of KEC project initiatives (e.g. arts and crafts, organic farming, community-based tourism development, environmental education, cultural interests).	<p>in a participatory manner.</p> <p>(ii) A short list of potential project participants is derived. Criteria include demonstration of recent exemplary initiative consistent with KEC goals, and value-added potential, in terms of economic, environmental and equity goals of the KEC project.</p> <p>(iii) Social energy centers are provided with professional assistance to generate business plans and are selected based on a transparent procedure;</p> <p>(iv) Transparent benchmarks are established in a participatory manner to monitor the performance of each social energy participant.</p>
	(b) Performance of benchmarks is monitored systematically.	(i) Every 3 months (or other appropriate time interval), senior KEC managers receive and review progress reports. If targets are not met, assistance is provided to identify and relieve barriers to their achievement.
4. Support of entrepreneurship	<p>(a) Existing entrepreneurs are identified in sectors consistent with KEC goals.</p> <p>(b) Hands-on practical business/ entrepreneurship training (business plan preparation, market demand and cash flow analyses) is provided to individuals/groups who qualify, under defined and transparent criteria, as meeting KEC project goals, by international experts.</p> <p>(c) The top tier of those undertaking training are given financial support.</p>	<p>(i) Possible pilot project leaders are identified.</p> <p>(ii) Recipients of training are geographically, ethnically and gender-balanced.</p> <p>(iii) Other criteria include value-added (likelihood of employment; return of youth; reinforcement of biodiversity and cultural heritage goals) and likelihood of success.</p> <p>(iv) On-going business advice is provided by business monitors over the course of business start-up.</p> <p>(v) Transparent benchmarks are established in a participatory manner to monitor the performance of entrepreneurial recipient.</p>
	(d) Performance of benchmarks is monitored systematically.	(i) Every 3 months (or other appropriate time interval), senior KEC managers receive and review progress reports. If targets are not met, assistance is provided to identify and relieve barriers to their achievement.
5. Poverty alleviation/benign impact	(a) KEC support materially improves the medium/long-term outlook of the poor and vulnerable and/or does no harm.	(i) Preference, in terms of selection, is given to those demonstrating that their success will have a favorable direct or indirect effect on the vulnerable and poor. (In some cases support of the young, for example, may have a positive indirect effect on their vulnerable elderly families.
6. Ethnic and Gender equality of access to participation in the KEC project	(a) KEC projects and processes are underscored by concerted measures to encourage participation by a balance of men and women, and to provide equal access to participation by all ethnic groups.	<p>(i) Communications programs introducing the KEC project and inviting participation reach all ethnic groups. Special efforts are made to reach women (e.g. through women's groups, the Red Cross, etc.)</p> <p>(ii) Mjesni Odbor/local committees formed of residents around the parks reflect a gender</p>

		balance, and a proportional representation of ethnic groups to their overall population; (iii) Leadership positions in KEC projects and programs are gender balanced and ethnically proportional to population.
7. Value-added	(a) KEC funds are supplemented by financial/technical assistance support of outside/non-KEC sources.	(i) Outside funding sources, such as those listed in Section 7, are successfully solicited for support of various KEC projects.
8. Participation in policy/legal changes	(a) The project affords the KEC leadership an opportunity to have substantive policy input to policy areas of particular relevance to the KEC's success, and to social development objectives.	(i) KEC works with tourism interests to exempt the tourism industry from the Corporate Law that is impeding the purchase of local goods by the Parks. (Tourism is different than other sectors in that tourists have a particular desire to buy local, as opposed to imported, products.) KEC, with parks' management, provides useful input to the new or impending Law of Forests and Law of Nature.

Implications for Project Design and Implementation

The following summarizes the main implications for the SA for project design and implementation:

- The KEC project should aim not only at establishing a sound participation program, but at ensuring that decision-making be decentralized to the local level as much as possible.
- Participation and decentralization activities should build on existing organizational structures, and centers of “social energy” and entrepreneurship, wherever possible. While people in the study area tend not to get involved in organizations, there are some areas where there are notable exceptions. These should be capitalized whenever possible to develop participation programs and decentralize the KEC initiatives, rather than trying to develop new organizations. The people involved in the existing groups tend to be those with good ideas, but they are often already over-extended. One of the most promising vehicles for involving villagers in decision-making, related to the KEC project, is a new type of organization called "Mjesni Odbor" (MOs), or "board place". These organizations were recently announced by the national government as vehicles to allow formal village input to municipal authorities (local mayors). By employing these emerging MOs as vehicles for the KEC, the project may be able to assist an important new initiative of government, by encouraging them to develop and become active.
- The inclusion of a “People and Parks Integration Program” can strengthen the links between the national parks and protected areas as well as the local populations who live in and around them. The program can involve the development of people and parks liaison committees that include a range of stakeholders (for example: park residents, adjacent communities, park managers, NGOs, etc). The benefits to stakeholders could be significant, including reduction of conflicts through increased understanding of conservation issues by local people, increased understanding of local issues by parks management people, and increased employment and opportunities for adjunct economic activities by local people.
- The project can support the development of a National Parks and Alternative Tourism Strategy and Action Plan. The development of the tourism sector in the project area will need to be based on rebuilding the coastal tourism industry. As increasing numbers of tourists travel to Croatia, it may be possible to attract them in greater numbers to Plitvice as well as the other parks in the study area and the emerging

alternative ecotourism attractions (for example, the caves) in Lika-Senj. However, certain constraints need to be dealt with, notably the land mines issue, which is a very major impediment to any “non-packaged tour” type of tourism in the interior part of the project area. It is recommended that a tourism initiative be carried out as part of the KEC project, to encompass baseline research of supply-side/product; market analysis; tour operators perceptions surveys (international and national operators); “comparables” evaluation (for example, Slovenia); packaging opportunities; constraints and opportunities; and action strategy.

To address the concerns of several stakeholders regarding the loss of cultural heritage, another recommendation is to include in the KEC project some type of cultural heritage conservation initiative (for example, a traditional environmental and cultural knowledge program). Such a program can be directly related to karst ecosystem biodiversity conservation issues and help support the protected areas. The forests of Velebit, for example, hold botanical resources that have been used for generations for a wide variety of uses by the people who have lived in the area. Recording of traditional cultural activities related to the environment, and devising a plan for their maintenance, can have many benefits to both present and future stakeholders, and to the environment as well.

The project also can be used as a vehicle for promoting linkages between biodiversity conservation and rural development issues, through, for example, support of organic products and traditional species. While it is recognized that the KEC project is an initiative under the GEF program, and strongly focused on biodiversity issues, some of its activities may be able to support and promote linkages with rural development. For example, there may be opportunities in line with stakeholders’ interests and the suitability of the resource base in the study area, to include activities focused on the promotion of organic agriculture and traditional species or research on the feasibility of introducing some type of rural resettlement program or entrepreneurship and business development program involving sustainable, conservation-oriented activities.

Additional Annex 12: [Annex Title]
CROATIA: CROATIA KARST ECOSYSTEM CONSERVATION PROJECT

Karst Ecosystems Conservation Project (KECP)

Financial Management Assessment Report

1. Executive Summary and Conclusion

A review of the Financial Management arrangements for the project was undertaken in December 2001 to determine whether the financial management arrangements within the PIU are acceptable to the Bank. It is concluded that the Project Implementation Unit (PIU) currently does not **satisfy the Bank's minimum financial management requirements**. This is due to the following reasons:

- The PIU does not have in place a financial management system acceptable to the Bank;
- The PIU does not have an operational manual describing the accounting policies and procedures, internal controls, delegation of responsibilities

However, the MEPP and PIU has agreed to take the following measures to rectify this situation:

<i>Action</i>	<i>Deadline</i>
1 The PIU to be fully staffed.	Board Presentation
2 The PIU to implement an accounting system acceptable to the Bank.	Board Presentation
3 The PIU to prepare an operational manual describing the accounting policies and procedures, internal controls, delegation of responsibilities	Board Presentation
4 Bank FMS to review item 2 and 3 above and revise the FM assessment	Prior to Board
5 Prepare FMRs	First half year after Effectiveness
6 The PIU to select auditors acceptable to the Bank, to audit the Grant accounts.	09/30/2002

A summary of financial management assessment and conclusions are as follows:

<i>Financial Management Assessment</i>	<i>Rating</i>	<i>Comments</i>
1. Implementing Entity (PIU)	Moderate	PIU is successfully implementing the Bank financed Biodiversity Conservation Project (KECP)
2. Funds Flow	Moderate	Same funds flow as existing project
3. Staffing	Moderate	Experienced project management and

		financial team
4. Accounting Policies and Procedures	Substantial	Currently, the PIU does not have a project specific operational manual
5. Internal Audit	Moderate	Internal Audit carried out by the Court of Accounts (for KECP).
6. External Audit	Moderate	The project will be audited by the same audit firm that has audited the KECP and issued a clean opinion.
7. Reporting and Monitoring	Moderate	PIU will prepare FMR as per agreed format.
8. Information Systems	Substantial	The PIU does not have a project specific FM system.
<i>Overall Financial Management Rating</i>	Moderate	

Detailed financial management assessment questionnaires are included in the project files.

2. *Project Description Summary*

The project has three components are as follows:

Component 1. Build national capacity to conserve biodiversity and support sustainable resource use US\$1.78 million Activities to strengthen national capacity fall into five sub-components: (i) Strengthening laws and regulatory framework; (ii) Strengthening national capacity to ensure biodiversity conservation.; (iii) Expansion of species and taxa under legal protection; (iv) Biodiversity inventory, mapping and monitoring; and (v) Increasing public awareness and support for biodiversity conservation with active role of NGOs.

Component 2. Establishing community-based mechanisms for biodiversity conservation and sustainable resource use in the karst region \$US5.30 million . The project will support measures to preserve the globally significant biodiversity in the Karst region through community level activities and capacity building for protected area management. Activities to meet this objective fall into three sub-components: (i) Promotion of sustainable nature based tourism.; (ii) Increasing local public awareness and support for biodiversity conservation with active role of NGO; and (iii) Improve protected area management and services for biodiversity conservation.

Component 3. Project Management and Monitoring US\$1.32 million The project will finance the establishment and operation of a central PIU located within the MEPP in Zagreb and composed of a project manager, a procurement specialist and financial management specialist. The government will provide two technical assistants to the central PIU. The project will also finance a local PIU that will be located within the county/municipal physical planning office in Gospic, one of the two county seats included in the project. The local PIU staff to be funded by the project is the project coordinator. The government will provide an administrative assistant and two technical specialists to the local level PIU.

3. *Country Financial Issues*

CFAA for Croatia was carried out in 1999. The reforms carried out to date in the area of financial management put Croatia ahead of many other CEE countries. Croatia has, in fact, set up a modern legal

and regulatory framework, compatible with the needs of a market-driven economy, completely discarded the old accounting system and opted to introduce a comprehensive new framework based on international guidelines. In order to enhance public sector financial management and to achieve a higher level of accountability, the issues related to the integrity and universal coverage of the budget process need to be addressed in greater depth, together with the start of the Treasury, the modernization of accounting and reporting systems and the further development of the institutions in charge of budget compliance through internal and external audits. Bank rehabilitation is under way but additional efforts are needed to strengthen banking supervision and improve credit institutions risk-management. Financial markets and their regulatory institutions need further development; this would also make the privatization process more effective. Market competition and corporate governance are main areas to be reformed to achieve greater transparency and financial accountability for the private sector. The organization of the accounting and auditing profession should be defined by a self-regulating and standard-setting national body, ensuring the application of high standards of ethics and progressively taking on the functions currently performed by the government.

To improve the overall public sector accountability, the reform of the institutions (namely, the ZAP and the relevant Departments of the MoF) currently involved in the accounting, reporting and internal control functions needs to be addressed. In conclusion, the establishment of an adequate financial management framework for the public sector requires the modernization of accounting systems, the harmonization of reporting formats as well as the introduction of effective internal controls and auditing functions.

From a financial management perspective, the project however, is considered moderate risk due to the following reason. The existing PIU is well versed in Bank procedures with the experience gained from implementing an IDF Grant and the on-going GEF project. The same PIU is expected to implement the KECP. The PIU is “ring fenced”, and will have its own financial management system and will carry out all procurement functions in line with Bank’s procurement guidelines. However, the risk is based on the assumption that:

- the same PIU will be officially appointed to implement the KECP prior to Board; and
- a FMS and an operational manual acceptable to the Bank will be in place, prior to Board.

4. Financial Management System Assessment

4.1 Project Management and Coordination

The MEPP will have overall responsibility for project implementation. A national level project implementation unit (PIU) will be established in the MEPP Division of General Environmental Policy. The PIU will build on the existence of the KECP project preparation implementation unit. The PIU will be responsible for all procurement, disbursement and financial management aspects of the project as well as oversee the work of consultants, organize seminars and training. The PIU will be responsible for coordinating with other donors in the implementation of components which will be supported through parallel and co-financing. It will also be responsible for all reporting requirements to the Bank and the Government. It will be staffed by a project director, procurement and disbursement specialist, an accountant and an assistant, funded under the project. Two MEPP environmental specialists will assist the PIU and will be funded by the government.

4.2 Staffing of the Accounting/Finance Function

The accountant is familiar with financial and accounting systems as well as with Bank requirements. The experienced was gained during the preparation phase of the proposed project and the implementation of the IDF and GEF Grants. She would be responsible for all aspects of the financial management and accounting, including maintaining books of accounts, reporting day-to-day transactions. She will also be in charge of the special account and preparation of SOEs and replenishment of the SA (see para 4.3).

4.3 Accounting and Internal Controls

The PIU will take all necessary steps to ensure that the project complies with the relevant Bank policies (OP/BP 10.02). This would include the establishment of proper accounting procedures and internal controls, which will be documented in an operational manual. The manual will be prepared and reviewed and approved by the Bank, prior to Board presentation.

4.4 Computerized Accounting Systems

The PIU is responsible for overall project financial management and accounting for the project. The PIU will establish a financial management system acceptable to the Bank, prior to Board presentation. The system to be established will produce simplified FMRs, in line with the Grant amount (\$5 million).

4.5 Audited Financial Statements and Management Letters

The PIU will recruit independent auditors under terms of reference acceptable to the Bank. Audited Project Financial Statements will be submitted to the Bank with the audit report six months after end of each year audited. Cost of the audit will be financed through Grant. The PIU will select the auditors acceptable to the Bank by September 30, 2002.

4.6 Financial Manual

Operational procedures and guidelines for project financial management will be documented in a Financial Management and Operational Manual, encompassing all levels of project management and administration. The Manual will include financial management and staffing, identification of accounting and auditing standards and procedures used for the project, project reporting and monitoring, procedures for cash and asset management and format of project management reports. The manual will be finalized prior to Board presentation.

4.7 Conclusion

It is concluded that the PIU does not meet the Bank's minimum financial management requirements due to the following reasons:

- The PIU does not have in place a financial management system acceptable to the Bank;
- The PIU does not have an operational manual describing the accounting policies and procedures, internal controls, delegation of responsibilities

However, steps will be taken by the PIU to meet the Bank's requirements prior to Board (see para 1)

5. Financial Flows

A special account will be opened in a commercial bank acceptable to the Bank. All contracts will be concluded by the PIU. The PIU will prepare all the relevant documents, obtain the required clearances. All

payments will be made through the accounting department of the MEPP (as required by law), who will operate the SA (in US\$) and a local account (in Kuna). Counterpart funds would be paid from the budget allocation of the MEPP.

6. Financial Monitoring Reports

The PIU will maintain accounts of the Project and will ensure appropriate accounting of the funds provided. It has been agreed that the PIU will be responsible for designing appropriate financial monitoring reports (FMRs) and preparing FMRs on a half yearly basis. The FMRs include:

- Project Sources and Uses of Funds
- Uses of Funds by Project Activity
- Special Account Statement Plus Local Bank Account Statement
- Project Progress reporting
- Procurement Monitoring

7. Financial Risk Analysis

From a financial management perspective, the proposed KECP is considered a moderate-risk project. **The assessment was carried out on the assumption that the PIU currently implementing the GEF Grant will be appointed to implement the KCP.** A summary of the consolidated risk assessment for the project is as follows:

	<i>Risk Assessment</i>	
	<i>H</i>	<i>SMNComments</i>
1. Inherent Risk		
<i>Croatia</i>		XOverall corruption is high and governance is inadequate.
<i>Project Management Unit</i>		XThe PIU established for the operation of an IDF Grant and GEF Grant will implement this project.
<i>Project</i>		XThe project is well conceived. The Government has demonstrated a high level of commitment and concern regarding the forestry sector and will contribute approximately 39% of project cost.
<i>Overall Inherent Risk</i>		XThe project is implemented by the PIU and not a government agency, as a result the project is ring-fenced. The overall risks are moderate.
2. Control Risk		
1. Implementing Entity		XPIU is well versed in Bank procedures, having dealt with Bank projects.
2. Funds Flow		XBased on the experience gained under the IDF and GEF Grants , no problems are seen.

3. Staffing		X Qualified and experienced staff are already on board.
4. Accounting Policies and Procedures		X PIU does not have a project specific operational manual.
5. Internal Audit		NA
6. External Audit		X Auditors acceptable to the Bank will be appointed
7. Reporting and Monitoring		X Simplified reporting and monitoring formats have been agreed and will be implemented.
8. Information Systems		X The PIU does not have a FM system
<i>Overall Inherent Risk</i>		X

H – High S – Substantial M – Moderate N – Negligible or Low

8. Disbursements

Disbursements from the Grant will be made based on traditional disbursement methods (i.e., from the Special Account with reimbursements made based on Statements of Expenditures (SOEs) and full documentation, and direct payments from the Grant Account). The proceeds of the World Bank Grant will be allocated in accordance with Table C, Annex 6. To facilitate timely project implementation, the MEPP will establish, maintain and operate a special account under terms and conditions acceptable to the Bank. The option to move to a FMR based disbursements will not be considered.

9. Special account:

To facilitate timely project implementation, the MEPP would establish, maintain and operate, under conditions acceptable to the bank, a special accounts in US dollars in a commercial bank for the GEF grant. The selection process and criteria for selection of the commercial bank will follow the Bank's Disbursement Handbook procedures. The bank would, upon request, make a deposit of US\$***** for the GEF special account. Applications for the replenishment of the account will be submitted at least every three months or when 20 percent of the initial deposit has been utilized, which ever occurs earlier. The necessary documentation, the special account bank statement, and a reconciliation of this bank statement will support the replenishment application

10. Agreed Action Plan for the PIU

It is concluded that the PIU **currently does not satisfy the Bank's minimum financial management requirements**. There is however, the following actions that the PIU have agreed to take to improve its financial management process, and meet the Bank's minimum requirements(see para 1).

11. Financial Covenants

The following are the covenants relating to financial matters:

- The PIU will complete the agreed financial action plan for strengthening the project financial

management systems by September 30, 2002.

- The Government will cause the PIU to have its records, accounts and financial statements audited each year, commencing with the accounts for the year ending December 31, 2002.

12. Supervision Plan

The reports of the progress of the project implementation will be monitored in detail during supervision missions. FMRs will be reviewed on a quarterly basis by the field based FMS and the results or issues followed up during the supervision missions. Audit reports of the project will be reviewed and issues identified and followed up. The field based FMS would monitor the agreed action plan to ensure appropriate actions have been implemented by the PIU.

