

## **ANALYSIS OF THE (NON) UTILIZATION OF FUNDS IPA PRE-ACCESSION ASSISTANCE PROGRAMS AT THE LEVEL OF EX PANNONIA CROATIAN AND POSSIBILITIES OF USING FINANCIAL RESOURCES OF THE STRUCTURAL INSTRUMENTS**

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### **Abstract**

Programs ECHO and OBNOVA was first assistance programs which the European Union pursued in the Republic of Croatia in the period since 1991 to 2000. These programs have greatly helped in the return of refugees, reconstruction of war-torn areas, humanitarian action, and freedom of speech. Assistance program CARDS and pre-accession programs PHARE, ISPA, SAPARD have been active since 2000 to 2007, when they are replaced by a single IPA program.

The main aim and purpose of the IPA program is providing assistance to candidate countries and potential candidate countries in the harmonization and implementation of legal, political and economic *acquis communautaire* and to prepare them for the use of the Cohesion Fund and the Structural Funds.

This paper analyses the competence of project managers, barriers to application and implementation of the projects (the inability to pre-finance and co-financing, the complexity of application procedures, the adequacy of human resources, language barriers, and lack of defined strategic priorities, not preparation of project documentation, lack of motivated managers and project team members). Research results will help organizational units in the Republic of Croatia to more effectively use the resources of the Structural instruments with the aim of further regional development.

JEL classification: R11, R38, R51

**Keywords:** European Union, Program Assistance, Ex Pannonia Croatia, Structural Instruments, regional development

### 1. General on pre-access assistance

First aid programme implemented in Republic of Croatia by European Union in period between 1991 and 2000 were programmes ECHO and OBNOVA. Main purpose of these programmes was mainly to ensure humanitarian aid, return of refugees, rebuilding of the Croatian infrastructure destroyed during war and strengthening of democracy and freedom of the press. Table 1 is showing help provided to Republic of Croatia by European Union in period between 1991 and 2000.

Table 1: Help provided to Republic of Croatia by European Union in period between 1991 and 2000 (in millions of Euros)

	1991.-1995.	1996.	1997.	1998.	1999.	2000.	Total
Humanitarian aid (ECHO)	243.2	21.15	14.5	6.95	8.0		293.8
Return of refugees (OBNOVA)		7.02	8.59	14.0	13.6	10.0	53.21
Demining				1.0	0.5		1.5
Democracy and human rights, media (national programmes)	0.77	1.74	6.59	5.5		0.96	15.56
Democracy and human rights (regional programmes)	0.2		0.2	0.3	6.44		7.14
Customs						1.0	1.0
Tempus (with preparatory activities)					0.1	1.5	1.6
Environmental protection (LIFE)	0.7			0.76			1.46
Capacity building (OBNOVA)						3.0	3.0
Judicature (OBNOVA)					0.6		0.6
Small and medium entrepreneurship (OBNOVA)						2.34	2.34
Small range operations					0.4		0.4
Total:	244.87	29.91	29.88	28.51	30.64	17.8	381.61

Source: [http://www.safu.hr/datastore/filestore/10/Europski\\_fondovi\\_za\\_hrvatske\\_projekte.pdf](http://www.safu.hr/datastore/filestore/10/Europski_fondovi_za_hrvatske_projekte.pdf)

The data from Table 1 Help provided to Republic of Croatia by European Union in period between 1991 and 2000 (in millions of Euros) shows the amount of used financial funds from programmes ECHO and OBNOVA. In ten year period Croatia received the funds amounting 381.61 in millions of Euros. Programme ECHO was implemented in period between 1991 and 1995 while programme OBNOVA was implemented in the period between 1996 and 2000. In period between 2000 and 2004/2006 most important programme of European Union aid to Republic of Croatia was CARDS programme. Purpose and main objective of CARDS programme was to support the participation of Croatia in Stabilization and Association Process.

On 18th June 2004 European Commission awarded Croatia with candidate status thus giving Croatia access to three pre-accession programmes: PHARE, ISPA<sup>1</sup>, SAPARD. Access to pre-accession programmes enabled Croatia to implement all necessary reforms and to fulfil membership commitments appointed by European Union. The PHARE program was designed as assistance programme for national administration and institutions in implementation and harmonization of national legislation with the *acquis communautaire* and assistance in strengthening of social and economic cohesion.

ISPA program ensured the use of funds for the development of infrastructure projects in Croatia, especially in the field of transport and environment. The SAPARD program was solely intended for the development of agricultural and rural area of Croatia.

Programmes PHARE, ISPA and SAPARD were represented in the budget of the European Union until the end of the 2006, and in 2007 they were replaced with a one pre-accession fund IPA. The main objectives of the IPA pre-accession fund is assistance to candidate and potential candidate countries, including Croatia, in harmonization and implementation of the *acquis communautaire* and preparation for the use of the Cohesion Fund and Structural funds when full membership status acquired.

Republic of Croatia is also eligible applicant for Community programmes TEMPUS, LIFE etc. Within the EU programmes projects are being applied by sectors (transport, energy, environment, and research and development). In order

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<sup>1</sup>ISPA is pre-accession assistance program designed to prepare the candidate countries for membership. Intended to finance infrastructure projects in the field of transport and environment

to achieve EU community objective, and to ensure EU co-financing, it is necessary to realize a fusion of individual economic entities and institutions with assistance of relevant stakeholders or consortiums. Cross Border Cooperation Programme INTERREG, was also open to Croatia and within these initiatives it is active program with Italy. Also, within the INTERREG programs with Slovenia and Hungary are active. After becoming a full EU member Croatia will have access to the Structural Funds and the Cohesion Fund. The Structural Funds and the Cohesion Fund are instruments of regional policy of European Union and as such are intended to reduce the gap in the development of individual Member States and their regions and to establish social, economic and territorial cohesion.

## **2. IPA PROGRAMME**

IPA programme (Instrument for Pre-accession Assistance) is unified EU pre-accession programme for Croatia for the 2007-2013. It is established by Council Regulation (EC) No. 1085/2006 and represents a continuation of first generation of EU funds: CARDS, PHARE, ISPA and SAPARD.

Main activities of IPA programme are included in following components:

- Component I - Transition Assistance and Institution Building (IPA-TAIB)
- Component II - Cross-border Cooperation (IPA-CBC)
- Component III - Regional Development – Transport, Environment, Regional Competitiveness (IPA-RD)
- Component IV - Human Resources Development (IPA-HRD)
- Component V - Rural Development (IPARD)

**Table 2:** Perennial indicative financial framework for IPA programme in Republic of Croatia between 2007 and 2012 (in millions of Euros)

Perennial indicative financial framework for IPA programme	2007.	2008.	2009.	2010.	2011.	2012.	Total
I. Transition Assistance and Institution Building	49.61	45.37	45.60	39.48	39.96	40.87	260.89
II. Cross-border Cooperation	9.69	14.73	15.90	16.22	16.54	16.87	89.95
III. Regional Development	45.05	47.60	49.70	56.80	58.20	59.35	316.70
IV. Human Resources Development	11.38	12.70	14.20	15.70	16.00	16.04	86.02
V. Rural Development	25.50	25.60	25.80	26.00	26.50	27.27	156.67
<b>Total:</b>	<b>141.23</b>	<b>146</b>	<b>151.20</b>	<b>154.20</b>	<b>157.20</b>	<b>160.40</b>	<b>910.23</b>

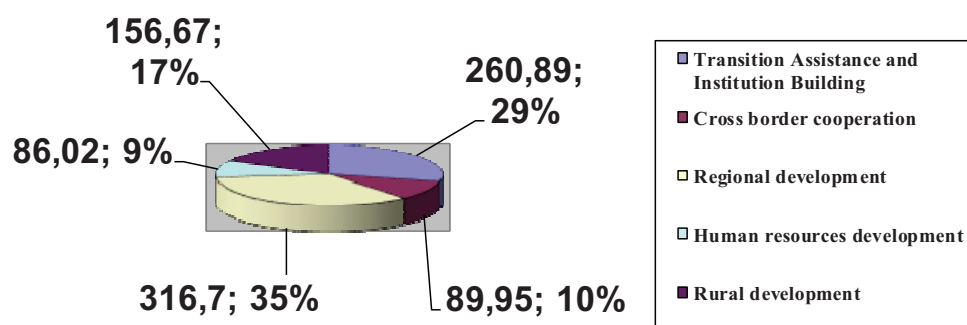
Source: author processed and adjusted data available on: [www.strategija.hr/lgs.axd?t=16&cid=724](http://www.strategija.hr/lgs.axd?t=16&cid=724)

According to the data in Table 2 Perennial indicative financial framework for IPA programme in Republic of Croatia between 2007 and 2012 (in millions of Euros) it is visible that perennial indicative financial framework for IPA programme in Republic of Croatia between 2007 and 2012 amounted 910.23 in millions of Euros.

Financial allocations foreseen by IPA programme for 2013 for Republic of Croatia were 162,9 in millions of Euros, however Croatia will form 1st July 2013, as full member of European Union, have access to structural instruments (Structural and Cohesion funds). From total five components within the IPA programme, for components II, III, IV and V annual allocation of funds increased while component I, although allocating high sum of the funds, records decrease of annual allocated funds.

Chart 1 is showing Perennial indicative financial framework for IPA programme in Republic of Croatia between 2007 and 2012 (in millions of Euros).

Chart 1: Perennial indicative financial framework for IPA programme in Republic of Croatia between 2007 and 2012 (in millions of Euros)



Source: Author's calculation based on data [www.strategija.hr/lgs.axd?t=16&id=724](http://www.strategija.hr/lgs.axd?t=16&id=724)

According to the data in graph 1. Perennial indicative financial framework for IPA programme in Republic of Croatia between 2007 and 2012 (in millions of Euros) it is visible that Component III Regional development has highest amount of allocated funds 316.70 in millions of Euros, Component Transition Assistance and Institution Building has 260.89 of allocated funds, Component V Rural Development has 156.67 in millions of Euros of allocated funds and Component IV Human resources Development has 86.02 in millions of Euros of allocated funds.

### 2.1 Analysis of the utilization of IPA pre-accession assistance programs

Within this research 184 respondents participated in analysis of utilisation of IPA pre-accession assistance programs. The questionnaire was gender balanced and included 97 female respondent (52.7%) and 87 male respondent (47.3%). The age range was from 24 to 64 years, and the average age of respondent was 41 years. By the level of education and qualification, the most of the respondents, 59.6% of them, had university education, 11.5% of respondents had polytechnics education, 7.7% had a secondary school, and 7.1% completed a master's degree (mag.). Furthermore, 4.9% completed a postgraduate university degree in business administration (univ.spec.oec.), 4.4% had a master degree, 3.3% had a doctoral degree, and 1.6% had an academic title of *baccalaureus*.

On the preceding sample survey was conducted on whether the 2007 to present successfully implemented at least one project under IPA assistance. The research results are presented in the Table 3. Result of HI-square test shows that there is no

significant differences between respondents from different counties regarding to the realisation of projects within IPA assistance programme. Percentage of participants carrying out at least one project vary from 64.3% (Bjelovarsko-bilogorska County) to 88.9% (Karlovačka County).

**Table 3:** Did you participate in the process of application and implementation of IPA assistance projects between 2007 and today – frequency and percentage of respondents from various counties

	Implemented at least one project under IPA assistance programme since 2007?					
	Yes		No		Total	
County	f	%	f	%	F	%
Bjelovarsko-bilogorska County	5	35.7	9	64.3	14	100
Brodsko-posavska County	1	12.5	7	87.5	8	100
Karlovačka county	1	11.1	8	88.9	9	100
Osječko-baranjska County	8	16.7	40	83.3	48	100
Požeško-slavonska County	5	33.3	10	66.7	15	100
Sisačko-moslavačka County	1	14.3	6	85.7	7	100
Virovitičko-podravska County	4	21.1	15	78.9	19	100
Vukovarsko-srijemska County	2	15.4	11	84.6	13	100
Total	27	20.3	106	79.7	133	100
Hi-square test	<b>χ<sup>2</sup></b>		<b>df</b>		<b>p</b>	
	5.150		7		.642	

Symbols denote as follows: f – frequency;  $\chi^2$  - hi-square test; df - degrees of freedom; p - statistical significance

In addition to the previous survey the authors have had explored how their subjects participated in the application and implementation of the IPA assistance projects. The research results are presented in Table 4. The results of Hi-square test show that there are differences in educational level of respondents who participated in the application and implementation of IPA assistance projects. For example, 66.7% of respondents with higher education said they were preparing the projects, indicating that subjects with this level of education had the least experience with the application of projects. Most experience in application of IPA projects had the respondents with completed master's degree or doctorate. 97.2% of respondents with master's degree or doctorate had already participated in preparation of IPA assistance projects. Nearly 80% of the respondents with high school degree and university degree said they were participating in preparation of project (high school

degree 78.6% and university degree 78.9%). According to the results, all the counties do not apply and participate in preparation and implementation of projects in same level.

**Table 4:** Did you participate in the application and implementation of IPA assistance projects – according to the education level

	No experience		We prepared projects so far		Total	
Level of education	F	%	f	%	F	%
Secondary school diploma	3	21.4	11	78.6	14	100
Polytechnics / Baccalaureus	8	33.3	16	66.7	24	100
University diploma	23	21.1	86	78.9	109	100
Masters / Doctorate	1	2.8	35	97.2	36	100
Total	35	19.1	148	80.9	183	100
Hi-square test	$\chi^2$		df		p	
	9.675		3		.022	

Symbols denote as follows: f – frequency;  $\chi^2$  - hi-square test; df - degrees of freedom; p - statistical significance

## 2.2 Obstacles when applying and implementing projects

When comparing the arithmetic value of certain statements relating to estimated obstacles when applying and implementing projects, it can be seen that the respondents on average agreed that there are problems with pre-financing of IPA projects ( $M = 3.89$ ), application and implementation procedure is too complicated ( $M = 3.87$ ), and that organisations do not have sufficient and adequate staff resources for application, technical implementation and evaluation of projects ( $M = 3.69$ ), and finally there is a problem with co-financing ( $M = 3.67$ ). Somewhat less visible problems are related to the language barrier ( $M = 3.27$ ), undefined strategic priorities at the local level ( $M = 3.15$ ), and the problem in a number of high-quality sub-contractors ( $M = 2.99$ ). According to the average responses, it can be seen that respondents neither agree nor disagree with stated problems.



**Table 5:** Descriptive statistics and percentage in estimated obstacles when applying and implementing projects

	M	SD	%				
			1	2	3	4	5
Problems with pre-financing	3.89	1.165	5.0	8.3	18.3	28.9	39.4
Application and implementation procedure is complicated	3.87	0.994	1.6	9.3	18.7	41.2	29.1
My organisation does not have sufficient and adequate staff resources for application, technical implementation and evaluation of projects	3.69	1.255	6.6	14.8	14.8	30.6	33.3
Problems with co-financing	3.67	1.25	6.1	15.0	17.8	27.8	33.3
Language barriers	3.27	1.195	8.2	19.7	26.2	29	16.9
Undefined strategic priorities on local level	3.15	1.228	9.6	23	27	23.6	16.9
Problem with high quality sub-contractors	2.99	0.969	6.1	23.5	40.2	25.1	5.0
Project documentation was not prepared on time	2.57	1.219	23.2	28.2	23.7	18.1	6.8
Insufficient motivation of project manager/project team members	2.53	1.228	25.1	27.4	24.6	15.6	7.3
No obstacles found and funds were utilized maximum	2.53	1.037	17.9	31.2	33.5	14.5	2.9

Symbols denote as follows: M - arithmetic average; SD - standard deviation; 1 - fully disagree; 2 - disagree; 3 - neither agree nor disagree; 4 - agree; 5 - fully agree.

Even less clear is for the statement "Project documentation was not prepared on time" (M = 2.57), and "Insufficient motivation of project manager/project team members" (M = 2.53), with the responses almost on the border between the responses "disagree" and "neither agree nor disagree". In this area there are also responses to the statement, "No obstacles found and funds were utilized by maximum" (M = 2.53).

**Table 6:** Descriptive statistics and percentage for question: „Considering upcoming EU full membership and possibility of application on Structure and Cohesion funds, do you have enough knowledge on the potential application for future projects?“

	M	SD	%				
			1	2	3	4	5
Do you have enough knowledge on the potential application for future projects	3.10	1.132	12.0	13.7	35.5	29.5	9.3

Symbols denote as follows: 1 - I do not have enough knowledge; 5 - I do have enough knowledge; M - arithmetic value; SD - standard deviation.

On average, respondents think that neither have nor they have enough knowledge about the possibilities of applying for future projects. In terms of percentages, 40% of respondents believe that there is sufficient knowledge, 35% of them in the middle, and about 25% were considered to have insufficient knowledge about such possibilities.

**Table 7:** Frequencies and percentages of responses to the question, “Given the recent Croatian accession to the EU and the possibility of using Structural and Cohesion funds, does your organization have the project drafts in the preparatory phase?”

	Answer	f	%
Does your organization have the project drafts in the preparatory phase for future Structural Funds and Cohesion Fund EU	Yes	89	48.9
	No	93	51.1
	Total	182	100

A little more than half of respondents (51.1%) responded that their organization does not have project drafts in the preparatory phase for the possibility of using the Structural Funds and the Cohesion Fund.

### 3. Conclusion

Given the number of inhabitants, the space coverage, GDP, employment rate, level of education, infrastructure and the small and medium enterprises it can be stated that Central and Eastern (Pannonian) Croatia has smallest number of inhabitants or 28.78% of the total population of the Croatian and its share in gross domestic product per capita in the 2008 was 7,780 euros of GDP per capita. In addition, the highest number of unemployed in January 2012 was registered in Central and Eastern (Pannonian) Croatia with 135.37 thousand unemployed people. Also this region has the most unfavourable educational structure of employees in relation to the Croatian average.

In this report we analysed the degree of utilization of IPA assistance, on the area of the former Pannonian Croatia, according to gender, age, work experience, education level, county and organizational structure of the institution. According to the HI-square test, respondents from different counties show no statistically significant difference in realization of IPA assistance projects from 2007 until today and percentage of respondents that implemented at least one project range from 64.3% (in Bjelovar-Bilogora County) to 88.9% (in Karlovac County). However, HI-square test shows the difference in education level in implementation and ap-

plication to IPA projects. For example, 66.7% respondent with polytechnics education stated that they have participated in application of projects, which shows that respondent with that education level have minimum experience in application of IPA projects. Most of experience in application of IPA projects have 97.2% respondents with masters and doctorate level of education. Respondents with high school degree or university degree had experience in preparation of IPA projects (high school degree 78.6% and 78.9% of university degree). Also, the authors of this study analysed the assessment of barriers when applying and implementing projects. According to the analysed results it is visible that average respondents agree that there is a problem with pre-financing of IPA projects ( $M = 3.89$ ), application and implementation procedure is too complicated ( $M = 3.87$ ), and that organisations do not have sufficient and adequate staff resources for application, technical implementation and evaluation of projects ( $M = 3.69$ ), and finally there is a problem with co-financing ( $M = 3.67$ ). Somewhat less visible problems are related to the language barrier ( $M = 3.27$ ), undefined strategic priorities at the local level ( $M = 3.15$ ), and the problem in a number of high-quality sub-contractors ( $M = 2.99$ ). The crucial problem is also lack of knowledge about the possibilities of applying for future projects. In terms of percentages, 40% of respondents believe that they have enough knowledge, about 35% are in the middle, and about 25% were considered to have insufficient knowledge about such possibilities. Also, half of the respondents (51.1%) said that their organization do not have any projects in preparatory phase for the possibility of using Structural funds and the Cohesion Fund.

Having in mind that the Republic of Croatia is on 1st July 2013 becoming full member of European Union, and by full membership Croatia will in the first half of the 2013 be entitled to 655 million euro through structural instruments the question is does Republic of Croatia have really the capacity to fully exploit these resources.

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