

## **CLUSTERING OF TOURIST BOARDS A CHANCE FOR A BETTER USE OF EU STRUCTURAL FUNDS – CASE STUDY VUKOVAR - SRIJEM COUNTY**

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### **Abstract**

Croatia is at the very end of its pre-accession process of joining the European Union, during which many institutions and entities had the opportunity to apply and obtain the pre-accession funds. The aim of these funds was to reduce regional disparities between Member States and candidate countries, to strengthen the public institutions with a focus on integration into the system of the European Union and to prepare them for the use of the Structural and Cohesion Fund after accession.

Tourist Boards in collaboration with local government units, legally defined as carriers of tourism development for specific area were also one of the entities who had the opportunity as a project applicants and / or partners in the project to become the beneficiaries of pre-accession funds. This research shows that during the pre-accession period 2007-2013 there were not so many of such projects. Small number of projects that were financed from pre-accession funds is the result of the shortcomings of the administrative and organizational functioning modes of tourist boards in the Republic of Croatia.

With creation of additional cooperation between larger number of local government units who have the same or similar tourism characteristics on their territory, between tourist boards and development agencies active in this field as well as between other entities in tourism, situation could be changed significantly. Then it comes to merging into “clusters”, which show the great opportunity of devel-

opment with regard to their current funding by the relevant ministries and the European Union in the future. This paper will review the legal options for the development of possible models, and show in a concrete example of Vukovar-Srijem County that theoretical model can find its application in practice in one undeveloped tourist area.

JEL Classification: L83

**Keywords:** competitiveness of the region, structural funds, clusters in tourism, Vukovar-Srijem County

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### 1. The current possibilities for financing projects in tourism in Vukovar-Srijem County

There are various forms of aid for the development of tourism in Croatia, ranging from the Ministry of tourism to other ministries, public agencies and institutions. When we discuss about promoting of tourism development, it is certainly necessary to emphasize grant programs which are being allocated for quality development projects by the relevant ministries, whose tenders are published usually once a year but those are the funds which are directed to projects with smaller value. In addition to the programs at the national level, the entities were able to finance tourism projects through the pre-accession funds of the European Union, namely the Instrument for Pre-Accession Assistance (IPA), which provided funds for the period from 2007 to 2013. IPA program consists of five components: Transition Assistance and Institution Building, Cross-border Cooperation (CBC), Regional Development, Human Resources Development and Rural development. (Central Finance and Contracting Agency official website, 2013.).

Given the possibilities of project financing within the pre-accession programs for projects of importance for tourism development in Vukovar-Srijem County, the following must be pointed out: IPA II CBC Program Croatia-Serbia (promotion of tourism development based on the cross-border regional identity and natural and cultural resources of the cross-border area), IPA II CBC Program Croatia-Bosnia and Herzegovina (promotion of creation of cross-border cooperation and partnership, encouraging the development of joint cross-border activities for revitalization of the economy, nature and environment protection), IPA II CBC Program Croatia-Hungary (sustainable development and tourism development), IPA III c - Regional Competitiveness (business and public tourism infrastructure),

IPA IV - Human Resources Development, IPA V – Rural Development (IPARD measure 302).

Quantitative research that was conducted among all counties in the Republic of Croatia has showed that there were not so many of such projects during the pre-accession period 2007-2013 and the specific problem, which is also determined in the research, is that the number of employees at the institutional level for the preparation of projects in tourism is not at a satisfactory level, and that only in 1/5 of Croatian counties it can be said that there are more than 30 people who have, up to today, participated in the project preparation and implementation. (Banožić, M. et al, 2012).

Despite the fact that all the counties with existing administrative departments dealing with regional policy and project preparation for EU-financing, according to the Law on Regional Development, were obligated to establish and organize their county development agencies, and despite the fact that some municipalities and cities had voluntarily established their local development agencies, still there is no sufficient number of personnel who are ready to prepare such projects, particularly in tourism. (Law on Regional Development, NN 153/09).

In addition to the current situation, the result of the same research is also worrisome, stating the insufficient number of projects in tourism for which the technical documentation is being prepared, which is necessary preparation for the EU-structural funds. Namely, with entry of the Republic of Croatia into the EU on July 1<sup>st</sup> 2013 there are new opportunities for project financing within the structural funds, which means that only 5% of tourism projects will get the opportunity for financing in the future, because exactly that percentage of respondents who participated in the survey have reported that they have undisputable property rights and / or prepared technical documentation. Given the fact that structural funds, as a funding possibility for tourism projects, will be accessible up to the end of 2020, such a small number of projects ready for financing can be increased, and for that it is necessary to connect the key stakeholders into partnership. Currently there is insufficient number of partnerships established by the system of tourist boards and the Ministry of tourism regarding the preparation of technical documentation, co-financing and project preparation according to the rules of the European Union.

## 2. Analysis of possible models for better preparation and implementation of projects financed by the European Union

With respect to the abovementioned role and tasks of the tourist boards system and the fact that it carries good and bad properties of a large administrative system, the solution must not be the establishment of new institutions because the introduction of new entities would only aggravate the current situation. Therefore, it is necessary to take advantage of the current system and use its strengths but exclude its bad properties and to strengthen the existing capacity of the tourist boards. Especially because previous analysis showed that tourist boards, according to the Law, were established in places where it was justified by the sales and tourism revenue, and not where the tourism resources actually exist. So sometimes the resource management and future tourism development was left to be managed by the para-state organizations. (Law on Tourist boards and promotion of Croatian tourism, NN 152/08).

As the figure (Figure 1) shows, tourist boards that operate in Croatia at the regional level establish their cooperation with institutions from the state level which from the top coordinate, fund and monitor the work (Croatian Tourist Board and the Ministry of Tourism), and with other institutions on the regional and local level, whether it is a local executive authority, companies dealing with communal activities and educational institutions, or with entities who directly participate in the creation of tourism products (service providers in the tourism and cultural sector, founders of entertainment, sports and recreational activities, food and souvenirs manufacturers).

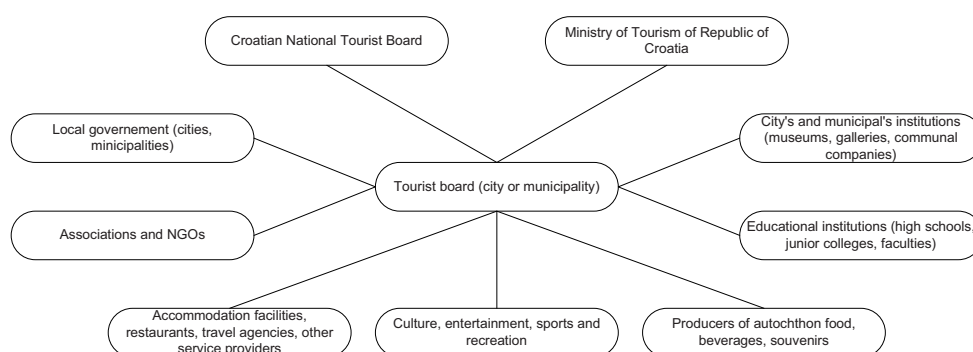


Figure 1 Tourist board and other entities which create tourism product on regional level

Source: Modified according to Scott, N., Baggio, R., Cooper.: Network Analysis, Channel View Publications, Clevedon, 2008.

The strengthening of the existing system of tourist boards can be achieved by good coordination of all tourism entities at the level of Vukovar-Srijem County through the signing of the cooperation agreements. Tourist Board of the city and the municipalities that surround the city area should sign a cooperation agreement. According to the agreement the municipalities would participate in the financing and operation of the boards, and in return the tourist board would be responsible for the contracted area to prepare projects in tourism and to develop the tourism product with other institutions in the contracted area. That is an example of joining into the *cluster*, which shows a great potential in regard to their current funding by the relevant ministries and the European Union in the future. (Guide for information about the European Union, 2013).

Clusters are geographically concentrated, interconnected business entities, specialized suppliers, service providers and connected institutions which in a particular area represent a region or country (Porter, 2000., P 8). Since tourism is an activity that doesn't operate independently, the tourism cluster must include those entities that manage attractions, develop transport infrastructure as well as all entities that make up the conditions for the sojourn and also all parties interested in tourism development: suppliers, public sector institutions, government and para-state bodies at different levels, actual tourists and many other stakeholders interested in tourism development. (Strategic Marketing Plan of Croatian tourism for the period from 2010. to 2014., 2009. page. 84).

According to Porter, there are five competitive forces which should be influenced by the comparative advantages of the destination, in order to ensure the future of tourism destinations. In other words, the comparative advantages of one destination determine its competitive positioning. (Porter, 1998., page 24).

The model for the creation of institutional support for the development and marketing at the regional level is proposed, and the tourist board, which signs an agreement of cooperation with other tourism entities and local government units represents the principal and carrier of the tourism cluster in a particular geographic area. According to Porter's approach, we can say that the clusters represent the group of all businesses that make a competitive destination. Together they make a *competitive diamond* that includes four force groupings, which in their inter-relations determine their competitiveness: demand conditions, tourist entities and their competitors, inputs and sector support. As the image (Figure 2) shows, clusters provide institutional support which brings tourism operators a number of advantages

in their coordinated work, and they can more easily expand their activities, taking advantage of quick access to market information, lower promotional costs, easier coordination with the owners and managers of tourism resources, larger number of experts in theoretical and operational plans, quality monitoring and evaluation, among many other benefits.

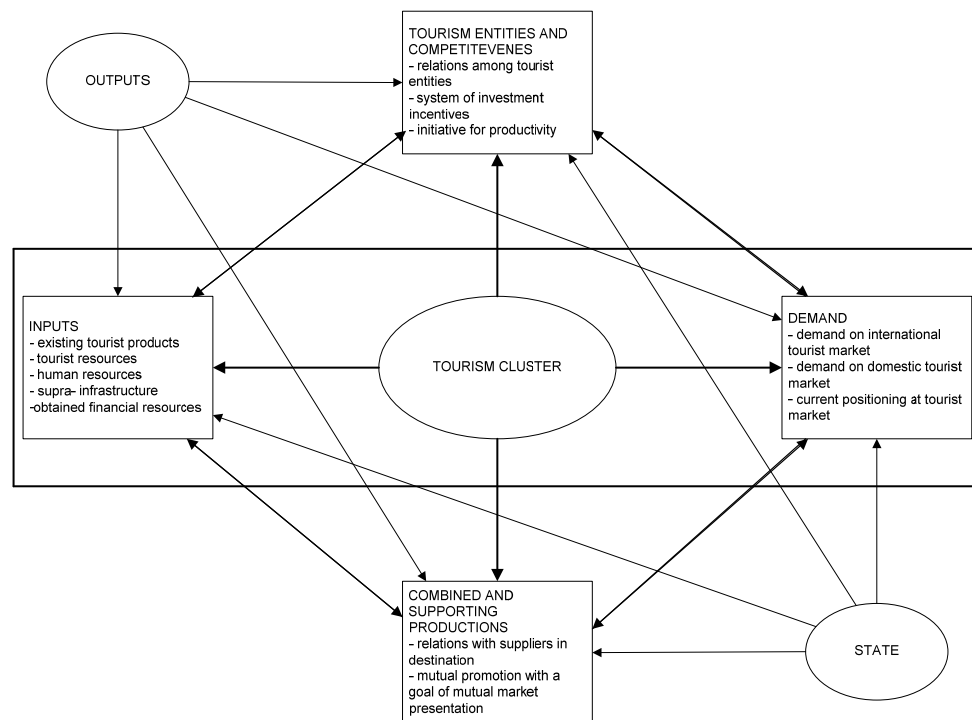


Figure 2: Porter's competitiveness diamond applied to tourism cluster

Source: Modification based on Porter, M. The Competitive Advantage of Nations, The Free Press, New York, 1998., pg. 8

Due to the increasing complexity of relationships in society and the individual interests of different social groups, the setting up of an effective institutional support and development model that would respond to the challenges of the future now requires establishment of a Triple Helix concept of cooperation between the private, public and academic sector. In addition to fulfilling their traditional role, each of the institutional elements takes over the role of the other, thus creating a synergy effect. This way of interdisciplinary knowledge creation encourages projects

that involve collaboration in research and initiation of entrepreneurship activities, which is especially important in global competitiveness. (Agency for Investment and Regional Competitiveness of the Republic of Croatia, official website, 2013)

Exactly from this form of cooperation arises balanced relationship between knowledge, social benefits and profit motivation. By linking and cooperation of the public and educational sector will be achieved an efficient system of knowledge transfer, and the linking of educational sector and the private sector results in businesses in the tourism entrepreneurship based on knowledge. The afore-mentioned indicates that the cooperation of private and public sector together with the educational sector is necessary in all aspects of the development process in order to improve the competence of personnel, development and innovation, creation of an entrepreneurial culture as well as to strengthen the innovation capacity of the tourism sector as shown in the figure (Figure 3).

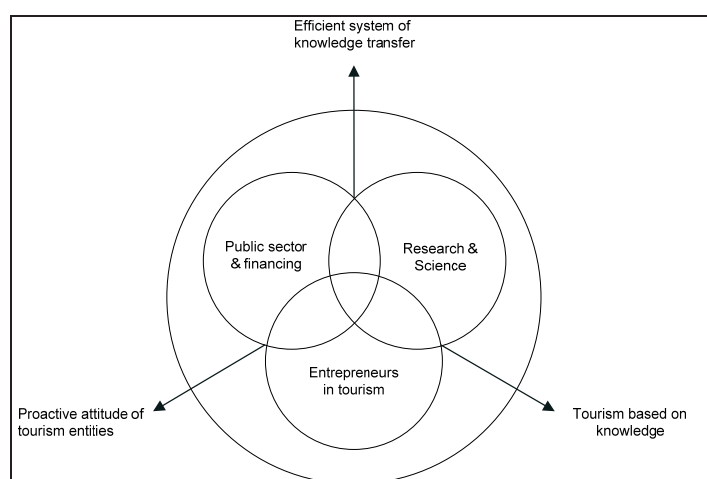


Figure3: Cooperation of public, private and educational sector in tourism according to Triple helix model.

Source: Agency for investments and regional competitiveness of the Republic of Croatia, <http://www.aik-invest.hr/konkurentnost/sektorska-specijalizacija/klasteri-konkurentnosti/> [January 7th 2013.]

Triple helix model would allow easier identification and development of project and business ideas, also there would be an increase of the number of experts in the theoretical and operational roles and quality monitoring and evaluation of the project would be achieved. The mentioned model and its implementation would

contribute to the development of tourism in Vukovar-Srijem County, which would thus be based on knowledge and strong partnership.

### 3. Clustering of tourist boards at the level of Vukovar-Srijem County

The first step in the development of the tourism product in Vukovar-Srijem County should be the establishment of institutional support for the development of five clusters at the level of the city tourist board. Institutional support includes Vukovar-Srijem County's administrative departments, scientific institutions, county's and local development agencies, county's tourist board. The first task is to create conditions between cities, municipal tourism boards, municipalities and tourism entities for signing of cooperation agreement. The reason for this lies in the already accepted fact that we can obtain the quality tourist offer if all tourism entities are coordinated with each other, especially in those areas where we have the present tourist potential but no revenue or income from tourism. The analysis of the region has shown that currently the best way of clusterization is made by clusterizing of tourist boards through signing of the cooperation agreement for a specific area which will, after the conducted analysis, mute into a legal form of an association and hire a person who will prepare the projects.

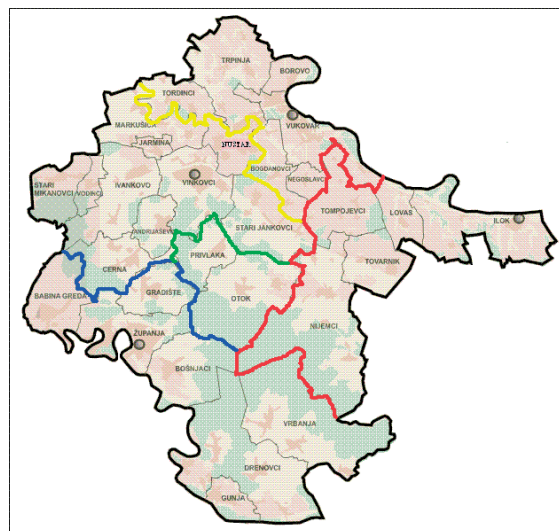


Figure 4 Proposed model of the development of institutional support for the development and marketing of tourism in the area of VSC

Source: Prepared by the author



When planning the development of the tourism product and determination of the supply and demand for these products, it is extremely important to make a good analysis of tourism resources. In order to make such analysis valid, it is also necessary to conduct the analysis of the tourism market for whom the tourist product is intended for, and it must be based on the data as well as on opinions of those experts from the scientific community who are well acquainted with the area where the tourism product is being developed.

During the analysis, each cluster should particularly pay attention to its area on the following:

- accommodation capacities and excursions;
- hospitality facilities; analysis of the hospitality facilities
- those offering authentic gastronomic offer should be placed into an offer proposal for the institutional support;
- cultural and historical heritage; revision of the existing state in the cultural and historical heritage, objects in a poor state should be conserved and protected from ruination, preserved objects should be placed into an offer proposal for the institutional support;
- manifestations, financial feasibility analysis of current manifestations;
- other tourism products (wine routes, rural estates, cycling routes ...) should be placed into an offer proposal for the institutional support;

After a detailed analysis of tourism resources and market opportunities, all tourist potentials should be placed in a central system that will be available to clusters and to the institutional support. From these resources, according to predefined criteria (legal regulations, conservatory permit, various research studies of impact on the environment, preservation of cultural heritage, sustainability studies) can be approached towards the creation of thematic routes (itineraries), manifestations development, post-congress routes etc. As priority tourism products should be developed those products that most closely meet the tourism market conditions (transport and tourism infrastructure, location, tourist accessibility, attractiveness ...), i.e. those that can be immediately included in the tourism offer, while for the others who can't cluster should conduct project preparation.

Institutional support for the development of tourism in VSC should aim to encourage all entities that influence development of the tourism products. Given

that the research has shown that human resources are pointed out as the biggest obstacle, priority should be given to education of workers in tourism for the preparation of projects for EU tenders at the cluster level. Furthermore, the next goal should be to obtain funding for technical documentation and technical assistance for those projects which, according to the analysis, are proved to be a priority but are not ready to be a part of the tourist offer because of their lack in infrastructure.

#### 4. CONCLUSION

VSC has a range of potentials that together might launch a significant tourism development. These include natural beauty, unique Slavonian cuisine, large forest areas for multiple forms of tourism, excellent terrain for outdoor sports such as fishing, cycling, etc., the sources of thermal waters, the tradition of wine production and a significant historical/cultural offer that has its roots in rich history but also in a contemporary tradition. Unused banks of the Danube River are also an important natural resource that should be recognized in the context of a much wider, international tourism offer due to the length of the river. Even though currently at a very low level, the rural tourism could be developed using optimal natural resources.

As an alternative to the current situation, the need to create new organizational models for the development and management of county tourism is evident, in order to make better use of resources available from European funds. With organization of institutional support for the development of tourism at the county level and organisation of five tourist clusters at the level of city tourism boards and its surrounding municipalities, the funds could be generated for new employees who would be solely responsible for the analysis of the area and later for preparation of the projects for the tenders of the European Union.

It is necessary to create an offer of designed tourism products based on the rich history, tradition, archaeological remains, sacral heritage, traditional gastronomy, connect them with existing tourism products and offer them primarily for tourists who already visit this destination. Doing so will further stimulate consumption of existing tourists and their longer stay, while word of mouth would create a rich tourism destination image.

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