

## FINANCING DEVELOPMENT PROJECTS IN NEW EU FINANCIAL PERSPECTIVE 2014-2020

Gabrijela Žalac, B.Sc.<sup>1</sup>, Mario Banožić, Ph.D.<sup>2</sup>

<sup>1</sup>Department for International Cooperation and EU Affairs, Vukovar-Srijem County,  
Republic of Croatia, gabrijela.zalac@vk.t-com.hr

<sup>2</sup>Department for Tourism and Culture, City of Vinkovci, mario.banozic@vk.t-com.hr

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### Abstract

The EU funds represent an important source of financing development projects in the Republic of Croatia. Only well-prepared projects on national, regional and local level, involvement of potential beneficiaries of European projects in early phases into the programming and planning process of strategic documents based on bottom-up approach and larger investment of budget means through well-elaborated plan of development programs will be vital for successful use of structural and investment funds in new EU financial perspective 2014-2020.

As the space for the increase of absorption of capacity of EU means existed even in the pre-accession period, the need for additional improvement of capacities of Croatian stakeholders for realization of financing their projects from EU funds grew significantly with new and more abundant funds. Therefore, one of the most important priorities of Croatian society as a whole is to focus their strengths to making and implementing of high-grade projects that will compete for co-financing from EU funds, equally with projects from other member states.

In order to make the Republic of Croatia more competitive in using structural instruments of cohesion policy it is necessary to involve relevant institutions into the process of preparation of strategic documents in the next period, and especially the present and future beneficiaries of the means to include and identify all needs and development priorities of the Republic of Croatia.

Those that implement the projects know exactly which investments should be supported. With this kind of bottom-up partnership approach the prioritising of

strategic references of future Operational programs and Partnership agreement would be made much easier, and based on that the member states use EU funds.

If this should not be the case with the Republic of Croatia as a new member state, the priorities of financing will be general and not sufficiently adjusted to real needs of those that will implement the projects on field, and that will negatively reflect development results we wish to accomplish in the future financial perspective.

It is important not to neglect financial aspect of the projects, i.e. to ensure enough means for their pre-financing and co-financing, in order to implement the projects until the end. In major infrastructural projects it is more important to ensure financial sustainability after the end of a project and European financing.

**JEL Classification:** F63, O21

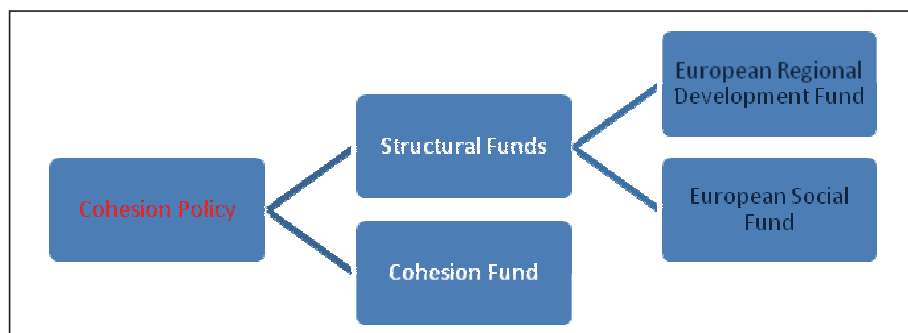
**Keywords:** financing development projects, EU funds, new EU financial perspective, bottom-up approach, development programs plan

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## Introduction – Cohesion policy and its guidelines

The preamble of the Roman Treaty of establishing the European Community (1957) refers to the will of strengthening the economic and social cohesion of the EU in respect of the harmonious, balanced and sustainable development of the community. In the 1970s the European cohesion policy was equipped with financial instruments in the form of structural funds, which were implemented in frame of annual budget system. The main goal of the Treaty, as mentioned above, was realized according to compensational criteria, which comprised of directing the financial support towards solving the inner challenges of the EU, i.e. the help for regions that suffer from structural problems. (Ministry of Regional Development of Poland, 2009,20)

On June 24, 1988 the Council adopted the first regulation that integrated the existing financial instruments under “**the roof of Cohesion policy**”. The total long-term goal of Cohesion policy was clearly stated in the Art. 158. of the Treaty under which: “In order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of economical and social cohesion. In particular, the Community shall aim at reducing disparities between the levels of development of the various regions and backwardness of the least favoured regions or islands, including rural areas”. (Rybinski, 2009, 69)

**Picture 1.** Main components of Cohesion policy

Made by the author

If we add two more funds to the stated components, to be more precise the European agricultural fund for rural development and European maritime and fisheries fund, we place them under one common title, which are the European structural and investment funds (ESIF). The use of means from these funds represents the foundation of sustainable and balanced economical growth.

As the Cohesion fund is mostly directed towards projects of national importance, such as the railway, roads and similar, we find Structural funds and European agricultural funds for rural development and European maritime and fisheries funds especially interesting from the regional and local point of view.

The European fund for regional development has the aim to strengthen economical and social cohesion and decrease the disparities in development between the regions within the European Union. It is mostly directed towards infrastructural investments, production investments with the goal to open job vacancies and to local development and the development of small and medium enterprises, whereas the European social fund tends to decrease disparities in standard of living and welfare in member states and their regions, but at the same time promote economical and social cohesion. ([www.mrrfeu.hr](http://www.mrrfeu.hr))

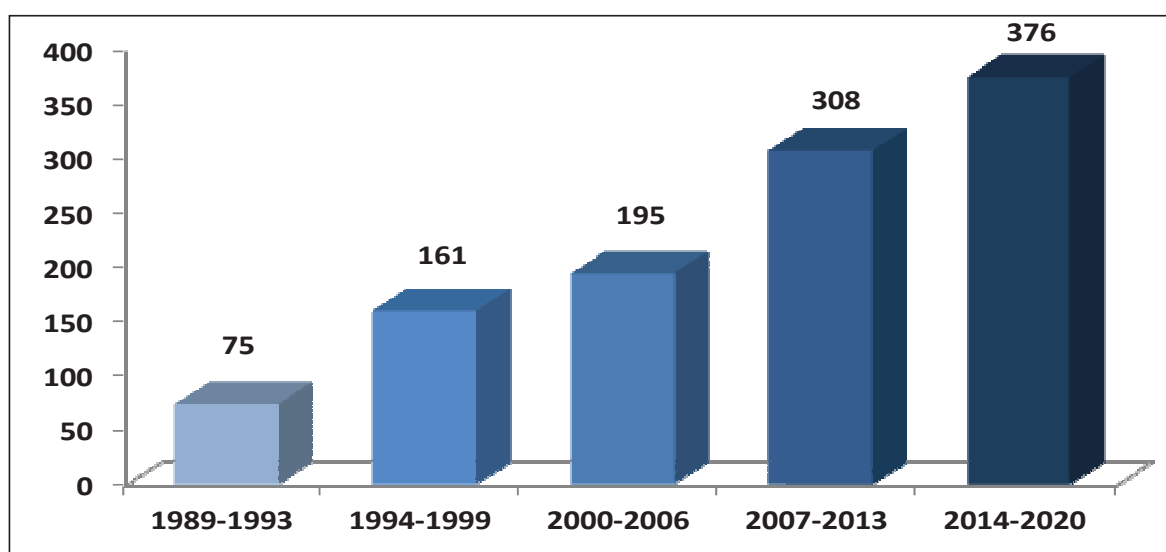
Comprehensive aim of the Cohesion policy is to promote economical and social cohesion in Europe by increasing the competitiveness of EU economy and by decreasing disparities in economical development between the countries and regions in the European Union.

As the aims of the Cohesion policy are to be fulfilled by implementation and investment into infrastructure such as the traffic, environment protection, energetic, regional competitiveness and human potential development, Croatia faces a great challenge that demands certain institutional adjustments. It is necessary, as

on national and regional so on local level to ensure multiannual and strategic approach, partnership of all relevant stakeholders and ensure that with the EU funds the investments on both national and local level that have already been financed speed up, rather than invent new areas of investment (I'M, August 2013,13).

The Cohesion policy is at the same time expression of solidarity of the European Union with less developed countries and regions, which concentrates means in areas and sectors where they are most needed. The neglecting of these economical, social and territorial disparities would mean undermining of basic principles of the European union, including the common market and unique European currency. Therefore, the significant part of the budget of the European Union is directed to the Cohesion policy, what can be seen in the following graph:

**Graph 1.** – The budgetary importance of Cohesion policy in EU (in billions of EUR)



### The Republic of Croatia in new EU financial perspective 2014-2020

The Republic of Croatia has so far had through pre-accession funds 1,12 billion EUR at disposal, from which 820 million EUR or 73,15% have been contracted, which puts us in the “upper-house” of EU member states. When it comes to the pre-accession program IPA that has been implemented since 2007, from 823 million EUR that have been at our disposal 582.871.983,15 million EUR have been contracted. But, that amount, as the previous, will continue to grow, because the non-contracted means can be contracted and spent until the end of 2016. (www.mrrfeu.hr)

**Table 1.** – Total financial overview of pre-accession programs in the Republic of Croatia in financial perspective 2007-2013State: March 21<sup>st</sup> 2014Contracted amount: **582.871.983,15 EUR**Paid amount: **383.111.380,63 EUR**

Operational program	Allocated amount (in EUR)	Contracted amount (in EUR)	Paid amount (in EUR)	Contracting rate (%)	Payment rate (%)
1	2	3	4	5 (3/2)	6 (4/2)
IPA I (2007-2013)	249.047.325,00	168.788.127,89	140.139.402,16	67,77	56,27
IPA II (Cross-border cooperation + trans-national program 2007-2013)	17.519.302,00	12.263.321,24	9.126.395,56	70,00	52,09
IPA V (2007-2013)	144.283.680,00	81.430.830,52	34.937.476,33	56,44	24,21
OP Traffic 2007-2013	236.983.305,00	80.264.872,60	54.880.827,41	33,87	23,16
OP Environment 2007-2013	281.099.011,00	96.290.130,65	41.760.986,20	34,25	14,86
OP Regional competitiveness 2007-2013	187.779.595,00	69.336.849,96	46.121.774,37	36,92	24,56
OP Human resources development 2007-2013	152.413.106,60	74.497.850,28	56.144.518,60	48,88	36,84
TOTAL	1.269.125.324,60	582.871.983,15	383.111.380,63	45,93	30,19

*\*Remark: The indicators of contracting and payment of means differ from former values presented in regular reports every 6 months on usage of pre-accession means, because for the first time the values of allocated means from pre-accession and structural funds of European Union for 2012 and 2013 have been included and therefore the total amount of allocated means from the funds of the European union for the Republic of Croatia has been increased.*

Source: [www.strukturnifondovi.hr](http://www.strukturnifondovi.hr)

The Republic of Croatia has for the first time begun to plan the investments from European structural and investment funds for the period of seven years, 2014-2020 as an equal member state after July 1, 2013.

The process of programming of multiannual financial framework on the level of European Union is finished and we can conclude that the Republic of Croatia was allocated financial envelope in the amount of 8,029 billion EUR, which includes means of the European regional development fund, European social fund and Cohesion fund. If we add stipulated means for common agricultural policy in the amount of 2,336 billion EUR we come to a sum of 10,365 billion EUR, i.e. 77,7 billion kuna. These means can, with good and smart application, turn the negative economical trend in Croatia and initiate investments, growth, development and employment.

**Table 2.** – Multiannual financial framework 2014 – 2020 2011. g.)

<b>Allocated means from ESI funds for Croatia 2014-2020</b>	<b>in billions EUR</b>
Cohesion policy ERDF, ESF i CF	8,029
Agriculture and rural development EAFRD	2,056
Maritime and fisheries EMFF	0,280

Source: [www.mrrfeu.hr](http://www.mrrfeu.hr)

The stated means are in harmony with the Strategy Europe 2020 and Common strategic framework and are meant for the goals of employment, increase of investments into research and development, adjustment to climate changes, increase of energy efficiency, use of renewable sources of energy, investment into education and decrease of poverty and strengthening of social inclusion. Regarding Croatian point of view, they are allocated exclusively to increase of competitiveness, decrease of regional disparities and strengthening of human capacities.

They have been put on our disposal since January this year, but since the strategic documents, like Partnership agreement as a top planning-programming document with which Croatia reasons its strategy and justification for use of ESI funds and Operational programs as program documents where measures and activities for more efficient implementation and use of ESI funds are described in more detail, have not been defined yet, we will have to wait for a while for using these means.

We consider it very important to emphasize that the projects from EU funds are not co-financed in the amount of 100%, but it is also necessary to invest a part of your own resources. The percentage of co-financing of projects through EU funds depends from tender to tender, and minimum and maximum support that can be allocated through individual call for delivery of project proposals is defined in tender documents.

The EU funds are not only money, they give you the possibility of participation in common market, labour market, then there is a possibility of studying, possibility of self-employment and similar, and it is crucial to know them well and use them efficiently.

We think that on the national level for the Republic of Croatia, there are not enough financial means from the state budget allocated to major development projects for preparation and implementation of development projects. The same thing happens on regional and local level where the allocated means are insignificant or do not even exist.

In order to use European money put to our disposal on time, it is necessary to prepare development projects in the value of more than 2 billion EUR on annual basis. The stated implies that it is necessary to have a reserve of prepared projects in double amount from European money at our disposal, which is on average 1 billion EUR annually. As 3-5% of total project value goes to the preparation of projects it means that the Republic of Croatia would have to allocate annually minimum of 100 million EUR for high-quality project preparation in new EU financial perspective.

Therefore is every EUR from regional and structural funds of the EU planned; it is managed in order to increase the means of local units that have the aim to increase these units to the level of developed regions. Thus, the aim of managing regional and structural funds of the European Union is balancing regional development. (Kandžija, V., 2004, 67)

County development strategies, especially from the aspect of budgetary planning, defining of strategic goals and priorities and connecting goal and budgetary means play crucial role for high-quality preparation of regional and local development projects. County development strategies bear basic guidelines of regional development policy and they are the basic plan document for sustainable socio-economical development of regional and local units.

This way of strategic planning through development projects is excellent and needs to grow in this financial perspective, considering that all development activities are based in budgetary items. That way it is very simple to follow the realization of certain priorities, measures and development projects in certain time frame.



## Conclusion

The EU funds are main source of financing investments on European level that help member states in economical revival and growth, preservation of existing and creation of new jobs and give the possibility for sustainable development in accordance with the Strategy Europe 2020. There, they should be recognized in Croatia on all levels as major drivers of development in economy and competitiveness.

All investments in the Republic of Croatia can be significantly accelerated with these means and things that were planned to be finished within twenty years with own resources can be done in five years with mutual resources.

The basic condition for efficient implementation of European funds is to recognize in set goals and priorities all potential project leaders and that goals and priorities should be defined coming from the needs of the local and regional self-administration, entrepreneurs, scientists, non-profit organisations and similar (IM, January 2014).

The issue of using European funds is pretty complex and sometimes even those experienced in that area find it hard to manage all pieces of information and data that appear in public.

We think that the main issue that stands out on the level of the Republic of Croatia is that local and regional authorities do not have enough financial or human capacities in order to prepare development projects. They have to use the small amount of resources they have efficiently and they have to know in advance what will be financed in their area.

This is exactly where we see the role of the state in order to help according to the development index both financially and administratively to units of local and regional authority with preparation of strategic documents and pre-financing of certain projects, as well as in co-financing of their implementation. If this does not happen, the usage of means from EU funds will be very low on local level and they will be mostly used by the most developed and fiscally strongest, which is totally inconsistent with the goals of Cohesion policy.



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