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THE ROLE OF REGIONAL POLICY IN DEVELOPMENT OF EAST CROATIA: OPPORTUNITIES AND POTENTIALS

ULOGA REGIONALNE POLITIKE NA RAZVOJ ISTOKA HRVATSKE: PRILIKE I MOGUĆNOSTI

SUMMARY

Regional (or Cohesion) policy is one of the oldest and financially the most abundant policies of the European Union which aims to reduce development disparities between regions of Member States. Adoption of the Lisbon strategy in 2007 brought the reform of EU Regional policy which is to achieve the ultimate goal of balanced economic development of regions focused on those investments that are necessary for economic growth such as research and development, innovation, entrepreneurship, human resource development and information and communication technologies. Emphasis was placed on a new approach to Regional policy that integrates the different growth strategies at European, national and regional level, while strengthening the principles of partnership and involvement of regional and local levels since finds there the experience and expertise required for identifying problems and finding appropriate solutions.

This paper will describe the process of integration for Croatian regions into the regional structure of the European Union within the existing institutional framework, when the readiness for long-term strategic planning of regional development for key development institutions in the Republic of Croatia at all levels is expected. The accession of Croatia into the EU opens up a situation for responsible thinking of development priorities and the preparation of appropriate project pipeline with a high level of readiness. Assuming that national level is qualified for the effective management of the Structural Funds and the Cohesion Fund, the effectiveness of using EU funds for financing development projects will certainly depend on quality of capacities for their preparation and implementation. The paper will give an overview of the main stakeholders and their efforts to build such capacities in the two most eastern Croatian counties pursuant to open opportunities through EU programmes and sustainable model of cooperation at the statistical NUTS 3 and NUTS 2 level, resulting in the preparation of projects of wider significance. Joint planning and operation of local and regional authorities, research institutions, development agencies and other organizations, businesses and civil society, becomes a necessary prerequisite to reach economic and social cohesion as the main objectives of regional policy.

Key words: Regional policy, development, strategy, partnership, capacity, development agencies, funds, projects

SAŽETAK

Regionalna (ili Kohezijska) politika jedna je od najstarijih i finansijski najizdašnijih politika Europske unije kojoj je cilj smanjenje razvojnih razlika među regijama zemalja članica. Usvajanje Lisabonske strategije 2007. donijelo je reformu Regionalne politike EU koja se u ostvarivanju krajnjeg cilja ujednačenog ekonomskog razvoja regija usmjerila na ona ulaganja koja su nužna za gospodarski rast kao što su istraživanje i razvoj, inovacije, poduzetništvo, razvoj ljudskih resursa i informacijsko-komunikacijske tehnologije. Stavljene je naglasak na novi pristup Regionalne politike koji integrira različite strategije rasta na europskoj, nacionalnoj i regionalnoj razini, uz jačanje principa partnerstva i uključivanje regionalne i lokalne razine obzirom da tamo pronalazi iskustvo i stručnost potrebnih za identificiranje problema i pronalaženje odgovarajućih rješenja.

Ovaj rad će prikazati proces integracije hrvatskih regija u regionalnu strukturu Europske unije unutar postojećeg institucionalnog okvira, a u trenutku kada se od ključnih razvojnih institucija u Republici Hrvatskoj na svim razinama očekuje spremnost na dugoročno i strateško planiranje regionalnog razvoja. Ulazak RH u EU otvara situaciju odgovornog promišljanja razvojnih prioriteta te pripremu baze odgovarajućih projekata visoke razine spremnosti. Uz pretpostavku osposobljenosti nacionalne razine za efikasno upravljanje sredstvima iz Strukturnih fondova i Kohezijskog fonda, uspješnost korištenja fondova EU za financiranje razvojnih projekata će svakako ovisiti o kvalitetnim kapacitetima za njihovu pripremu i provedbu. Rad će dati pregled glavnih dionika i njihovih aktivnosti u izgradnji takvih kapaciteta u dvije najistočnije hrvatske županije sukladno prilikama otvorenim kroz programe EU, te održivih modela suradnje na razinama statističkih regija NUTS 3 i NUTS 2 koji rezultiraju pripremom projekata od šireg značaja. Zajedničko planiranje i djelovanje lokalnih i regionalnih vlasti, znanstveno-istraživačkih institucija, razvojnih agencija i drugih organizacija, poslovnog i civilnog sektora, postaje nužan preduvjet u ostvarivanju gospodarske i socijalne kohezije kao osnovnih ciljeva regionalne politike.

Ključne riječi: Regionalna politika, razvoj, strategija, partnerstvo, kapaciteti, razvojne agencije, fondovi, projekti

1. Introduction: context of the Regional policy of the EU

The Cohesion Policy is one of the EU policies aimed at eliminating the development discrepancies between regions and strengthening their competitiveness, as well as ensuring harmonious development of the whole territory of the Community. Enormous resources from the EU budget are earmarked for implementation of the Cohesion Policy. The Cohesion Policy is strongly targeted at implementation of the EU strategic objectives (Ministry of Regional Development, 2009, 3).

One of the biggest problems for defenders of Cohesion policy is the difficulty in providing a credible economic case for the policy, based on conclusive evidence of effective results. After more than thirty years of intervention, the contribution of Cohesion policy to economic development and growth remains contested and uncertain (Bachtler J. and Gorzelak G., 2007, 309).

As a result of the new challenges that have to be faced by Europe the European Commission decided to allocate EUR 350 billion for regional policy in 2007-2013. These enormous resources are to contribute to a significant increase in the quality of life of the inhabitants of the European Union and greater economic, social and territorial cohesion between individual EU regions. The regional policy is referred to as the Cohesion Policy partly because of the objectives it has to face.

The resources for the development of European countries, including resources for implementation of the Cohesion Policy, are planned within the frameworks of seven-year budget periods. Today the received resources are programmed for 2007-2013 and the next period will cover the 2014-2020. Despite the introduction of several important changes for the 2007-2013 period, similar objections have begun to surface in the context of the current debate on the future of Cohesion policy post-2013 (Bachtler J. et al., 2009, 67).

Objectives of the Cohesion Policy responds to the major problems of the European Union. The resources were divided between three priority objectives:

- Convergence – aid directed to the poorest regions for reducing gaps between them and other regions; tasks are implemented through the European Regional Development Fund, European Social Fund and the Cohesion Fund
- Regional competitiveness and employment – support to areas at the stage of economic and social transformations; tasks are implemented through the ERDF and ESF.
- European Territorial Cooperation – strengthening cooperation at the cross-border, transnational and interregional level. The tasks are funded from the ERDF.

Twenty-seven countries at different economic level constitute a big challenge for the European Union. In order to uniform the Common Market and bring the countries closer together a lot of effort and resources are needed. The new Cohesion Policy tries to bridge the development gaps between countries by shaping the budget in a manner allowing to target the greatest amount of aid at the countries that are most in need of support. Strong regions become the driving force of the weaker regions (Ministry of Regional Development, 2009, 5-6).

A major objective of Regional policy is to prepare the country for the introduction of EU Cohesion Policy and the Structural Funds. The situation in Croatia today is that while balanced regional development is one of key government priorities, there is still no clear definition of what this means and this article will try to response to these questions.

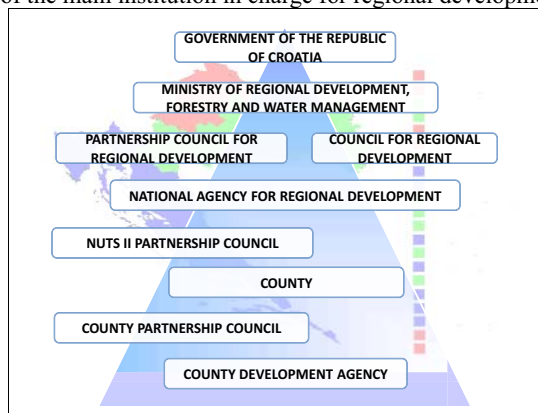
2. Regional policy in Croatia, institutional framework and preconditions for balanced development of Croatian regions

Regional development in Croatia has been clearly defined and regulated by law and National Strategy for Regional Development in 2010 but unfortunately from the perspective of the regions it is still just on the paper, there is still no activities and visible results on these issues in any part of Croatia, including the most eastern counties.

The implementation of regional policy in Croatia will probably start on 1st of July 2013 when Croatia will become 28th EU Member State. Regional policy in Croatia must be placed in the context of EU accession and this is especially important considering that the EU emphasizes that Member States must be in a position to withstand competitive pressures in the single market as a key condition for accession. In this context, regional policy in Croatia is closely tied into the accession strategy.

Below is the picture which shows the institutional framework of regional policy in Croatia.

Picture 1: Pyramid of the main institution in charge for regional development



Source: Draft NSRD, February 2010

National Strategic Reference Framework 2007-2013 (NSRF) is a document presenting a way, in which every Member State intends to use resources from Structural Funds and from the Cohesion Fund in order to achieve the basic aim of the Cohesion Policy of the European Union, to decrease disparities in social and economic development of individual regions of the European Union (Ministry of Regional Development, 2009, 5).

Programming of NSRF in Croatia is ongoing together with 5 belonging Operational programmes which should answer the regional development needs in the area of environment, transportation, human resources development, rural development and most important regional competitiveness. It is questionable how the NSRF and accompanying Operational Programmes will meet key regional requirements without permanent and thorough discussion with regional level. This could be done if national level ensured Regional Operational Programmes of statistical NUTS II regions which should be in line with priorities and measures of NSRF.

Till now, a centralised approach prevails when referring to regional development issues. However, the quite big differences in regional development at the county level and the specific problems of particular counties require also reinforcement of a bottom-up approach. (Davey; 2003, 153)

3. Socio-economic picture of the most eastern Croatian counties – are there opportunities within the EU funding?

Osijek-Baranja and Vukovar-Srijem counties, the areas of special state concern before, belong today within the context of regional development to group of „lagging behind“ regions. East of Croatia experienced heavy and immeasurable war destruction of both physical infrastructure and human capital which together with misled privatization, collapse of agro-industrial combinats, downfalls of major industries and depopulation resulted with poor economy and living standard nowadays.

Selection of few figures indicate the socio-economic scan of these two counties in Croatia: since twenty years ago, two counties of almost 600.000 experienced very serious

depopulation of 113.418 inhabitants³⁹ (Vukovar-Srijem county has lost almost the same number of inhabitants from census 2001-2011 as it was after the war census 1991-2001), the two counties are among the first counties on the list of of unemployed persons per county⁴⁰, GDP per capita in Vukovar-Srijem county is almost three times less than GDP of the most developed counties of Croatia⁴¹, and both counties together attracted less than 2% of total FDI in Croatia in period from 1993-2006⁴². The latest “Regional Competitiveness Index of Croatia 2010”⁴³ ranks Osijek-Baranja on 14th position and Vukovar –Srijem on 20th position among 21 county.

Still, there are more than few very strong features which are characteristic for East of Croatia, identified as true potential, around which the new county development strategies⁴⁴ are shaped into development options:

- ✓ Geographical location and transport connections with European countries and regions (with underused potential of airport and waterways),
- ✓ Human Resources potential in University J.J.Strossmayera, over 20.000 students enrolled in 11 faculties (incl.medicine, agriculture, food.technology, polytechnics and electrotechnic faculty), 4 departments (mathematics, physics, biology, chemistry) and 1 academy,.
- ✓ Good level of secondary education, with over half of pupils in vocational schools,
- ✓ Agriculture and raw-material base and tradition of processing, food processing and energy production,
- ✓ Tradition of industry and handicrafts,
- ✓ The availability of infrastructure and land with convenient rates for construction and rental, and
- ✓ Preserved, rich natural resources (land, air, water, forests) and biodiversity which is internationally recognized.

Vision and leadership, along with determination for strengthening of local capacities, based upon radically clear strategic planning may result in mobilization of resources and utilization of EU funding as clear chance for developmental revulsion. As the majority of EU funds are linked to regional projects, the necessary precondition is having well prepared and mature projects of wider regional significance which could absorb EU funds. There are controversies in debate if every euro invested will have a many times greater effect on the growth of the domestic economy after Croatia becomes a Member State.

³⁹ Croatian Bureau of Statistics, census 1991., 2001., 2011.

⁴⁰ Croatian employment service: Mjesečni statistički bilten 1, 2012, shows that Osijek-Baranja (with 35 238 unemployed) and Vukovarsko-srijemska (20 104) are on the top of the list of unemployed by county

⁴¹ Croatian Bureau of Statistics; In 2007, the difference was 1 to 3.14 (GDP per capita in Vukovar-Srijem County and GDP per capita in the city of Zagreb); although the GDP per capita has to be concerned within the socio-demographic-economy context but still, differences are obvious even at the NUTS2 level: the regional GDP per purchase parity is only 34,5% in Panonian Croatia compared to 64,3% in North-West Croatia NUTS2

⁴² Croatian Chamber of Economy

⁴³ United Nations Development Programme and National Competitiveness Council: *Regional Competitiveness Index of Croatia 2010* (2011.)

⁴⁴ County development strategy (Županijska razvojna strategija) is the main document for the planning and guidance of the regional development at county level in Croatia

4. Key stakeholders and their role in the regional development of Osijek-Baranja and Vukovar-Srijem counties: what can be done to get prepared for effective use of the Structural Funds?

Stakeholders which play an important role in the regional development relate in the context to all parties who have interest and capacities to participate, create and influence the development of the region.

Key stakeholders in the regional development in Croatia on the county level are as follows:

Counties as regional administrative units⁴⁵ and institutions started to invest in strengthening capacities for preparation and implementation of EU funded projects early enough; however, the level of reached strategic planning capacities has more space for improvement as this could be the decisive factor in the process of effective withdrawal of EU financing in due to achieve true developmental impacts. Therefore the main output at the regional level, the Regional Operational Programme is expected to be a real strategic tool in its full meaning when prepared for new EU financing period from 2014. to 2020.

County Development Agencies are operative entities of regional development which serve as a link between public, private, civil sector and academia in building up of strategic partnerships, with aim of preparation and implementation of projects that contribute to raising of life standard⁴⁶. CDAs are the most active actors in providing daily information, consultations, education and mentoring in relation to project application to interested parties in the region. Except RDAs there are local development organizations which also successfully participate in EU programmes.

Cities and most of *municipalities* have staff working on development issues at both planning and project levels, but overall, their capacities are insufficient. The current level of decentralization is often an obstacle for local and regional governments' involvement into large projects. Not many local governments make efforts in developing project teams; even less are committed to associate in due to share or build together needed capacities. Generally, low awareness of opportunity prevails - in spite of widely spread information on EU funding.

Non-governmental organizations (NGO's) were from the very beginning among the most active ones participating in EU programs – the first competent staff for preparation and implementation of projects by the PCM methodology came from civil sector.

Local Action Groups (LAG) are public-private entities which implement rural development strategies at micro-regional level, but they are not yet fully operational in Croatia due to the fact that LEADER approach is implemented only when Croatia becomes the member of the EU.

Some *public companies* are already deeply involved in the process but there is a huge difference in interest and readiness for participation – many public companies still watch and wait. Undertaking additional efforts in due to compete on EU funds market beside regular work, as for local governments – is still not the option for all; however some public companies are extremely successful in realization of their planned investments via EU

⁴⁵ This text doesn't refer in particular to NUTS2 units as the topic covers two counties at the very East of Croatia.

⁴⁶ www.slavonija.hr: Regional development agency of Slavonia and Baranja, amended „vision“

funding. Accepting new mindset brought by EU funds' rules and procedures is also considered as a burden from administrative side, therefore such capacities are also limited.

High-educational institutions are much more involved in Community programs than in other EU programs but they become very important stakeholder in projects connecting research and development programmes with the business sector.

Business sector is not to be forgotten although there was not much funding for them directly⁴⁷, but indirectly they could benefit of EU projects through delivery of works, goods and services. With Structural funds the situation will be changed.

Regardless of sector or stakeholder, lack of staff and financial resources could have implications for future absorption capacity of EU funding.

5. Conclusions and recommendations

Finally, based upon experience of two counties and related development institutions the following was identified as recommendation for improvement of the current state of play of regional policy in Croatia:

- Establishing of inter-ministerial working groups in due to make EU programming more efficient
- Opening of public discussion on NSRF and Structural Funds Operational Programmes and involvement of regional and local level
- Strategic planning, monitoring and evaluation as continuous bottom-up process growing from local to microregional to county and statistical regions, in accordance with national and EU policies
- Communication from local and county (regional) to national level insisting on free flow of relevant information between all interested parties
- Work with national level on capacity building of local and regional stakeholders
- Reinforcement partnerships between sectors and stakeholders on local, county and regional level especially NUTS II Partnership Councils
- Merging of horizontal measures between development strategies and start creating Regional Operational Programmes and sectoral strategies
- Creating regional projects in line with relevant sectoral and ROP strategies
- Building development project teams and sharing resources
- Creation of Regional Development Fund with the aim of co-financing and especially pre-financing of regional projects

Two counties have successful record of joint projects and will continue to make all needed efforts to get prepared for EU Structural Funds and EU membership.

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⁴⁷ Programs for businesses as direct beneficiaries were Phare 2009, and are parts of IPA III and IPA V, also in partnerships with HEI and research institutions – CIP and FP7.

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